

**FACTORS AFFECTING WITHHOLDING VALUE ADDED TAX COMPLIANCE
AMONG MEDIUM TAXPAYERS IN KENYA**

FAITH WANJIRU GATHUA

**POST GRADUATE DIPLOMA
TAX ADMINISTRATION**

**JOMO KENYATTA UNIVERSITY OF
AGRICULTURE AND TECHNOLOGY**

2019

DECLARATION

This project proposal is my original work and has not been presented for a postgraduate diploma in any other academic institution

Signature. **Date**.....

Faith W. Gathua

HDB336-C016-1955/2016

This research project has been submitted for examination with my approval as the Supervisor

Signature. **Date**.....

Mr Aineah Makanga

TABLE OF CONTENTS

| | |
|--|-------------|
| DECLARATION | II |
| TABLE OF CONTENTS | III |
| LIST OF ACRONYMS | V |
| DEFINITION OF TERMS | VI |
| LIST OF FIGURES | VII |
| LIST OF TABLES | VIII |
| ABSTRACT | IX |
| CHAPTER ONE | 1 |
| INTRODUCTION | 1 |
| 1.1 BACKGROUND OF THE STUDY..... | 1 |
| 1.1.1 Global perspective | 2 |
| 1.1.2 Kenyan Perspective..... | 3 |
| 1.1.3 Value Added Tax (VAT) | 4 |
| 1.1.4 Withholding VAT | 5 |
| 1.1.5 Tax Compliance | 7 |
| 1.1.6 Medium Taxpayers Office | 8 |
| 1.2 STATEMENT OF THE PROBLEM..... | 8 |
| 1.3 GENERAL OBJECTIVE..... | 10 |
| 1.3.1 Specific Objectives | 10 |
| 1.4 RESEARCH QUESTIONS..... | 10 |
| 1.5 SIGNIFICANCE OF THE STUDY..... | 11 |
| 1.6 THE SCOPE OF THE STUDY..... | 11 |
| CHAPTER TWO: LITERATURE REVIEW | 12 |
| 2.1 INTRODUCTION | 12 |
| 2.2 THEORETICAL LITERATURE REVIEW | 12 |
| 2.1.1 The Keynesian Economic Theory..... | 12 |
| 2.1.2 Rational Choice Theory | 13 |
| 2.1.3 Compliance Theory..... | 14 |
| 2.3 CONCEPTUAL FRAMEWORK..... | 14 |
| 2.4 EMPIRICAL LITERATURE | 15 |
| 2.2.1 Withholding VAT Knowledge and awareness | 15 |
| 2.2.2 Rate of Withholding VAT and value added tax compliance | 16 |
| 2.2.3 WHVAT compliance cost and value added tax compliance..... | 17 |
| 2.2.4 Tax Compliance | 18 |
| 2.5 CRITIQUE OF THE STUDY | 19 |
| 2.6 RESEARCH GAPS | 20 |
| 2.5 SUMMARY OF LITERATURE REVIEW..... | 21 |
| CHAPTER THREE: RESEARCH METHODOLOGY | 23 |
| 3.0 INTRODUCTION | 23 |
| 3.1 RESEARCH DESIGN | 23 |
| 3.2 POPULATION OF THE STUDY..... | 24 |
| 3.3 SAMPLING PROCEDURE | 24 |
| 3.3.1 Sample Size..... | 25 |
| 3.3.2 Sampling frame..... | 25 |
| 3.3.3 Sampling technique..... | 25 |

| | |
|---|-----------|
| 3.4 DATA COLLECTION INSTRUMENTS..... | 26 |
| 3.5 PILOT TESTING | 26 |
| 3.5.1 Data Validity..... | 26 |
| 3.5.2 DATA RELIABILITY TEST | 27 |
| 3.6 DIAGNOSTIC TESTS | 27 |
| 3.7 DATA ANALYSIS AND PRESENTATION. | 28 |
| CHAPTER FOUR: RESEARCH FINDINGS AND ANALYSIS | 30 |
| 4.1 INTRODUCTION | 30 |
| 4.2 RESPONSE RATE | 30 |
| 4.2.1 Reliability Analysis..... | 32 |
| 4.2.2 Validity of Result..... | 32 |
| 4.3 ANALYSIS OF DEMOGRAPHIC INFORMATION | 33 |
| 4.4 DESCRIPTIVE STATISTICS | 34 |
| 4.4.1 Effect of taxpayer’s knowledge on compliance with VAT withholding | 34 |
| 4.4.2 Effect of rate of VAT Withholding compliance with VAT withholding..... | 36 |
| 4.4.3 Effect of costs of compliance on compliance with VAT withholding..... | 37 |
| 4.5 INFERENCE STATISTICS | 38 |
| 4.5.1 Diagnostic Tests..... | 38 |
| 4.5.2 Correlation analysis | 40 |
| 4.5.3 Regression Analysis..... | 42 |
| CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION | 46 |
| 5.1 INTRODUCTION | 46 |
| 5.2 SUMMARY OF THE FINDINGS..... | 47 |
| 5.2.3 Costs of compliance on compliance with VAT withholding..... | 48 |
| 5.2.4 Withholding VAT Compliance..... | 48 |
| 5.4 POLICY RECOMMENDATIONS | 48 |
| 5.5 LIMITATIONS OF THE STUDY | 50 |
| 5.6 SUGGESTION FOR FURTHER STUDIES | 50 |
| REFERENCES..... | 51 |
| APPENDICES..... | 55 |
| APPENDIX 1: INTRODUCTION LETTER | 55 |
| APPENDIX 2: QUESTIONNAIRE | 56 |

LIST OF ACRONYMS

| | |
|--------------|--|
| BOD | Board of Directors |
| CBK | Central Bank of Kenya |
| DR | Domestic Revenue |
| DTD | Domestic Taxes Department |
| ETR | Electronic Tax Register |
| FY | Financial Year |
| GDP | Gross Domestic Product |
| ICPAK | Institute of Certified Public Accountants of Kenya |
| iTax | Web based tax system in Kenya |
| KESRA | Kenya School of Revenue Administration |
| KRA | Kenya Revenue Authority |
| LTO | Large Taxpayers Office |
| MTO | Medium Taxpayers Office |
| PSD | Public Sector Division |
| VAT | Value Added Tax |
| WVAT | Withholding Value Added Tax |
| WHT | Withholding Tax |

DEFINITION OF TERMS

Compliance - Making tax payments, producing and submitting information to the tax authorities on time and in the required formats. (Fjeldstad, 2013).

Filing – This is the process of submitting a declaration of sales and purchases subject to VAT. Currently this is done electronically through forms on iTax (KRA’s online filing platform) and VAT returns are due on the 20th of every month. (Ngotho, 2014)

Payment - This is the timely settlement of taxes due. In order to do this, taxpayers are required to generate a payment slip and present it to any of KRA’s 45 partner banks, or send it via MPesa, G-Pay or IFMIS. (Mbithi, 2013)

Registration for VAT – Anyone who has accrued a tax liability or expects to accrue a tax liability under the Income Tax Act or VAT Act 2013 is expected to register for the relevant tax obligations. For purposes of this study, Registration refers to having a VAT Obligation. These are traders who supply vatiable goods as specified in the VAT Act and whose turnover exceeds 5 million in a year.(Macharia ,2014).

Tax Knowledge- This is taxpayer’s understanding of taxation with regard to existing laws and administration of such laws regardless of the correctness of such knowledge. (Naibei, 2012)

Value Added Tax is a consumption tax levied on local supply of goods and services and on imports as specified in the VAT Act 2013. (VAT Act 2013)

Withholding Tax- is the application of the reverse charge mechanism on transactions carried out within a given tax jurisdiction. (Waerzeggers, 2011)

Withholding VAT- This is an enforcement measure to collect VAT in advance using certain categories of taxpayers to withhold all or a portion of the VAT charged to them by their suppliers and remit it directly to the government (Waerzeggers, 2011)

LIST OF FIGURES

| | |
|--|----|
| Figure 2.1: Conceptual framework..... | 18 |
| Figure 4.1 Response Rate..... | 32 |
| Figure 4.2 Gender of respondents..... | 34 |
| Figure 4.3 Number of years business existed..... | 37 |

LIST OF TABLES

| | |
|---|----|
| Table 4.1 Reliability Coefficient | 33 |
| Table 4.2 Taxpayer's knowledge on compliance with VAT withholding | 37 |
| Table 4.3 Rate of VAT Withholding compliance with VAT withholding..... | 38 |
| Table 4.4 Costs of compliance with Withholding VAT..... | 39 |
| Table 4.5 Test for Normality | 40 |
| Table 4.6 Multicollinearity Test | 41 |
| Table 4.7 Model summary..... | 42 |
| Table 4.8 Analysis of Variance | 42 |
| Table 4.9 Regression Results | 43 |
| Table 4.10 Pearson's Correlation analysis | 45 |

ABSTRACT

Revenue collection bodies across the world have advocated for withholding of taxes due to the benefits that come with it. Withholding has also been found to increase compliance and decreases evasion and underpayment because people don't notice how much tax they are paying in a withholding system hence there is less sense of anger. However, while this is the case, the Kenya Revenue Authority has been missing the annual VAT targets calling for more efficiency in collection. In 2015, Withholding VAT was re-introduced as a collection measure to bring more people into the tax bracket. This study sought to establish the factors affecting Withholding Value Added Tax compliance among medium taxpayers in Kenya. The study was guided by the following specific objectives: To examine the effect of taxpayer's knowledge on compliance with VAT withholding among medium taxpayers in Kenya. To analyze the effect of rate of VAT withheld on compliance among medium taxpayers in Kenya. and To investigate the effect of costs of compliance on VAT withholding among medium taxpayers in Kenya. The study adopted descriptive research design. The study targeted all the 1835 firms in the medium taxpayers' category under MTO mandate as at June 2017. The study sample size of 184 was considered in this study. This study used primary data that was collected through questionnaires. Data analysis was done by use of descriptive statistics and inferential statistics using Standard statistical techniques including Pearson correlation coefficient and regression analysis. All the analysis was done using the statistical package for social sciences (SPSS Version.24). The study found that Withholding VAT Knowledge and awareness, Rate of VAT withholding and cost compliance significantly influences compliance with Withholding VAT by medium taxpayers in Kenya. Based on study finding, this study recommends that KRA should strengthen its training programs for VAT registered persons and also improve relationship management for its withholding agents' Further studies can be done to find out the impact of withholding VAT tax on the country's economic growth. This will give an indication on the effects of withholding VAT tax on the country's economic growth.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Tax collection is key for a country to ensure that it can sustain its development agenda without external borrowing. For this reason, every government needs a robust tax administration to ensure efficient tax collection and expansion of the tax base to bring more people into the tax bracket. In Kenya, tax collection for national government is administered by the Kenya Revenue Authority in addition to smaller taxes and levies collected by county governments. (Hurst, Li & Pugsley, 2014) The National Treasury sets the revenue targets to be collected by KRA every fiscal year. This figure is based on the national budget. The 2010 constitution of Kenya introduced a number of changes that require heavy funding from national government hence putting more pressure on KRA to expand its tax base and ensure all revenue due to government is collected. The national budget has grown from 977 billion in 2010 to a record 2.4 trillion in 2018/2019. For the financial year 2017/18, Kenya Revenue Authority's target was 1.44 trillion which was not met due to prolonged electioneering and drought in 2017. (Gangl, Hofmann & Kirchler, 2015).

