

**EFFECTS OF DEBT COLLECTION METHODS ON REVENUE TARGETS
IN KENYA REVENUE AUTHORITY (A CASE STUDY OF SMALL AND
MEDIUM SIZE TAXPAYERS IN NYERI TOWN)**

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DECLARATION

This project is my original work to the best of my knowledge and has not been presented to any other university or institution of higher learning for examination purposes.

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This research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

This project is dedicated to my Husband Michael Macharia Karuga and my siblings for their support both materially and socially to ensure that I complete my work. Thank you for your immense support and love all through.

ACKNOWLEDGEMENTS

I acknowledge the Almighty God for giving me wisdom and a good environment all through. I greatly appreciate the opportunity to pursue my Postgraduate Diploma at Jomo Kenyatta University of Agriculture and Technology. I sincerely appreciate my supervisor Dr. Marion Nekesa who has continually guided me throughout this period and for his advice and words of encouragement without which this proposal would not have been completed. I also appreciate my fellow students for their friendship and for creating a pleasant learning environment. I will always be indebted to all of them.

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LIST OF ABBREVIATIONS

KRA- Kenya Revenue Authority

VAT-Value Added Tax

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ABSTARCT

The study sought to establish the effect of debt collection on Kenya Revenue Collection revenue targets among small and medium taxpayers in Central Kenya. The study employed a descriptive research design to achieve the desired objectives. The target population under the study was 600 who fall in the category of small and medium taxpayers in the Central Kenya Region, Nyeri Station. The study employed the use of questionnaires to collect the required data from the respondents who were a sample of 66. The data collected was coded, quantified, and analyzed quantitatively and qualitatively. The findings show that there was a positive relationship between revenue collected and GDP and debt collected and a negative relationship between revenue collection and rate of inflation. It was further found that GDP was statistically significant in the regression model while debt collected and rate of inflation were not statistically significant. Though debt collection is not a strong determinant to revenue collection it was concluded that use of effective tools would reduce debt portfolio and that following up on unpaid taxes will foster equity and encourage compliance amongst taxpayers. The study recommendations are: there is need for the treasury to fast track waivers processing to enable the KRA reduces its debt portfolio accordingly. Where the waiver has been denied then the authority will be better place to follow up with that debt soon rather than later and where it has been granted then the debt can be written off from the system and update its debt portfolio. The society in general is ignorant about their tax laws, hence there is need for KRA to simplify the tax system and make it easy for the taxpayers to know their tax obligations and honour them accordingly. This will avoid cases of debt arising out of audit as the taxpayer is assessed on what he was ignorant about

CHAPTER ONE

INTRODUCTION

1.1 Introduction

1.1.1 Background of Study

According to Annette (2007) California and other states with growing revenue needs can no longer ignore growing uncollected use tax. Failure to collect use tax violates the principles of equity and neutrality. The use tax is a longstanding tax and better collection techniques can avoid the need to create new taxes or raise tax rates of other taxes. While the use tax has been around since the 1930s in most states, few people are aware of it which obviously leads to low compliance. California and other states have recently improved collection practices, but more work is needed. Some forms of taxpayer assistance are counterproductive and should be avoided. In an effort to help taxpayers cope with the crisis, some countries are considering the implementation of tax amnesties, moratoria on auditing taxpayers, and other similar measures. International experience has shown that such measures are not effective tools for improving revenue collection and create perverse incentives for currently compliant taxpayers to stop complying with the tax laws (Baer & LeBorgne, 2008)

Unlike private businesses, a tax authority does not choose its clients based on their creditworthiness. All taxpayers are rated the same and the law in force concerning tax collection applies equally to all of them. Therefore, it cannot charge higher interest rates or refuse to extend credit based on a poor credit rating of a tax payer. However, a tax authority does have legislative

abilities that private organizations do not have, such as the ability to garnish a debtor's source of income to collect taxes owing, without a court order.

Timely collection of overdue accounts is important, because it is the final element in taxpayer compliance. If taxpayers do not believe the government will collect overdue taxes, they may be less motivated to pay. Not paying debts will have a negative effect on revenue base over time (Canada, 2013). Debt collection faces challenges during economic crisis. According to Brondon (2009) when credit is tight or unavailable, credit-constrained taxpayers may be tempted to use tax evasion as an alternative source of finance for their operations. For example, businesses may fail to remit to the government the taxes they have withheld from their customers (value-added tax—VAT) or employees (payroll taxes). Taxpayers who face severe economic stress—such as the risk of bankruptcy—may perceive the downside risks of tax evasion (penalties) to be minimal compared with the potential upside gains (avoiding bankruptcy). During such times the debt collection strategies that maybe applied should not push the taxpayer to close his business which would result into loosing tax revenue altogether. The tax collector may opt to work out a tax payment plan that is favourable to the business or defer the debt to a later date till the taxpayer is able to pay.