Value Added tax is a major income earner for the government and accounts for 29% of total tax revenue, coming second after income tax. It also accounts for an average of 6.6 percent of GDP of OECD member countries in 2014 (OECD 2014). As a major taxhead in the country, VAT is constantly being monitored and reviewed to seal any loopholes and to increase collections. Recently the VAT Act underwent major reforms to reduce the amount of zero rated and exempt goods, remove the 12 percent tax rate and deletion of VAT remission among other changes. Tax compliance in Kenya currently stands at 42 per cent and this is low compared to other developing countries. The reasons for low compliance are attributed to structural reasons while

others relate to taxpayer's attitude towards taxation (Njoroge ,1996). According to PKF Kenya, an audit firm, major compliance should be from firms that do business with government. The firm found that 70 percent of government suppliers are not complying with VAT regulations. This is despite the requirement for tax compliance certificates prior to award of tenders. (King'oina, 2016).

Enforcement tools ensure that taxpayers comply with the law and all taxes due to government are accounted for. One such measure is the Electronic Tax register which was introduced in the 90s. Another was the concept of withholding VAT which was first introduced in 2003. This tool entrusted government agencies, ministries and parastatals with the responsibility of collecting VAT and remitting it to the government. This study seeks to find out whether the re-introduction of Withholding VAT in 2014 has had an impact on tax compliance particularly among medium taxpayers in Kenya.

To explain the relationship between withholding VAT and tax compliance among the medium taxpayers , the study will be grounded on the following theories: the keynesian economic theory, the rational choice theory and the compliance theory.

1.1.1 Global perspective

Other scholars suggest that in order to deal with VAT compliance problems among small businesses, government should regulate the number of registered persons by adopting an appropriate VAT threshold. Government can also develop effective information exchange mechanisms to eliminate those businesses that fail to comply with their VAT obligations from the list of eligible government suppliers .Against this argument, a number of countries in Latin America and some in Africa are currently operating Withholding VAT. These include Panama, Mexico, Columbia, Argentina, and Ecuador. Latin American countries without a registration

threshold have adopted Withholding VAT systems to offset the difficulties of administering the VAT owed by small and micro enterprises. (Miki, 2011).

African countries like Kenya, Zambia, and Rwanda, are using VAT Withholding as a means of tackling tax evasion.. In Zambia, withholding VAT was introduced in January 2017 where the government appointed various players in the manufacturing, mining and government sectors as withholding VAT agents. Here the agent withholds 100% of the VAT payable and remits it to the revenue authority (Miller & Oats, 2016). The supplier is not required to pay the output VAT to the Zambia revenue authority. Instead he only declares the withheld VAT in their monthly return making reference to the respective tax credit certificates that support the withheld VAT. This approach eliminates strain on business cash flows for suppliers since they do not suffer double cash outflow through having to simultaneously pay the output vat to the tax authority. According to Kwagala-Igaga (2016), the tax system in Uganda requires designated withholding tax agents to withhold 6% withholding tax on payments to non-exempt suppliers for goods and services. Accordingly, supplies in Uganda will be subject to double withholding since the government will be taking advance tax of 15% being 9% withholding vat and 6% withholding tax which causes significant cash flow problems. In Ghana, agents withhold 7% of the taxable value of all local taxable supplies made by a standard rated taxable person and the difference of 10.5% is paid to the supplier. Exempt supplies do not qualify for withholding vat provisions. In the Philippines, government agencies are mandated to withhold 5% out of the 12% VAT on vatable sales upon payment to sellers of goods and services.

1.1.2 Kenyan Perspective

In Kenya, tax compliance levels are low due to various reasons some of which are structural while others are related to taxpayer's attitudes to taxation. Audit Firm PKF Kenya experts say

that KRA needs to increase the level of compliance from the current 42% to 70% like developed countries if it is to attain its target. He recommends that major compliance should be from firms that do business with the government given the fact that 70% of government suppliers do not comply with VAT. (Njoroge, 1996)

According to the World Bank Kenya's revenue is not growing as fast as the economy. In the 2016/2017 financial year, tax to GDP ratio fell to 16.9 which is the lowest in a decade. Even though there is more trade, very few economic activities have been taxed. Revenues grew by 13.3 percent in nominal terms in the financial year 2016/2017 but tax revenue expanded by less than 14.9 per cent hence the tax to GDP ratio fell to 16.9 of the GDP. Tax revenue is not keeping pace with the expansion in expenditure and the buoyancy of economic growth bringing into question KRA's aggressive efforts to ensure tax compliance. (Mohd, 2010).

1.1.3 Value Added Tax (VAT)

VAT is a tax on estimated market value added to a product or service at each stage of its manufacture or distribution and the additions are ultimately added to the final consumer. The final consumer bears the burden or incidence of this tax because they cannot recover the tax paid on consumption of the goods and services. However, businesses can recover VAT they pay on goods and services because those goods and services are like intermediate goods and services that are used to produce further goods and services that will be sold to other businesses in the supply chain or to final consumers. The Value added tax is levied at each stage on value added in the economic chain of supply and it is a constant rate (Umeora, 2013).

Prior to the introduction of VAT, Sales Tax was levied on goods manufactured in Kenya or imported into Kenya. VAT was introduced in Kenya on 1st January 1990 to replace sales tax. With the introduction of VAT the coverage was expanded to include goods and services and

also to cover wholesale and retail supplies. This resulted to a rapid expansion in the number of Despite the fact that Kenya experienced revenue shortfall at the initial VAT introduction period, VAT performance has subsequently contributed to improved revenue collection at lower administrative and compliance cost. (Adari, 2012).

1.1.4 Withholding VAT

Withholding VAT is not a tax but an enforcement measure to collect VAT in advance using certain categories of taxpayers to withhold all or a portion of the VAT charged to them by their suppliers and remit it to the government (Waerzeggers, 2011). This ensures that unregistered traders, particularly in hard-to-tax sectors, are forced to pay at least some VAT (Ainsworth, 2011). Withholding also provides a way of increasing VAT collections where administration is weak and attitudes to taxation are poor, particularly among smaller traders, where the risk of noncompliance is considered to be high (Ainsworth, 2011). Thus VAT withholding is an attempt to limit tax evasion in the informal sector.

Kenya Revenue Authority introduced Withholding VAT with effect from 1st October 2003. The system was to apply to any person who has been appointed in writing by the Commissioner to withhold and remit VAT due on his purchases direct to the Commissioner when paying the supplier At inception, the Commissioner Domestic Taxes had appointed Government institutions, parastatals, banks, financial institutions, Co-operative Societies, Insurance companies and regular exporters to withhold 16% of the VAT charged to them and remit the same to him every two weeks. Suppliers would then receive a withholding VAT Certificate which they would attach to their VAT returns. This system ran from 2003 to 2011 when it was scrapped due to the huge refund back log it created. Being a manual system, it was also tedious for the agents and taxpayers. (Mukabi, 2014).

However, as Waerzeggers (2008) asserts, VAT withholding scheme can lead to several problems including increased VAT burden for the supplier that never has access to or use of the VAT payment and which may encounter difficulties in getting any refund if the withholding leads to excess input tax credits. VAT withholding can also create cash flow problems for compliant firms that do not receive their excess VAT credit. Some of the challenges ranging from non-remittance of withheld amounts by some agents (especially the Local Authorities), compliance level of the appointed agents, weaknesses in the statute to support the system, amount of refund claims arising out of the system, resistance by other sectors outside the public sector to implement the system, reconciling the tax withheld with individual taxpayers' ledger and the bank statements from various commercial banks and Central Bank of Kenya with the physical weekly returns and misunderstanding by some traders that once tax is withheld they need not file a return. (Nyaga, 2014).

To mitigate the problem of VAT non-compliance and increase revenue the government through the Finance Act 2014 re-introduced VAT withholding scheme at the rate of 6% with effect from 19th September 2014. This is a measure to ensure that all VAT due to the government is paid. The scheme requires selected government institutions and public enterprises to withhold 6% of the VAT on their purchases and remit the amount to tax authorities within 20 days from the end of the month in which the VAT was withheld. Taxpayers are allowed to offset VAT withholding against VAT payable in a period. If the withholding VAT and the input VAT exceed the VAT payable on sales, the excess is claimable as refund. The system involves declaration of VAT by both the supplier and purchaser who has been appointed as a VAT withholding agent (Trandafir, 2016).

1.1.5 Tax Compliance

According to Mutua (2012) a compliant taxpayer is one who satisfies the four basic tax obligations of citizens and businesses that generally must be administered by all revenue administrations in accordance with their respective tax laws: registration (identification); filing (submission of tax returns on time); declaration (correctly report tax liabilities); and, payment (on time as stipulated in the law). (Naibei et al, 2012). However, a non-compliant taxpayer is one who fails to satisfy any one or more of these aspects and poses a risk to revenue collection. Due to the fact that there seem to be difficulty in achieving greater clarity, less complexity, and a simpler and fairer tax structure, taxpayers' education comes hand in hand to benefit all taxpayers. Because most taxpayers want to do the right thing and pay their fair share of tax, they do not want to pay more than is necessary (Fjeldstad, 2013).

Tax compliance in Kenya is still low due to various reasons some of which are structural while others relate to taxpayers' attitude towards taxation. It is estimated that tax compliance was rated at 65% and 66.9% for the fiscal years 2014/2015 and 2015/2016 respectively with rental income being the least complied tax obligation. There is empirical evidence that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Mararia, 2014).

Terkper (2007) advanced the reason that tax payers demonstrate various degrees of compliance owing to factors such as lack of understanding of the tax laws; improper book keeping and apathy towards government. In addition, Ngotho, (2014) determined the economic and behavioral factors affecting tax compliance among taxpayers in the United States of America. They administered questionnaires to participants of amnesty program; their respondents identified

factors that made them not to comply with the tax laws, as complexity of the tax laws, ignorance of the tax laws, and the perceptions of unfairness of the tax system (Ngotho,2014) Their research findings showed that a significant portion of non- compliance was unintentional, caused by the complexity of tax laws and ignorance, as most of the tax payers did not understand their tax liabilities and their tax obligations.

1.1.6 Medium Taxpayers Office

The Medium Taxpayers Office (MTO) was formed in line with KRA's Revenue Administration Reforms and Modernization Program (RARMP) initiative in the Fourth Corporate Plan covering the period 2009/10 to 2011/12 .It was set up to handle taxpayers whose turnovers fall between Kshs. 350 million and 1 billion. This category of taxpayers are divided into seven sectors: Service Sector, Agriculture and Manufacturing, Retail and Wholesalers, Financial, Insurance, Government and Construction sectors, High net worth individuals and professionals. To ensure that the tax matters of these taxpayers are adequately addressed, and their contentious issues resolved promptly and efficiently, KRA adopted the sectorial approach to managing taxpayer's affairs to facilitate effective service delivery through gaining an understanding of the operating environment of the organizations, and to be more responsive to the firm and industry concerns The sector currently serves 3,952 taxpayers from the different sectors of the economy. (KRA, 2017).

1.2 Statement of the problem.

Over the last decade, taxes have not been as productive as expected since revenue collection has not matched the growth in level of public spending in Kenya causing huge imbalances between

the demand and supply of tax revenues for government budget purposes (GoK, 2014). The failure of the tax system to generate adequate revenue to finance government expenditure has always been attributed to deficiencies in the tax structure, prolonged election period, and slow economic growth. A study by Mbithi, (2013), found that VAT is responsive to changes in GDP, a contradiction with previous studies done in Kenya. Further analysis showed that VAT was rigid to changes in GDP up to the financial year 2004/05 and the years that brought about the shift in responsiveness were the last seven years running from 2005/06 to 2011/12. However, the positive trend was eroded in 2011/2012 due to the scrapping of the withholding VAT system. The VAT system did not possess most of the characteristics of a workable tax system of simplicity, convenient, certainty and productivity. The study also found that taxpayers faced challenging compliance costs and that there was neglect of the medium and small taxpayers who were found not to be compliant because of computational difficulties and lack of audit.

According to Macharia (2014), tax non compliance especially with VAT is high in Kenya and this has contributed to persistent revenue gaps measured by the negative deviation of actual collection and the set targets. The government target is for VAT, as a broad based consumption tax, to account for at least 35% of total revenue. Currently, the VAT accounts for less than 25% of total government revenue. Tax gap analysis provides estimates which indicate that that the VAT revenue gap ranges from 21.5% to 44.3%. compared to neighboring countries, for instance, VAT and other indirect taxes contributes about 51 percent in Rwanda and 56 percent in Uganda (EAC, 2016). To bridge the gap in revenue performance, the government re-introduced withholding VAT and has invested heavily in VAT reforms with an aim of enhancing economic growth and improving VAT revenue performance measured in terms of government revenue to

Gross Domestic Product (GDP) ratio (GoK, 2014). This forms the basis of this study to assess the effect of Withholding VAT on tax compliance among medium taxpayers in Kenya.

1.3 General Objective

The general objective of this study was to establish the factors affecting compliance with Withholding Value Added Tax among medium taxpayers in Kenya.

1.3.1 Specific Objectives

The study was guided by the following research objectives;

- i) To examine the effect of taxpayer's knowledge on compliance with withholding VAT among medium taxpayers in Kenya.
- ii) To establish how the rate of tax affects compliance with Withholding VAT among Medium taxpayers in Kenya.
- iii) To investigate the extent to which compliance costs affect medium taxpayers in Kenya when declaring Withholding VAT.

1.4 Research Questions.

The study was guided by the following research questions;

- i) What is the effect of taxpayer's knowledge on compliance with VAT withholding among medium taxpayers in Kenya?
- ii) How does the rate of VAT withheld affect compliance among medium taxpayers in Kenya?
- iii) What is the effect of compliance costs on Medium taxpayers when declaring Withholding VAT?

1.5 Significance of the study.

This study will contribute to the already existing literature on VAT in Kenya. It will also help KRA measure whether the re-introduction of Withholding VAT and the authority's investment in automation of tax collection has brought about the results envisaged. This study will help to increase awareness of the effects of withholding VAT on tax compliance in Kenya, it will provide an insight into the possible impact of withholding VAT and other tax heads on the country's revenue generation and will also be useful in understanding the contribution of each tax head to tax revenue in Kenya.

1.6 The scope of the study.

This study focused on Withholding VAT from 2014 to 2017 which is within the period when the new VAT Act 2013 has been enacted and KRA has automated its tax collection systems through iTax. The study collected primary data from appointed withholding VAT agents in the medium taxpayer office. This study focused on corporate medium taxpayers in Kenya because, medium taxpayers contribute about 75 percent of the total revenue collected by KRA. The MTO office also includes individuals who are partners in audit and accounting firms as well as high net worth individuals and professionals, who will not be included in the study. The corporate medium taxpayers are located all over the country, due to time and financial constraints, it may not be possible to collect primary data from all of them. The study will thus focused on corporates within Nairobi for ease of data collection.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covers the theoretical and empirical review revolving around the effect of VAT withholding system on tax compliance. It also presents the conceptual framework on which the research will be based.

2.2 Theoretical Literature Review

In the examination of the effect of withholding VAT and tax compliance, this study combines three theories: The Keynesian Economic Theory, the rational choice theory and the compliance theory.

2.1.1 The Keynesian Economic Theory

The Keynesian Economic Theory is attributed to John Maynard Keynes who's most influential work, *The General Theory of Employment, Interest, and Money*, was published in 1936. It was also put forward by Alan S. Blinder in an article —The rap of monetary policy and secondly rational choice theory (Scott, 2000). This theory posits that taxes are levied to raise revenue for the government expenditure (Neumark, 2013). There is no argument about this understanding but concerns arise regarding implementation of tax policies especially when it's low. However, taxes differ from other revenue in that they are compulsory levies and unrequited. According to Keynesian economic theory, the aggregate demand is influenced by a host of economic decisions which at times tend to behave erratically. Blinder (2008) observes that public decisions include monetary and fiscal such as spending and tax policies. This theory believes in government's that are aggressive in seeking to stabilize the economy based on value judgment has the capacity to improve the economy. Application of this theory was evident during massive US tax cut of 1981 and 1984 in which real GDP growth was unaffected. Keynes provided both a specific rationale

for government's taking a bigger role in the economy and a more general confidence in the ability of government to intervene and manage effectively. Despite Keynes's fascination with uncertainty and his speculative talents in the marketplace, Keynesians deemed government knowledge to be superior to that of the marketplace.

2.1.2 Rational Choice Theory

The rational choice theory utilizes the economic model and proposes that economic action is based on rewards and punishment in which action is motivated by pursuit of balance of rewards over costs. Rational choice see social interaction as a process of social exchange and according to this view, people are motivated by wants or goals that express their preferences (Scott, 2000). For instance, in Kenya, giving false information to tax authorities and failure to declare taxes are punishable by imprisonment of up to a maximum of 6 months or a fine of double the tax due or both (Tax Procedure Act, 2015). The rational choice theory tries to explain tax evasion schemes and explain its negative effect on the society and the economy. As in the case of most of the countries punishment of tax evasion is thought to act as deterrence yet still many countries face the challenges of tax revenue collection. For many, tax evasion has to be dealt with robustly all the time. But in a recession, when ordinary law-abiding tax payers are suffering real hardship, the need to deter, detect and prosecute those who evade tax is greater than ever. In many countries the level of deterrence is too low to explain the high degree of tax compliance. Moreover, there is a big gap between the amount of risk aversion that is required to guarantee such compliance and the effectively reported degree of risk aversion (Frey &Feld, 2002).

The rational theory further posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints (Coelli, T., Prasada D. S., and G. Battese, 1997). The social welfare function is based on the utilities of individuals in the societies. To reduce the

problem facing the revenue collection, it is important to choose the tax system that maximizes the representative consumer's welfare knowing that the consumer will respond to whatever incentives the tax system provides and in turn provides also useful information to the tax administration on tax evasion (Hazel, 2005).

2.1.3 Compliance Theory

The Compliance theory is based on behavioral motivations and answers the question of what leads a state, firm, or individual to act in compliance with laws? March & Olsen (1998) divided the basic logic of human action into the logic of consequences and the logic of appropriateness. The logic of consequences views actors as choosing rationally among alternatives based on their calculations of expected consequences, whereas the logic of appropriateness sees actions as based on identities obligations, and conceptions of appropriate action. Tax policy should be guided by the general principles of neutrality, equity, and simplicity. Thus developing tax systems that allow them to exploit whatever options are available rather than establishing rational, modern and efficient tax systems.

2.3 Conceptual Framework

This conceptual framework shows the relationship between the dependent variables and the independent variables. The independent variables are Withholding VAT cost of compliance, level of taxpayers withholding VAT knowledge and rate of withholding VAT and the dependent variable is Withholding Value Added Tax compliance as illustrated in the conceptual framework presented in figure 2.1

Independent Variable

Dependent Variable

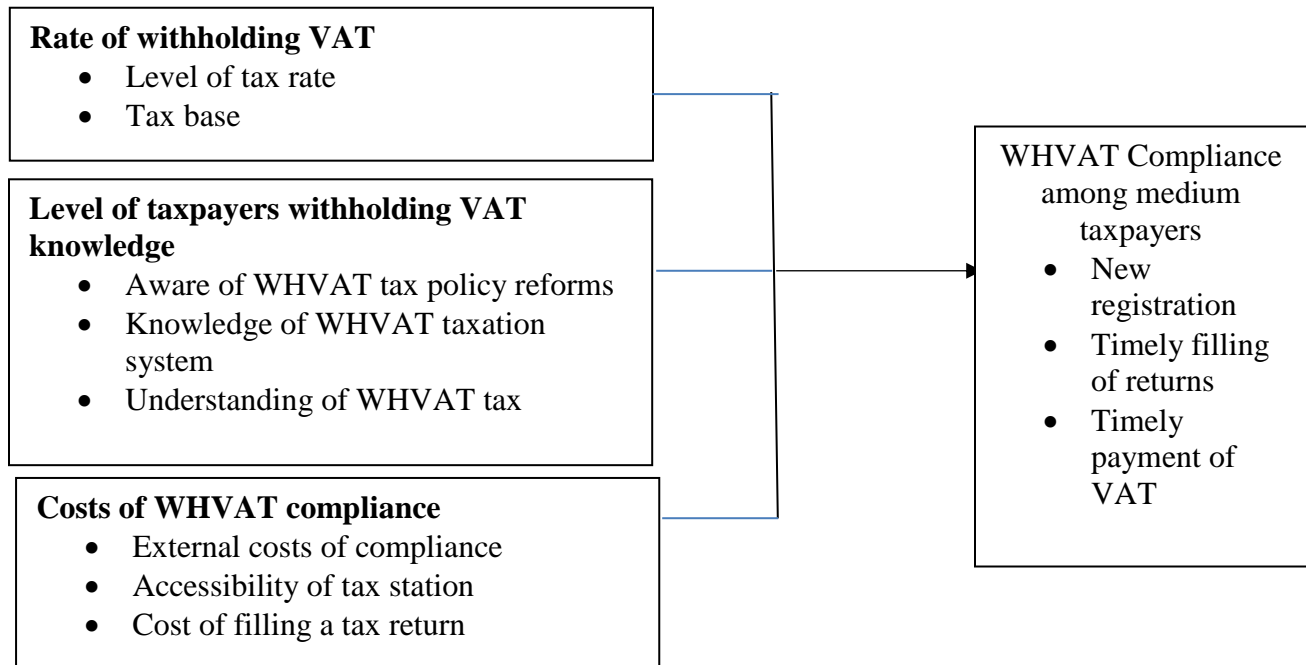


Figure 2.1 Conceptual Framework

2.4 Empirical Literature

2.2.1 Withholding VAT Knowledge and awareness and Value Added Tax compliance

According to OECD (2013), any tax policy proposal should be followed with massive education campaigns aimed at improving awareness by aggressively educating all the stakeholders to understand how the system/policy works (OECD, 2013). The re-introduction of the withholding system in Kenya was accompanied with intensive taxpayer education initiatives that were meant to improve the awareness level of stakeholders who use the system (KRA,2015). The withholding system sometimes can lead to confusion among taxable persons who consider that they are freed from further VAT obligations when VAT has been withheld by their clients and

who thus fail to subsequently declare the taxable supplies they have made. Fossat and Bua (2013) indicate that VAT withholding schemes encourage significant abuses on the part of the withholders, including delays in payment of the VAT withheld. In this regard, Waerzeggers (2008) states withholding agents fail to remit withheld VAT to the treasury, often considering the withheld amount to be compensation for their own outstanding excess input tax credits or other claims on the treasury (Waerzeggers, 2008).

2.2.2 Rate of Withholding VAT and value added tax compliance

To minimise the incidence of large refunds of tax, accurate withholdings at source must be calibrated so as to ensure that aggregate withholdings over the course of a fiscal year more or less approximate to taxpayers' annual liabilities (Fossat and Bua, 2013). To achieve this objective, most of the revenue bodies issues notification of a rate to be applied to taxpayers and/or their withholding agents just prior to the beginning of each new fiscal year that provides personal information that can be used to establish individual amounts of withholdings (OECD, 2013). This information is derived from historical tax assessment data.

Atawodi and Ojeka (2012) conducted a study on issues that affect tax compliance among the small and medium enterprises in the Northern part of Nigeria. The study employed descriptive analysis techniques and used primary data. Their findings established that a big tax rate as well as composite recording measures is the majority key factor contributing to lack of compliance of the small and medium enterprises.