Tax revenue refers to compulsory transfers to the central government for public purposes. Certain compulsory transfers such as fines, penalties, and most social security contributions are excluded. Taxation is the key source of revenue that the government of Kenya uses to provide public services to its citizenry. Over the last decade tax performance in Kenya has significantly improved in nominal terms averaging about 24% of the size of the economy (Mutua, 2012).

This has enabled the government to finance 96% of the budget. Despite the growth in revenue performance the tax gap has continued to grow. The tax gap is a combination—underreporting, underpaying or non-paying of declared taxes resulting to a tax debt, and non-filing of required tax returns altogether.

Taxes are the main source of revenue in Kenya. They are collected at regular diverse times and the time is guided by the type of tax. For instance, Income tax is tax charged on the income of employed persons. This tax is deducted directly by the employer and the employee gets his pay net of taxes. The tax rate is fixed by treasury and changes from one income bracket to another. VAT is tax on goods and services. Some manufacturers include this form of tax in their products and this is called input tax. The law requires that those operating businesses must register for this tax which is pegged at 16% of all vatable sales or purchases. This type of tax attracts penalties for non-filing of tax returns. Other types of tax include turn over tax, which is 3% of gross sales and corporate tax, which is pegged at 30% and 37.5% for resident and non-resident companies respectively.

The good revenue performance has been attributed to the Tax Modernization Programme (TMP) that have been undertaken by Kenya Revenue Authority (KRA) from the 1980's to date. The programme was meant to reform the tax system. According to Karingi et al (2005), the success of this reform package depended on the realisation of a set of objectives among them raising revenue levels from 22 to 28 percent of GDP, improving economic efficiency of the tax system by lowering and rationalizing tax rates, and enhancing greater reliance on selfassessment systems supported by selective audit, improving administrative efficiency through computerization and audit capacity and establishing tax policy analysis capacity to implement organisational reforms.

The tax reforms as we can see has not in any way looked into the administrative capacity of KRA, for instance, in terms of tax debt collection, rather its emphasis has all been on widening the tax base and increasing revenue while not putting in place proper modern mechanism to ensure that taxes are all collected as and when they fall due. This is evidenced by large tax arrears presently at KRA (estimated 100B). This shows that tax administration still needs to be enhanced to reduce tax arrears and therefore increase tax collection.

The treasury gives targets to Kenya Revenue Authority on how much it needs to collect to fund the budget of the country. This is in the understanding that taxes are the biggest source of revenue in Kenya used to fund the budget. In this view, therefore, the Authority is tasked with doing within all its powers to collect as much as it can to meet its targets. Information from the National Treasury indicates that Kenya Revenue Authority (KRA) collected a record Ksh1.001 trillion in taxes last financial year which ended June 30, 2015. Though it was an increase in the revenue collected, the amount fell below the targets. Accumulated uncollected taxes translate to debt.

Debt collection strategies involves developing a strong collection unit with clearly defined, documented and consistent policies and procedures that guide staff through the collection process and instruct them on how to respond to a particular matter (Wambugu, 2012). There is need to address staff training needs especially of the debt management staff. They should know the law governing the collection of tax debt, be familiar with the tax debt management manual and the KRA's service charter so as not to infringe into the taxpayers' right and at the same time ensure the collection tax debt in a legal way.

However, it becomes difficult for the Authority to collect some taxes, as there are no laid procedures and mechanisms that support tax collection in some sectors of the economy. In view of this, it is therefore important to identify and analyze the impacts that the uncollected debts have on the targets of revenue collection and how to possibly bridge the gap and reduce debt.

1.1.2 Debt Collection

1.1.1 Debt Management Tools

Debt management tools are tools used undertaken to accelerate the collection of delinquent debt. Debt management strategies are the collection strategies which are organized plans of action incorporating the various collection tools to be used by an agency, an individual or a company to recover debt. Each agency or company should establish and implement effective collection tools that suit the agency's programs and needs. Collection tools must meet all statutory requirements set out by the agency or company in its credit policy. A collection strategy will facilitate debt collection by providing a systematic, uniform method for collecting accounts (Financial Management Services). Early intervention approach to compliance and debt management issues is important. Use of information technology (IT) assist in profiling of taxpayer and timely identification of tax debtors for early intervention. It is also important to use appropriate strategies during economic crisis. This is because the rate of defaulting is high and the forceful enforcement strategy may not be taken well by the tax debtor.