Tax rate is a key determinant of compliance as even in the banking industries, the loan rates determinant of revenue. In a study by Akumu (2015) sought to establish the determinants of tax revenue in Kenya with data spanning 24 years from 1990 to 2014. The study specifically aimed to

establish the relationship between interest rates, exchange rates and imports growth on revenue growth. The study used time series data collected on a quarterly basis from 1990 to 2014. The data was collected from Central Bank of Kenya, Kenya National Bureau of statistics, International Monetary Fund and World Bank. The study adopted a descriptive research design and data was analysed through regression modelling. The study findings established that the interest rates, exchange rates and imports growth significantly affect revenue negatively.

In Kenya, the withholding VAT system was re-introduced at the rate of 6% with effect from 19th September, 2014 through the Finance Act 2014. Government Ministries, Departments and Agencies are required, on purchasing of taxable supplies, to withhold six percent of the tax payable thereon at the time of paying for the supplies and remit the same directly to the Commissioner. Only taxable goods and services are liable to withholding VAT. Hence no VAT is withheld on the supply of exempt goods, exempt services and zero rated supplies. The withholding provision shall also not apply to taxable supplies for Official Aid funded projects (KRA, 2014).

2.2.3 WHVAT compliance cost and value added tax compliance.

Tax compliance expenses are incurred by taxpayers in the process of fulfilling tax requirements laid on them by tax law (Sandford, 1995). Tax compliance costs include the tax collection costs expenses relating to paying and accounting for tax, wages & salaries of employees and professionals and the cost of acquiring knowledge, updating the system to enable it work. Taxpayers usually depend on tax professionals who through avoidance schemes minimize tax payments (Franzoni, 2000).

High tax compliance costs disadvantages a country's competitiveness in terms of attractiveness, KRA has devised ways of simplifying the tax systems e.g. the iTax system in order to reduce reliance on tax professionals. This encourages voluntary compliance expenses can be interpreted in different ways. One, the costs are divided in three in respect to time, monetary and psychological costs. Time expenses relate to hours consumed to in ensuring all aspects of tax compliance. Cash expenses relate to salaries paid to internal employees and fees paid external tax professionals. The psychological costs are the effects on a taxpayer when dealing with the tax matters e.g. mental stress. Psychological costs are difficult to quantify.

Other compliance expenses include all expenses incurred by the taxpayer but are outside the control of the taxpayer (Hijattulah and Pope, 2008). Vaillancourt (1987) held that Value Added Tax (indirect tax) has a higher compliance cost than Income Tax (direct tax). In the study survey of the OECD countries, 8 out of 11 countries cited VAT compliance cost as forming the largest part of the total tax compliance cost (Pope, 2001). Compliance expenses entail record keeping, preparation and submission of VAT returns (Cleruox, 1992).

2.2.4 Tax Compliance

Organization for Economic Cooperation and Development (2015) defines tax compliance in two key categories that is administrative compliance (complying with the administrative rules of declaring and paying on time and technical compliance (taxes calculated in accordance with the technical requirements of the tax laws or taxpayers pay their share of tax in accordance with the provisions of the tax laws). Trandafir (2016) cited that tax compliance is affected by fourteen main factors as discussed by various researchers which are age, gender, education, income, occupation or status, peers or other taxpayer's influence, ethics, legal sanction, complexity,

relationship with taxation authority, income sources, perceived fairness of the system, possibility of being audited and tax rate. For purposes of this paper we shall consider the tax rate as one of the variables affecting compliance with withholding VAT regulations.

This researcher shall also look at how withholding vat has impacted on registration, filing of VAT returns and payments as part of compliance.

2.5 Critique of the research study

A closer look at the empirical studies that have been reviewed clearly shows that tax non-compliance has been a major concern for many governments across the globe and that tax enforcement through withholding tax may be the only appropriate tool that can be adopted by the tax agencies to deter non-compliance. However, enough attention has not been paid to VAT withholding schemes. Whereas much work in the tax compliance has concentrated on standard factors as reward, audit, penalty and tax rate, it is useful to evaluate alternative policy instruments aimed at improving revenue collection in the country. There are significant differences in the way that taxpayers in different tax brackets behave regarding taxation matters however empirical research has concentrated mainly on SMEs and other private firms. While withholding VAT schemes is necessary to curb tax evasion and increases revenue to finance public goods and re-distribute income, little is known on the effect of withholding on compliance (Grabowski, 2008). There is a wider gap in literature on tax withholding as empirical literature shows no publication on the same issues but concentration on other issues of tax compliance. This shows knowledge gaps ranging from contextual, conceptual and methodological knowledge on value added tax withholding schemes. Thus this research will fill this gap by exploring the effect of withholding value added tax on compliance.

2.6 Research Gaps

The main aim of this study is to examine the effects of withholding VAT on tax compliance and it starts by looking at the theories utilized in the understanding the contribution of value added tax to revenue collection. To start with, the chapter presents theories such as Keynesian theory which looks at the decisions on monetary and fiscal policies, rational choice theory explaining tax administration involves some form of interactions and lastly the study used compliance theory in which it helps understand why firms or individuals comply with the law. However, from the above literature, it is important to note putting in place effective revenue collection measures plays a critical role in enhancing tax and revenue collection. Accordingly accounting for revenue loss has been of great concern among tax authorities.

In many emerging nations, tax administrations are, at best, only sound in identifying and implementing ways and policy that tackle tax evasion. Withholding VAT schemes is one of the policies that enhance compliance by ensuring that most transaction are capture and recorded as they occur by withholding certain percentage of tax, remitting to the tax authority and declaring the same transactions (OECD, 2013). While improving these policies isn't easy, it is critical, especially in emerging markets. Countries that fail to capitalize on the benefits withholding VAT at source are missing a tremendous opportunity to improve rapid economic growth through domestic revenue mobilization and thus improve the quality of life for their citizens. The withholding VAT schemes is necessary to curb tax evasion and increases revenue to finance public goods and re-distribute income, its effect on compliance is not published and little is known (Grabowski, 2008).

There is a wider gap in literature on tax withholding as empirical literature shows no publication on the same issues but concentration on other issues of tax compliance. This shows knowledge gaps ranging from contextual, conceptual and methodological knowledge on value added tax withholding schemes. Thus, this research will fill this gap by exploring the effect of withholding value added tax on compliance. This implies that while some countries have gained revenue from the adoption of VAT withholding system, others have not. Collectively, the adoption of withholding VAT had a positive impact on VAT collection and a long run increase in overall revenue to GDP ratio (Michael & Ben, 2007).

2.5 Summary of Literature Review

A large body of literature exists on the contribution of VAT to both total revenue collection and economic growth. It's envisioned that withholding VAT schemes has an impact on VAT tax collection at large. However, there are few scholarly works on the effect of withholding VAT on tax compliance. In Nigeria for instance, Umeora (2013) studied the effects of VAT on economic growth of Nigeria for the period 1994 to 2010. Time series data of VAT was regressed against GDP and total tax revenue for the period. The results showed that 82.5% of change in GDP was attributed to VAT whereas 92.5% of change in total tax revenue is explained by withholding VAT. Of interest to note is that 92.5% of change in total revenue collection is attributed to VAT with a withholding system, thus withholding system is key to domestic revenue mobilization capacity of any government all over the world (Umeora, 2013).

Michael & Ben (2007) explored the causes and consequences of the spread of withholding value added tax (VAT) system. A panel study of 143 countries for 25 years were observed. The result

shows that VAT withholding has a significant but mixed impact. This implies that while some countries have gained revenue from the adoption of VAT withholding system, others have not. Collectively, the adoption of withholding VAT had a positive impact on VAT collection and a long run increase in overall revenue to GDP ratio (Michael & Ben, 2007).

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodology, which was used to carry out the study on the effect of withholding VAT on tax compliance. It describes research design, the target population, the sampling procedure, type and source of data, the data collection and data analysis and presentation method.

3.1 Research Design

Chandran (2004) defines research design as an arrangement of conditions for collection and analysis of data in a way that combines their relationship with the purpose of the research to the economy of procedures. In Creswell (2003) it is ascertained that research design is the scheme, structure, outline, plan or strategy of investigation used to give answers to the research questions. This study aimed to establish and describe the effects withholding VAT on compliance and as such the research will adopt a descriptive research design. Yin (2013) defines a descriptive study design as the finding out of the what, where and how of a phenomenon as it is presently (Yin, R. K, 2013). The choice of descriptive research design is informed by Creswell (2003), Mugenda and Mugenda (2008) and Yin (2013) argument that descriptive research design seeks to obtain information that describes existing phenomena as-is by seeking respondents' perceptions, attitude, behaviour or values. Mugenda and Mugenda (2008) further adds that descriptive approach uses a pre-planned design for analysis that allows research findings to be presented through simple statistics such as tables and measures of central tendency can be used.

3.2 Population of the study

Mugenda & Mugenda (2008), Sekaran (2010) and Yin (2013) define a population as an entire group of individuals, events or objects having a common observable characteristic (Mugenda & Mugenda, 2008; Sekaran, 2010; Yin, 2013). Whereas Cooper and Schindler (2011) defines a population as the entire gathering of elements about which extrapolations are made or is a group of the variables that is being studied (Cooper and Schindler 2011). This study adopted Cooper and Schindler (2011) definition of the population and thus the population of study was 1835 medium taxpayers as per the MTO mandate 2016. This will involve VAT revenue and VAT withholding revenue report from financial year 2015 to 2017. It will cover the taxpayers appointed as withholding Agents in MTO. The taxpayers and their VAT and VAT withholding revenue report from financial year 2015 to 2017 will be observed and data will be collected from the population. Primary data will also be collected to gather views on the withholding VAT system from appointed agents.

3.3 Sampling Procedure

According to Mugenda and Mugenda (2008), sampling means selecting a given number of subjects from a defined population as a representative of the whole population (Mugenda, O.M. and Mugenda, A.G., 2008). Sampling Procedure according to Saunders et al, (2009) details the activities that will help the researcher in arriving at a representative sample to be used in solving the research problem (Saunders, M., Lewis, P. and Thornhill, A., 2009). The researcher obtained a list of all Withholding VAT agents arranged by sector and location. Taxpayers outside Nairobi were removed.

3.3.1 Sample Size.

A sample size is the number of study elements or units selected from the population of interest for investigation (Chandan, Singh and Khanna, 2010). According to Saunders et al, (2009) a good sample size minimizes possible sampling errors and increase precision. Thus the bigger the size of the sample, the lower the possible systematic and nonsystematic errors in taking a broad view of the population (Saunders, M., Lewis, P. and Thornhill, A., 2009). However, Mugenda and Mugenda (2008) contend that a sample size of 10% is appropriate when the population is small and exhibits the same characteristics. This study will adopted Mugenda and Mugenda (2008) approach of 10% and thus the estimated minimum sample size was 184 respondents drawn from MTO from who observation will be made for a period of two years.

3.3.2 Sampling frame.

According to Saunders et al, (2009) the sampling frame for any probability sample is the whole list of entire cases in the population from which the sample is derived (Saunders, M., Lewis, P. and Thornhill, A., 2009). A list of all 3952 Medium taxpayers was obtained. Of these, 3900 are appointed withholding VAT agents. Those located in Nairobi are 1840 and these formed the sampling frame from which a sampled respondent of 184 was picked from and their VAT trends observed.

3.3.3 Sampling technique.

Since the study population of 1835 is big and observing the entire population will be costly, time consuming and involving, the study adopted a simple random sampling technique to arrive at a representative sample for study. A respondent was chosen from the sampling frame using a table of random numbers and observation on VAT and withholding record was made from each of the sample respondent independently for a period of two years from 2015 to 2017.

3.4 Data Collection instruments

Primary data was gathered and generated for the project at hand directly from respondents using questionnaires. The questionnaire will have both open and closed-ended questions and can be administered via post or email to MTO taxpayers within Nairobi city. Data collected will be checked for reliability and validity and to ensure that valid conclusions can be drawn from the data (Saunders et al, 2009).

3.5 Pilot testing

A pilot study is a preliminary mock study that precedes the actual study. This mock study is important because it enables the researcher to gauge if the instruments of data collection will work properly as expected. Mugenda and Mugenda (2003), cite that a relatively small sample of 10 % of respondents is enough for a pilot study. Consequently, 10 respondents were selected randomly for the purpose of the pilot study. These respondents will be among the medium taxpayers in Nairobi. The pilot study was crucial since it will help the researcher to rephrase the questions that were not be understood and also pretest the questionnaire to rate if it will collect the desired results.

3.5.1 Data Validity

Validity is the accuracy and meaningfulness of inferences, based on the research results. Face, construct and content validity will be measured by seeking the opinion of lecturers and other professionals (in tax administration) on the adequacy of the research instruments in achieving the objectives of the study. Based on their opinions, the instrument will adjusted by deleting and adding some questions or by changing the structure or lexical density of questions as appropriate (Kozinets, 2002).

To improve the content validity of the data collection instrument the study sought the services of an expert in the field of strategic management. According to (Castillo, 2009), validity is the strength of qualitative research; it occurs when the knowledge sought is arrived through descriptions that make possible an understanding of the meaning and enhance experience. Experts are crucial to a social research in that they give insights on how to frame the questions in a way that all respondents understand them in a similar manner.

3.5.2 Data Reliability test

Reliability is the extent to which results are consistent over time and accurately represent the characteristics of the total population under study. The Cronbach's Alpha coefficient will be used to test the reliability of the responses from the respondents.. A study is reliable if the results of a study can be reproduced under a similar methodology (Kozinets, 2002). The study used test and retest method in enhancing the reliability of the questionnaires. The questionnaire was pre-tested to the selected sample of the respondents. The selection of the pilot staff was done using purposive sampling. A Cronbach's alpha was used where 0.7 serves as a cut-off point for assessing reliability for multi-item scales (Geswell 2008).The reliability coefficients, Alpha, will be calculated to check consistency of the scale. Cronbach's Alpha coefficients can range from 0.0 to 1.0, and may be interpreted as the percent of "true score" variance in a multiple item measure.

3.6 Diagnostic Tests

In order to ascertain the validity of the data to be used, the study conducted two tests: normality and multicollinearity tests as discussed below:

3.6.1 Normality Test

The data for the study will be subjected to normality test. In order for a regression model to be considered adequate, the data collected must be normally distributed. The Shapiro-Wilk Test will

be used to test for normality. The Shapiro-Wilk test of normality will be preferred since the value is less than 2000. If the responses were more than 2000, the study would have then used the Kolmogorov-Smirnov test (Razali & Wah (2011). The null hypothesis for the test states that the residuals are normally distributed (Hossain, 2012). The alternate hypothesis states that the residuals are not normally distributed.

3.6.2 Multicollinearity Test

Multicollinearity will be tested using Variance of Inflation Factor (VIF). If the VIFs values are not greater than 10 then the results imply that the level of collinearity that exist in the analysis is not problematic in any way.

3.7 Data Analysis and presentation.

After all data has been collected, the researcher will conduct data cleaning, which involves identification of incomplete or inaccurate responses. This will be corrected to improve the quality of the responses. Then the data will be coded and entered in the computer system for analysis using the statistical package for social sciences (SPSS). Chi-square test of independence at 95% confidence level and spearman correlation coefficient will be used. The study will use multiple regression model to establish relationship between independent and dependent variables.

The study utilized a multiple regression model to analyse data as explained below;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where Y- WHVAT revenue performance.

β_0 - is the co-efficient of constant of the equation.

β_i - is the sensitive coefficient of each independent variable (i=1,2,3)

X_1 - WHVAT knowledge and awareness,

X_2 - WHVAT compliance cost,

X_3 - Rate of withholding VAT

ε - is the error term.

The study used analysis of variance (ANOVA) test and t-test significance to establish the significances of the relationship between independent variables and VAT compliance. The study also used Pearson Correlation analysis to test the relationship between the two variables by measuring the existence, direction (positive or negative) and magnitude of such linear relationship.

CHAPTER FOUR: RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

This chapter presents the findings of the study and makes reference to relevant research to support the findings of the study. The findings include demographic information about the sample and results obtained from the descriptive statistics on factors affecting Withholding Value Added Tax compliance among medium taxpayers in Kenya. In general, analysis was conducted using descriptive statistics and regression model. Lastly, an overview of the results obtained in the study were presented and discussed in this chapter. This research problem was studied by the use of a descriptive survey research approach. The researcher received 151 responses out of the 184 questionnaires that were issued to the respondents.

4.2 Response rate

High survey response rates help to ensure that survey results are representative of the target population. A survey must have a good response rate in order to produce accurate, useful results. (Sheehan, K. 2001). Figure 4.1 below represents response rates of the targeted population.

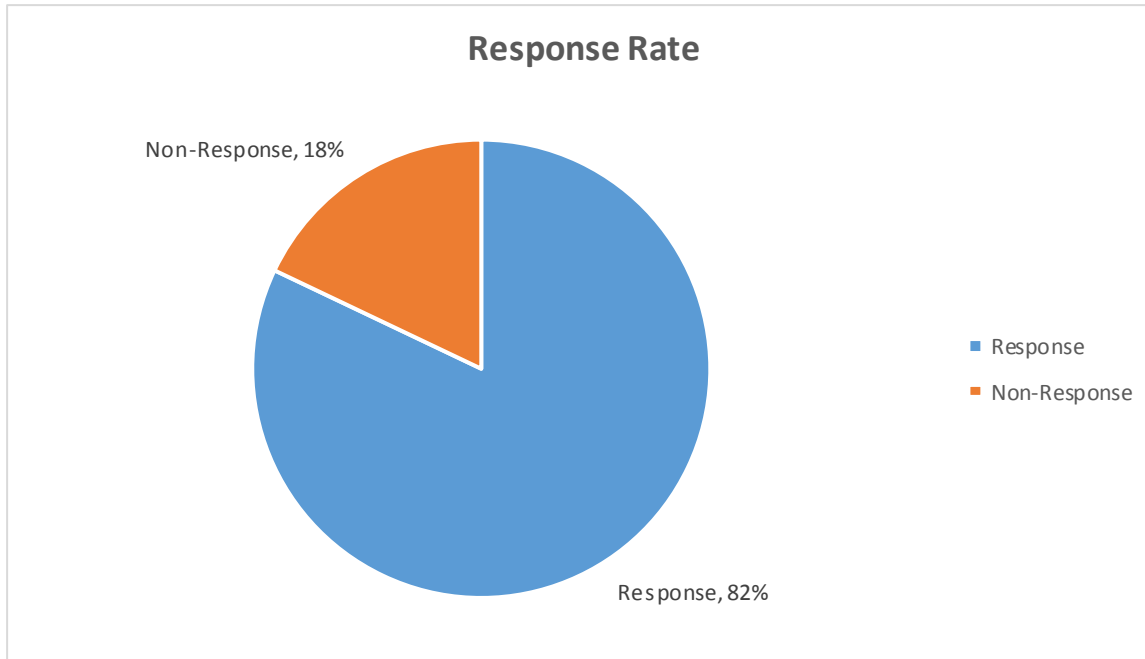


Figure 4.1 Response Rate

According to the findings in figure 4.1, the study realized a response rate of 82%. This is as out of the targeted 184 respondents, 151 participated and gave valid responses whereas 33 of the targeted responses did not give response to the study. This response rate is adequate for data analysis. Mugenda and Mugenda (2003) notes that for a descriptive study, a questionnaire response rate of 50 % is sufficient for data analysis and findings reporting; a response rate of 60 % is good while a response rate of 70% and above is treated as excellent. Thus, this study had an excellent response rate. This rate can be due to the fact that respondents were allowed enough time to fill the questionnaires. In addition, this reasonable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires and also continued efforts to remind them of the benefits of this research.

4.2.1 Reliability Analysis

The value of the Cronbach's alpha coefficient ranges from zero to one and was used to describe the reliability of the factors extracted from questions with two possible answers or multi-point formatted questionnaire or scales. Cronbach's alpha was calculated by application of SPSS for reliability analysis. A higher value; close to one, showed a more reliable generated scale. Cronbach alpha of well above 0.7 implied that the instruments were sufficiently reliable for the measurement. As most item total correlations were reasonably high, the construct validity of the instrument was considered reasonable.

Table 4.1: Reliability Coefficient

| Scale | Cronbach's Alpha | Number of Items |
|-------------------------------|------------------|-----------------|
| WHVAT knowledge and awareness | 0.853 | 5 |
| WHVAT compliance cost | 0.856 | 5 |
| Rate of withholding VAT | 0.841 | 5 |

A higher value indicates a more reliable generated scale. Schindler and Cooper (2008) had indicated 0.7 to be an acceptable reliability coefficient. Table 4.1 above shows that most item total correlations were reasonably high. This is a clear illustration that all the five scales were reliable as their reliability values exceeded the predetermined threshold of 0.7 (Mugenda and Mugenda, 2008).

4.2.2 Validity of Result

Construct validity is established by relating measuring instruments to a general theoretical framework in order to determine whether the instrument is tied to the concept and theoretical assumptions they are employing Nachmias (2008). Content validity of this research was determined by discussing the tools with my supervisors and establishing whether the questionnaires and interviews tools to measure result in relation to the research objective. Pilot

testing done by researcher before data collection also helped in adjusting the tools to ensure higher validity was achieved.

4.3 Analysis of Demographic Information

Demographic information shows the characteristics of the elements in the sample size: As such the researcher sought to establish the general information of the respondents, which forms the basis under which the interpretations are made.

4.3.1 Gender of Respondents

As seen in figure 4.2, majority of the respondents (64%) were male while the remaining 36% were female.

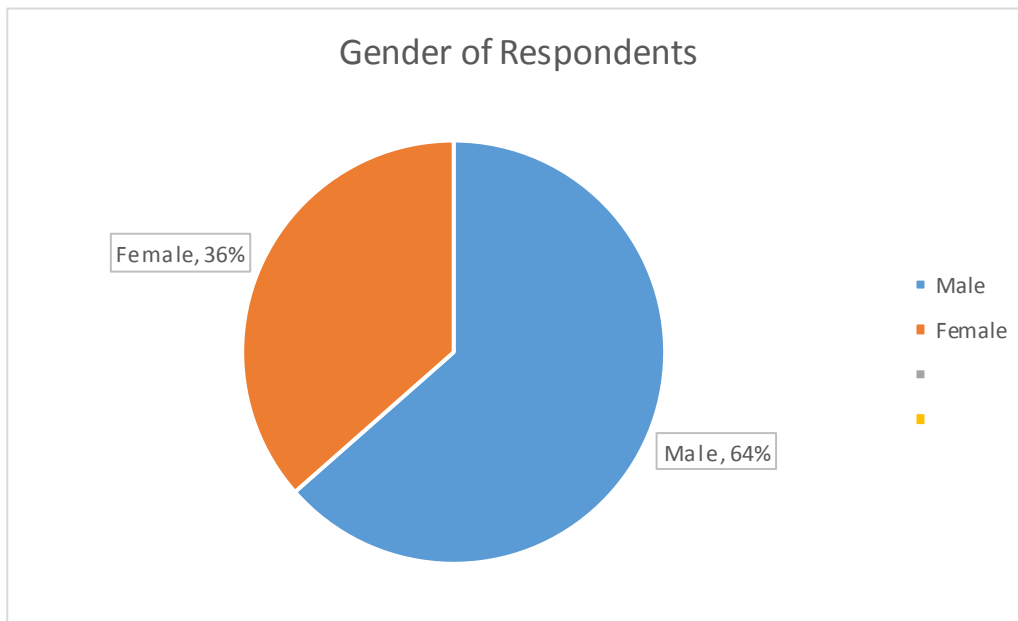


Figure 4.2 Gender of Respondents

4.3.2 Number of years the business has existed

As shown in figure 4.3, majority of the respondent's business existed for more than 3 years on average.

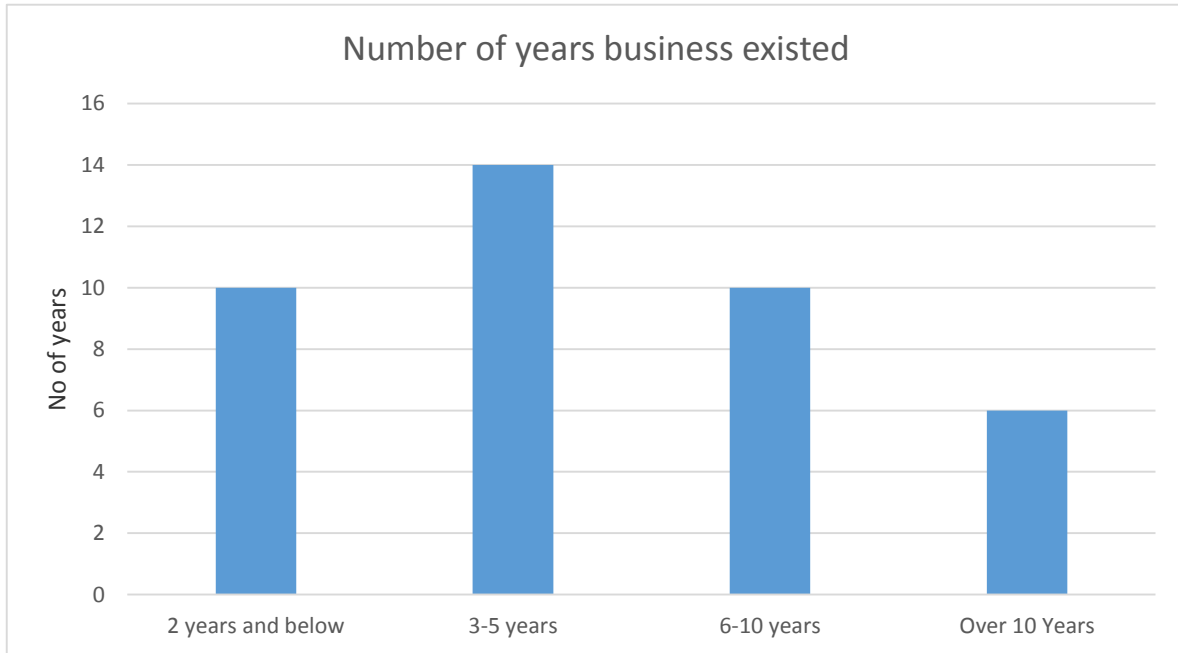


Figure 4.3 Number of years business existed

4.4 Descriptive Statistics

Descriptive statistics are statistics that quantitatively describe or summarize features of a collection of information. Descriptive statistics provide simple summaries about the sample and about the observations that have been made. Such summaries may be either quantitative, i.e. summary statistics, or visual, i.e. simple-to-understand graphs. These summaries may either form the basis of the initial description of the data as part of a more extensive statistical analysis, or they may be sufficient in and of themselves for a particular investigation.

4.4.1 Effect of taxpayer's knowledge on compliance with VAT withholding

Seeking to establish the effect of taxpayer's knowledge on compliance with VAT withholding, the study sought the views of the respondents on the extent to which the given statements influenced compliance as indicated by their level of agreement. A likert scale data was collected rating the extent of agreement in a scale of 1 to 5 where 5 is the maximum extent indicator

whereas 1 is the least extent. The results from the collected responses were analyzed based on means and their standard deviations to show the variability of the individual responses from the overall mean of the responses per each aspect. The mean results are therefore given on a scale interval where a mean value of up to 1 is an indication of a strong extent of disagreement; 1.1 – 2.0 is disagree; 2.1 – 3.0 is a moderate extent of agreement, 3.1 – 4.0 agree and a mean value of 4.1 and above is an indication of a strong extent of agreement. Findings are as presented in table 4.3;

Table 4.2 Effect of taxpayer’s knowledge on compliance with VAT withholding

| Statements on taxpayer’s knowledge on compliance with VAT withholding | Mean | Standard Deviation |
|---|------|--------------------|
| I have attended training on Withholding VAT | 4.12 | 1.273 |
| I have received adequate support from my relationship manager regarding withholding VAT | 4.89 | 1.539 |
| I am fully aware of the provisions of Withholding VAT | 4.07 | 1.217 |

According to the findings in table 4.2 the respondents agreed that they have attended training on Withholding VAT. This is according to the mean obtained of 4.12 with a standard deviation of 1.273. Further, the respondents agreed that they are fully aware of the provisions of Withholding VAT as shown by a mean of 4.07 and a standard deviation of 1.217. Additionally, the respondents further agreed that they have received adequate support from my relationship manager regarding withholding VAT as indicated in table above by a means score of 4.89 and a standard deviation of 1.539. This finding revealed that the re-introduction of the withholding system in Kenya was accompanied with intensive taxpayer education initiatives that were meant to improve the awareness level of stakeholders who use the system.

4.4.2 Effect of rate of VAT Withholding compliance with VAT withholding

The findings under this section are also based on the means and standard deviation for the data that was collected through the Likert scale measuring the level of agreement of the respondents with respect to the given aspects of rate of VAT withholding. The results are as presented in Table 4.3 below;

Table 4.3 Effect of rate of VAT Withholding compliance with VAT withholding

| Statements on rate of VAT Withholding | Mean | Standard Deviation |
|---|------|--------------------|
| Withholding Value added tax rate is fair to Medium taxpayers | 3.86 | 1.539 |
| Medium taxpayers are now willingly paying withholding VAT due to the well-structured tax rate | 4.72 | 1.411 |
| The computation of Withholding VAT is simple for Medium taxpayers | 4.19 | 1.418 |

From the findings in table 4.3 above, the respondents agreed that Withholding Value added tax rate is fair to Medium taxpayers as shown by a mean score of 3.86 and standard deviation of 1.539. Further, the respondents agreed that Medium taxpayers are now willingly paying withholding VAT due to the well-structured tax rate as shown by a mean score of 4.72 and a standard deviation of 1.411. As well, the respondents agreed that the computation of Withholding VAT is simple for Medium taxpayers to apply as shown by a mean score of 4.19 and a standard deviation of 1.418.

4.4.3 Effect of costs of compliance on compliance with VAT withholding

The study results on the costs of compliance are as presented in Table 4.6. The findings are on means and standard deviation showing the extent of the respondents' agreement on the costs of compliance aspects given.

Table 4.4 Costs of compliance on compliance with VAT withholding

| Statements on costs of compliance on compliance with VAT withholding | Mean | Standard deviation |
|--|------|--------------------|
| The cost of filing a withholding VAT return is low | 4.30 | 1.244 |
| The cost of hiring a tax agent is low | 4.25 | 1.149 |
| The cost of collecting WVAT data for filing/declaration is low | 4.10 | 1.150 |

According to the findings tabled above, the respondents agreed that the cost of filing a withholding VAT return is low as shown by a mean score 4.30 and a standard deviation of 1.244. Additionally, the respondents agreed that the cost of hiring a tax agent is low as shown by a mean score of 4.25 and a standard deviation of 1.149. Further, the respondents agreed that the cost of collecting Withholding VAT data for filing returns is low as shown by a mean score of 4.10 and a standard deviation of 1.150.

4.5 Inferential Statistics

This part of the study presents statistics that allow generalizations on the entire population. The key items on this part are the regression and correlation analysis. The findings in this part are then compared and contrasted with previous works and theories to arrive at logical conclusions.

4.5.1 Diagnostic Tests

In order to ascertain the validity of the data used, the study conducted two tests: normality and multicollinearity tests as discussed below:

Normality Test

The data for the study was subjected to normality test. In order for a regression model to be considered adequate, the data collected must be normally distributed. The Shapiro-Wilk test was

used to test for normality. The Shapiro-Wilk test of normality was preferred since the value was less than 2000. If the responses were more than 2000, the study would have then used the Kolmogorov-Smirnov test (Razali & Wah (2011). The null hypothesis for the test stated that the residuals are normally distributed (Hossain, 2012). The alternate hypothesis stated that the residuals are not normally distributed. The results of the Shapiro-Wilk test are presented in Table.4.3

Table 4.5: Test for Normality

| | Shapiro-Wilk | | |
|-------------------------|--------------|----|------|
| | Statistic | df | Sig. |
| WHVAT Compliance | .485 | 40 | .081 |

Source: (Research Data, 2018)

The P value of the Shapiro-wilk test for WHVAT Compliance stood at 0.081. Since this value is greater than 0.05 (5% level of significance), the study failed to reject the null hypothesis (H_0) and an assumption was made that the data set followed a normal distribution. As such, it was held that data set did not significantly deviate from a normal distribution (Shapiro & Wilk, 1965; Razali & Wah 2011).

Multicollinearity

Multicollinearity was tested using Variance of Inflation Factor VIF. The findings are illustrated in Table 4.6

Table 4.6 Multicollinearity Test

Collinearity Statistics

| | Tolerance | VIF |
|--|-----------|-------|
| Rate of withholding VAT | .792 | 1.263 |
| Level of taxpayers withholding VAT knowledge | .864 | 1.172 |
| Costs of WHVAT compliance | .790 | 1.265 |

a. Dependent Variable: WHVAT Compliance

As shown on Table 4.6, VIF for Rate of withholding VAT had VIF of 1.263 and tolerance of .792; Level of taxpayers withholding VAT knowledge was 1.172 and tolerance of 0.864; Costs of WHVAT compliance had a VIF value of 1.265 and tolerance of 0.790. These values of VIF are less than 10 which is the general rule of multicollinearity tests, thus ruling out the chances of multicollinearity. According to (Field, 2009), VIF of less than 10 with a tolerance of more than 0.1 indicates that a set of data has no multicollinearity. It is crucial that variables are not correlated with other in order to enhance validity of the data findings.

4.5.2 Correlation analysis

Correlation shows the relationship existing between variables in the study. The Correlation analysis was also applied to illuminate the magnitude and direction of relationship between each of the factors affecting Withholding Value Added Tax compliance among medium taxpayers in Kenya. The table that follows presents the Pearson Correlation Output as derived from SPSS.

4.10 Pearson's Correlation analysis

| | | WHVAT Compliance | WHVAT knowledge and awareness | WHVAT compliance cost | Rate of withholding VAT |
|-------------------------|---------------------|-------------------------|--------------------------------------|------------------------------|--------------------------------|
| WHVAT Compliance | Pearson Correlation | 1 | .770 | .613 | -.537 |

| | | | | | |
|--------------------------------------|---------------------|-------|-------|-------|-------|
| | Sig. (2-tailed) | 0.000 | 0.012 | 0.023 | 0.011 |
| | N | 151 | 151 | 151 | 151 |
| WHVAT knowledge and awareness | Pearson Correlation | .770 | 1 | 0.562 | 0.420 |
| | Sig. (2-tailed) | 0.012 | 0.000 | 0.000 | 0.000 |
| | N | 151 | 151 | 151 | 151 |
| WHVAT compliance cost | Pearson Correlation | .613 | 0.562 | 1 | 0.523 |
| | Sig. (2-tailed) | 0.023 | 0.00 | 0.000 | 0.000 |
| | N | 151 | 151 | 151 | 151 |
| Rate of withholding VAT | Pearson Correlation | .537 | 0.420 | 0.523 | 1 |
| | Sig. (2-tailed) | 0.011 | 0.000 | 0.000 | 0.000 |
| | N | 151 | 151 | 151 | 151 |

Source: Research data (2019)

The results in table 4.10 indicated that WHVAT knowledge and awareness had positive and significantly related to taxation ($r = 0.770$, $p\text{-value}=0.00 < 0.05$) as indicated in table above. This implies that WHVAT knowledge and awareness was linearly related to WHVAT compliance. The result also revealed that WHVAT compliance cost had a positive and significantly related to taxation ($r = 0.613$, $p\text{-value}=0.00 < 0.05$).

The study showed that the rate of withholding VAT had a negative and and is not significantly related to WHVAT compliance ($r = -0.537$, $p\text{-value}=0.00 < 0.05$).

The strength of association between the two variables; WHVAT knowledge and awareness and WHVAT Compliance is very strong since the Pearson Correlation Co-efficient is above 0.70. Furthermore, the relationship is statistically significant since the Sig. (2-tailed) value of 0.012 is below the 0.05 or 5% level of significance.

4.5.3 Regression Analysis

The variables have a curvilinear relationship thus requiring use of analysis of variance (ANOVA) in order to develop a predictive model. From the correlation matrix, regression analysis was carried out in order to develop a model showing the relationship between independent variables and dependent variable. The purpose of the regression analysis was to get the relationship between the variables and come up with predictions model. In order to determine the factors affecting Withholding Value Added Tax compliance among medium taxpayers in Kenya, the researcher conducted regression analysis. The findings of the Model Summary, ANOVA and Regression coefficient are indicated in subsequent sections.

Model Summary

The study analysed data with the aim of assessing the extent of independent variables on Withholding Value Added Tax compliance. The study findings are tabulated on table 4.7.

Table 4.7 Model summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|--------------|-------------------|-----------------|--------------------------|-----------------------------------|
| 1 | .835 ^a | .698 | .361 | .660 |

Predictors: (Constant), WHVAT knowledge and awareness, WHVAT compliance cost, Rate of withholding VAT

Dependent Variable: WHVAT Compliance

From the model summary, there is a strong positive correlation between the variables of the study as shown by the 83.5% while 69.8% of variations in the dependent variable can be explained by changes in the independent variables hence, the remaining 30.2% is representative of other factors not accounted for in the study

Analysis of Variance (ANOVA)

An ANOVA was conducted at 5% level of significance. A comparison of $F_{\text{calculated}}$ and F_{critical} is shown in Table 4.8 below.

Table 4.8 Analysis of Variance (ANOVA) and F-Test Results

| Model | | Sum of squares | df | Mean Square | F | Sig |
|--------------|------------|-----------------------|-----------|--------------------|----------|-------------------|
| | Regression | 11.487 | 4 | 3.872 | 17.133 | .000 ^b |
| 1 | Residual | 4.113 | 26 | .226 | | |
| | Total | 15.60 | 30 | | | |

(Researcher, 2018)

a. Dependent variable: WHVAT Compliance

b. Predictors: (Constant), WHVAT knowledge and awareness, WHVAT compliance cost, Rate of withholding VAT

The ANOVA was derived from the correlation matrix and was computed by way of dividing the established variations of the group averages by the expected variations. As can be observed in table 4.8 of the Analysis of variance (ANOVA) for regression coefficients, the results demonstrate that the significance of F statistics is less than 0.000 which is less than 0.05 confidence level. From table 4.8, the computed $F = 17.133$ and this implies that all the factors identified have significant effect on Withholding VAT compliance in Kenya. The p value is 0.000, an indication that at least one of the independent variables significantly influenced WHVAT Compliance among medium taxpayers in Kenya.

Table 4.9 Regression Results

| Model | Unstandardized Coefficient | | Standardized | t | Sig. |
|-------------------------------|----------------------------|------------|--------------|-------|-------|
| | B | Std. Error | Beta | | |
| (Constant) | .392 | .739 | | .530 | .598 |
| WHVAT knowledge and awareness | .237 | .096 | .269 | 2.471 | .016 |
| WHVAT compliance cost | -.281 | .112 | .263 | 2.507 | 1.015 |
| Rate of withholding VAT | .371 | .100 | .347 | 3.183 | .002 |

a. Dependent Variable: WHVAT Compliance

As shown in table 4.9 the multiple regression model equation is expressed as:

$$Y = 0.392 + 0.237X_1 - 0.281X_2 + 0.371X_3$$

Where: Y= WHVAT Compliance

X1= WHVAT knowledge and awareness

X2= WHVAT compliance cost

X3= Rate of withholding VAT

In terms of the significance, WHVAT knowledge and awareness had p value of 0.016 which is less than 0.05. Its beta coefficient (0.237) is positive. Therefore, it can be inferred that WHVAT knowledge and awareness has a positive significant effect on WHVAT Compliance. The results indicate that a 1% increase in the WHVAT knowledge and awareness will result in a 23.7% increase in the level of WHVAT Compliance by the medium taxpayers.

WHVAT compliance cost had p value ($p=1.015$) which is greater than 0.05. The beta coefficient (-0.281) is negative. This can be interpreted that WHVAT compliance cost has a negative and significant effect on WHVAT Compliance. The findings suggest that a 1% increase in WHVAT compliance cost will result in a 28.1% decline in the level of WHVAT Compliance by the medium taxpayers.

Rate of withholding VAT ($p=0.002$) with beta coefficient (0.317). The beta coefficient is positive and the p value is less than 0.05. Hence, it can be inferred that Rate of withholding VAT has a positive and significant effect on WHVAT Compliance. This indicates that a 1% increase in the Rate of withholding VAT will result in a 31.7% increase in the level of WHVAT Compliance by the medium taxpayers.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter is made up of four sections. The first section presents a summary of the study which includes the study objectives, methodology as well as the findings. The second subsequent section presents a discussion of the major findings of the study. The third section offers conclusions based on the specific objectives, with the help of the findings and results obtained in chapter four. The final sub-section presents the recommendations for improvement on the basis of the specific objectives. It also offers the recommendations for further studies.

5.2 Summary of the findings

The purpose of the study was to establish the factors affecting Withholding Value Added Tax compliance among medium taxpayers in Kenya. It therefore sought to establish the effect of withholding VAT knowledge and awareness, rate of withholding VAT and costs of compliance on Withholding VAT compliance

5.2.1 Withholding VAT Knowledge and awareness and Value Added Tax compliance

The study revealed that, majority of the respondents agreed that they have attended training on Withholding VAT. Additionally, the respondents further agreed that they are fully aware of the provisions of Withholding VAT. Additionally, the respondents further agreed that they have received adequate support from their relationship manager regarding withholding VAT. This finding revealed that the re-introduction of the withholding system in Kenya was accompanied with intensive taxpayer education initiatives that were meant to improve the awareness level of stakeholders who use the system.

These findings resonate well with a study done by King'oina (2016) which revealed that the level of tax understanding and knowledge has a significant effect on tax compliance. This is because a better understanding of VAT laws encourages compliance

5.2.2 Rate of VAT Withholding

The findings of the study revealed that the respondents agreed that the Withholding Value added tax rate is fair to medium taxpayers. Further, the respondents agreed that Knowledge about tax laws plays a major role in determining property owners' tax compliance. As well, the respondents agreed that Medium sized entrepreneurs are now willingly paying withholding VAT due to the well-structured tax rate. Finally, the respondents agreed that the computation of

Withholding VAT is simple for Medium sized entrepreneurs to apply. The study findings established that withholding VAT rate significantly and positively influences compliance among medium taxpayers in Kenya.

5.2.3 Costs of compliance on compliance with VAT withholding

The study revealed that majority of the respondents agreed that the cost of filing a withholding VAT return. Additionally, the respondents agreed that cost of hiring a tax agent is low. Moreover, the respondents agreed that the computation of tax on Withholding VAT is simple for them to apply.

5.2.4 Withholding VAT Compliance

The study revealed that withholding VAT knowledge and awareness had the greatest effect on withholding VAT compliance

5.4 Policy Recommendations

5.4.1 Recommendations on Withholding VAT Knowledge and awareness

The study found that Withholding VAT Knowledge and awareness significantly influences compliance with Withholding VAT by medium taxpayers in Kenya. Based on study finding, this study recommends that KRA should develop training programs to create more awareness on Withholding VAT. KRA should also empower the taxpayer education division to enable it educate taxpayers so that they can understand their rights and obligations as taxpayers. This will increase voluntary tax compliance levels.

There is need to continuously train KRA technical staff to keep abreast with the tax law and other emerging tax related issues. This way, the officers will impart proper and correct advice to taxpayers during the time of audits. Customer care lessons should form an integral part of this training. Recruitment of new taxpayers by the authority should be intensified and enhanced. This will broaden the tax base and reduce pressure on the complying taxpayers

5.4.2 Recommendation on Rate of VAT Withholding

Based on the findings above, it can be concluded that when it comes to taxation of medium taxpayers, high tax rates are the primary reason most medium taxpayers do not pay tax. Despite the fact that they face other tax related issues, it is the problem of high tax rate that mostly promotes non-compliance and pushes most medium taxpayers to even under declare their income. This study recommends that medium taxpayers should be levied lower amounts of taxes so that they will have enough funds for other activities that will lead to business growth. Furthermore, the government should consider increasing tax incentives and exemptions as this will not only attract investors who are potential tax payers, it will also encourage voluntary compliance.

KRA should also consider reducing the withholding VAT rate as outlined in the finance bill of 2019. This can enhance the levels of withholding VAT compliance among medium taxpayers in Kenya.

5.4.3 Recommendations on Costs of compliance

High costs incurred by taxpayers to comply may hinder their level of compliance. The study recommends that Kenya Revenue Authority should ensure that it is not very expensive to both

the taxpayer and the authority to ensure compliance. The government should be more involved in making laws that encourage compliance by reducing the cost of compliance.

5.5 Limitations of the Study

This study focused on medium taxpayers who form seventy five percent of total revenue collected by KRA. These are well established organizations with formal accounting systems. Due to time and distance constraints this study focused on organizations within Nairobi only.

5.6 Suggestion for Further Studies

This study collected data from medium taxpayers within Nairobi to establish the various factors which influence compliance with Withholding VAT among medium taxpayers in Kenya. Thus, this study recommends the following areas for further study; A study can be designed to find out the impact of withholding VAT tax on the country's economic growth. This will give an indication on the effects of withholding VAT tax on the country's economic growth. Another study should be conducted in other countries in East Africa since this study focused on Kenya's situation to determine how withholding VAT tax affects tax compliance. This will offer a basis for comparison on the effects of withholding VAT tax on tax compliance in those countries. This study examined the effects of withholding VAT tax on tax compliance over a period of 5 years. It is therefore necessary to carry out further studies with similar tests for a reasonably longer time period.

REFERENCES

- Adari, M. (2012). *Value Added Tax in Kenya*. Unpublished MA Research paper, University of Nairobi.
- Adereti, S.A., Adesina, J.A and Sanni, M.R. (2011). *Value Added Tax and Economic Growth of Nigeria*. European Journal of Humanities and social sciences, Vol 10 (special issue), 2011.
- Ainsworth, R.T (2011), *VAT fraud as a Policy Stimulus – Is the US Watching? VAT withholding, RTVAT and the Mittler Model*, Boston University School of Law, Working Paper No. 11-08.
- Ariyo, A. (1997). *Productivity of Nigerian Tax System, 1970-1990*. Research paper No. 67, Africa Economic Research Consortiums (AERC), Nairobi, Kenya.
- Atawodi, O. W., & Ojeka, S.A. (2012) *Factors that affect tax compliance among Small and Medium Enterprises (SMEs) in North Central Nigeria*. International Journal of Business and Management, 7,(2), 87-96.
- Bird, R. M. (2003) *Administrative Dimensions of Tax Reform*. Unpublished.
- Chipeta, C. (1998) *Tax Reform and Tax yield in Malawi*. Research Paper No. 81, African Economic Research Consortium
- Cl eroux, P. (1992). *Small business and the cost of paperwork: the goods and service tax*. Journal compliance issues in Malaysia, journal of applied law and policy.
- Dublin, J.A., & Wilde, L.L. (2008). *An Empirical Analysis of Federal Income Tax Auditing and Compliance*. National Tax Journal, 41 (1). 61-74.
- Fjeldstad, O. H (2013). *The Added Value of Value Added Tax: People are more willing to pay tax*. CMI Brief. 14.4
- Franzoni, L. (2000). *Tax Evasion and Tax Compliance*. In Encyclopedia of Law and Economics.
- Gangl, K., Hofmann, E., & Kirchler, E. (2015). *Tax authorities' interaction with taxpayers: A conception of compliance in social dilemmas by power and trust*. New ideas in psychology, 37(7), 13-23.
- Gill, J. and Johnson, P. (2010) *Research methods for managers* . 4th Edition. Sage .
- Gitau, F. (2011). *“Tax Reforms and Revenue Productivity in Kenya”* Unpublished MBA research paper, University of Nairobi
- Government of Kenya (2015). *The Tax Procedure Act, 2015*. Kenya Gazette, 2013. Nairobi. Government Printer.

- Government of Kenya (GoK). (2017). Budget highlight, 2017/2018. Nairobi: Government Printers.
- Hazel, C. (2005). *Tax policy in developing countries: what can be learned from OECD experience?* Journal of Public Economics, 93, 55–66.
- Hijattullah, A. and Pope, J., (2008), *Exploring the relationship between tax compliance costs and compliance issues in Malaysia.* Journal of Applied Law and Policy
- Hurst, E., Li, G., & Pugsley, B. (2014). *Are household surveys like tax forms? Evidence from income underreporting of the self-employed.* Review of economics and statistics, 96(1), 19-33.
- IMF. (2014). *Kenya: Tax Policy for Stabilization and Economic Recovery.*Country Study. Washington, D.C.: The World Bank Initiative for Policy dialogue. Working papers series, October 2009.
- Karingi, S., Wanjala, A., Kamau, A., Nyakang'o, E., Mwangi, A., Muhoro, M., & Nyamunga, J. (2004). *Fiscal Architecture and Revenue Capacity in Kenya.* KIPPRA Discussion Paper DP/45/2004. Nairobi, Kenya.
- Kenya Revenue Authority (KRA). (2016). Indirect Taxes Kenya. Nairobi, Kenya: KRA.
- King'oina, J. O. (2016). *Factors influencing value added tax compliance among the construction firms in Kisumu County, Kenya.* Masters Project, University of Nairobi,
- Kothari, C.R. (2004). *Research Methodology: Methods and Techniques* (Second Revised ed.). New Delhi: New Age International publisher.
- Kwagala-Igaga, D. (2016). *Tax Reform in Uganda: A case study of the Reform of Direct Lessons,* Kenya Revenue Authority, Times Towers, Nairobi, Kenya.
- Mararia, A, K. (2014). *The Effect of Integrated Tax Management System on Tax Compliance by Small and Medium Sized Enterprises in Nairobi Central Business District.* MSC Finance project, University of Nairobi.
- Miki, P. (2011). *The effect of the VAT rate change on aggregate consumption and economic growth.* CJEB working papers No. 297.
- Miller, A., & Oats, L. (2016). *Principles of international taxation.* Bloomsbury Publishing.
- Mohd, R. (2010), *Tax knowledge and tax compliance determinants in self-assessment system,* A thesis submitted to the University of Birmingham for the degree of Doctor of Philosophy

- Moyi, E. & Ronge, E. (2006). *Taxation and Tax Modernization in Kenya: A diagnosis of performance and option for further reforms*. Nairobi, Kenya: Institute of Economic Affairs.
- Mugenda, M. O., & Mugenda, G. A. (2003). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: Acts Press.
- Mukabi, D. N. (2014). *Factors influencing turnover tax compliance in the Kenya revenue authority domestic taxes department in Nairobi County*, MBA Thesis, University of Nairobi.
- Musgrave, R. (1989) Tax Reform in Developing Countries. In D. Newberry and N. Stern, Theory of Taxation for Developing Countries. Oxford, Oxford University Press.
- Nada, O. E. and William, J. (2009) Tax Reform in Kenya: Policy and Administrative Issues
- Naibei, I. K., Momanyi, G. & Oginda, M. N. (2012). *Relationship between Income size, Inspection and VAT Compliance: Evidence from Private Firms in Kenya*. African Research Review, 6(1), 1-17.
- Ngotho, J.(2014). *Determinants of Revenue Collection in Developing Countries: Kenya's Tax Collection Perspective*. Journal of management and business administration, 6(5), 1-9.
- Njoroge, J. W. (1996). *Revenue Productivity of Tax Reforms in Kenya*. MA Thesis, University of Nairobi.
- Nyaga, G. A. (2014). *Tax Compliance, Enforcement and Taxpayer Services in Kenya: A case study*. Master of Commerce Thesis, Strathmore University, Kenya.
- OECD (2014) *Consumption tax trends, VAT/GST, Excise and Environmental Taxes*. 1, accessed on 12th Dec 2018.
- Okello, A. (2001). *An analysis of Excise Taxation in Kenya*. African Economic Policy Discussion Paper number 73. Equity and Growth through Economic Research, USA.
- Oketch, T.C and Mburu, P.G. (2011). *Analysis of responses of tax revenue to changes in national income in Kenya between 1986-2009*. International journal of business and social science, Vol 2 No.21 special issue-November 2011.
- Osoro, Nehemiah, E., (1991), "Tax Reform in Tanzania: Motivations, Directions and Implications" Paper presented at AERC Workshop, Nairobi, May.
- Sandford,C., Godwin, M., and Hardwick, P. (1995).Administrative and Compliance Cost of Taxation. Birmingham: Fiscal Publications.

- Saunders, M., Lewis, P. and Thornhill, A. (2009). *Research Methods for Business Students*. (Fifth ed.). Pearson Education Limited.
- Sekaran, U. & Bougie, R. (2010). *Research methods for business: A skill building approach*, 5th ed. West Sussex: John Wiley and Sons Ltd.
- Tavakol, M. and Dennick, R. (2011). *Making sense of Cronbach's alpha*. International journal of medical education, 2(53).
- Terkper, S. (2007) *Improving Taxpayer Accounting for SMEs and Individuals*. Andrew Young School of Policy Studies. Annual Conference on Public Finance Issues: Alternative
- Trandafir, A. (2016). *Methods of measurement and benchmarking of VAT gap in the European Union*. Economics, Management and Financial Markets, 11(1), 361.
- Umeora, C.E. (2013). *'The Effect of Value Added Tax (VAT) on the Economic Growth of Nigeria*. Journal of Economic and sustainable Development, VOL N0. 6.
- Vaillancourt, F. (1987). *The compliance costs of taxes on businesses and individuals: A review of the evidence*. Public Finance, 1987, vol. 42, issue 3, 395-414
- Waerzeggers, C. (2008), *VAT in Africa*, Richard Krever, Ed 2008 pp 217-250.
- Wawire, N. H. W., & Thuku, G. K. (2011). *Effects of Tax Reforms on Buoyancy and Elasticity of the Tax System*. International Journal of Economics and Finance, 97-111.
- World Bank Group, 2018, *Kenya Economic Update*, April 2018, No. 17; Policy Options.
- Yin, R. K. (2013). *Case study research: Design and methods*. Sage publications.

APPENDICES

APPENDIX 1: INTRODUCTION LETTER

Part 1: Request to Participate in a Research Study

I am a student at JKUAT/Kenya School of Revenue Administration (KESRA) undertaking a post graduate diploma in tax administration. I am carrying out a research as part of the programme degree requirements on the factors affecting Withholding Value Added Tax on compliance among medium taxpayers in Kenya. As one of the medium taxpayers in Kenya, you have been selected as one of my respondents. You are only required to fill out a questionnaire in this study. The questions relate to your role as a medium taxpayer and your experience as a Withholding VAT Agent.

The information provided here will be confidential and will be used solely for this study. Your support will be greatly appreciated. I look forward to your positive response.

Thank you

Faith Wanjiru Gathua

APPENDIX 2: QUESTIONNAIRE

Introduction

This questionnaire is designed for the sole purpose of gathering information on factors affecting Withholding Value Added Tax on compliance among medium taxpayers in Kenya. The information obtained will only be used for academic purposes and shall be treated in utmost confidence. You are requested to complete this questionnaire as honestly and objectively as possible.

Please tick in the appropriate box and also fill in the blank spaces provided for those questions.

Use the space at the back of this questionnaire if you need more space for your responses.

SECTION A: BIO DATA

1. Gender

Male Female

2. Number of years the business has existed

i) Below 2 years

ii) 3-5 years

iii) 6- 10 years

iv) 10 years and above

3. Name of the business

4. Please select which sector of the economy you are in (Please tick one)

i) Service sector

ii) Agriculture and Manufacturers

- iii) Distributors
- iv) Financial and Insurance
- v) Government
- vi) Construction

5. Have you been appointed as a withholding VAT Agent?

Yes No

6. Did you attend any training after appointment as an agent?

Yes No

Section B:

1. Please indicate by ticking the correct box to state your position on the following statements with regard to taxpayer knowledge of withholding VAT:

1- Strongly agree 2- Agree 3- Neutral 4- Disagree 5- Strongly disagree

| | | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|---|
| | I have attended training on Withholding vat | | | | | |
| | I have received adequate support and updates from my relationship manager regarding withholding VAT | | | | | |
| | I am fully aware of the provisions of Withholding VAT and subsequent updates | | | | | |

2. Please indicate by ticking the correct box to state your position on the following statements with regard to the rate of withholding VAT

1- Strongly agree 2- Agree 3- Neutral 4- Disagree 5- Strongly disagree

| Statement | 1 | 2 | 3 | 4 | 5 |
|---|----------|----------|----------|----------|----------|
| Withholding Value added tax rate is fair to Medium taxpayers | | | | | |
| Medium taxpayers are now willingly paying Withholding VAT due to the well-structured tax rate | | | | | |
| The computation of Withholding VAT is simple for medium taxpayers to apply | | | | | |

3. Please indicate by ticking the correct box to state your position on the following statements with regard to cost of compliance with withholding VAT

1- Strongly agree 2- Agree 3- Neutral 4- Disagree 5- Strongly disagree

| Statement | 1 | 2 | 3 | 4 | 5 |
|---|----------|----------|----------|----------|----------|
| The cost of filing a withholding VAT return is low | | | | | |
| The cost of hiring a tax agent is low | | | | | |
| The cost of travelling in order to file a withholding VAT return is low | | | | | |

4. What challenges have you faced in the process of withholding and remitting VAT?

5. What system changes would you propose to make it easier for you as a withholding agent?

Thank you for taking part in the survey