Debt is tax that is owed to the Authority by individuals and non-individuals who should have remitted the same to KRA. However, most often than not, this unpaid tax accrues over a long period of time and becomes debt. It is inclusive of the primary debt, the penalties and interest accrued over time. There are rafts of factors that inhibit the debt collection and that are what this

research seeks to unravel. They include government regulation, tax base issues, debt collection methods and internal control mechanisms. The research seeks to specifically tackle the effect of these four variables on the revenue targets of Kenya Revenue Authority.

1.1.3 Revenue Collection Targets

The Kenya Revenue Authority in its annual estimates submits to the treasury sums of money it intends to collect over a period of time, maybe, quarterly. These are targets that it should meet to ensure that the government operations are running as intended since taxes form the biggest part of money used to fund the government's budget. It is therefore critical that KRA meets the targets it has set for itself. Inclusive in the target for tax collection are debts that KRA has not been able to collect. This is attributed to bottlenecks in some government operations, internal controls, debt collection methods and failure of the tax payer to be in a particular tax base. These areas are what this research seeks to investigate, as it seeks to comprehend their effects on revenue collection.

Governments, both of the developed and developing countries, require revenue to finance their expenditures. The government revenue consists of tax and non-tax revenues. Taxes are levied on persons either on their incomes or on consumption of taxable items- goods and/or services. Non-tax revenue consists of foreign aid, revenue from state-owned enterprises, fees on licences and other services offered by the government, fines among other sources. Successful collection operations are using data and technology to drive collections at reduced costs per dollar collected, and demonstrate significant increases in revenues without increases in staff. They are deploying best practices and tools in key areas such as data gathering, decision analytics, automated involuntary enforcement, self-service and call management. Many government

entities have a wealth of data that can enhance collection activities. This includes employer data, information from checks previously received, bank account numbers from electronic debit and refund transactions, and addresses from drivers' licenses and even utility bills. Governments able to centrally warehouse data from many different organizations (including state and local governments) have a much more complete view of the debtor.

Automating involuntary collection efforts is another powerful tool. While many agencies have the authority to levy and garnish debtors, the process is cumbersome and often ineffective. Government collection organizations typically can access data regarding a debtor's bank accounts through previous tax returns, prior payments to or from the debtor, financial institution data matches, interest reporting from banks and other data sources. In addition, employment information often is obtained through employer withholding forms and relationships with other government agencies. This data sharing is a key to automating involuntary activities (London & Hamilton, 2013). In a perfect world, financial institutions and collection agencies would know which debtors would pay, which accounts would become delinquent, how long they would be delinquent and the most effective way to contact the delinquent debtors. This would allow collections management to determine how to best allocate resources to maximize the amount collected while minimizing collection expense. Collections management could increase unit yields and decrease time and financial resources wasted on those accounts that would not be impacted regardless of the treatment (Davey, 2009).

Governments have agencies or departments responsible with collecting government revenue from individuals and companies. For instance in Kenya, Kenya Revenue Authority (KRA) is mandated to collect taxes for the government under the various Acts (KRA Act, Cap 469). The

tax collected includes current taxes and tax arrears. Over the years the revenue collected by the authority has increase, for instance Kshs. 122B in 1995/96 to Kshs. 840B in 2012/13, accounting for about 96% of ordinary government revenue (KRA Financial Statement, 1996- 2013).

1.1.2 Effects of Debt Management Tools and Revenue Collection

Improving tax collection requires mechanisms for voluntary tax payment and coercing payment by non-complying taxpayers. It requires adequate withholding systems, an appropriate penalty structure, use of audits and provision of incentives linked to tax recovery, and taxpayer's incentives for prompt payment (Moyi & Ronge, 2006). The level of debt is driven by the economic climate, tax policy, and debtors' behaviour, as well as by the tax agency's efforts to assess and collect taxes in a timely manner. Though a big proportion of revenue is collected on time, some revenue remains unpaid. There is need to profile the debtors, identify them and find an appropriate strategy to recover the debt in a timely manner. Therefore, the earlier a debt is detected and collection strategies instituted, the lower the amount of delinquent debt and this enhances the government revenue. Tax agencies should, therefore, consider liberalizing the use of payment arrangements to assist distressed taxpayers, but firm enforcement action should be taken against businesses that have the capacity to pay their taxes but refuse to do so. Instalment arrangements provide an important tool for collecting tax revenue from cash-strapped taxpayers. The tax laws in many countries include provisions that allow financially distressed taxpayers, under certain conditions, to pay their tax liabilities in instalments. The instalments typically span one to two years during which time interest accrues but late payment penalties are usually waived. Such arrangements help promote compliance because they allow the tax agency to bring a tax debt quickly under control and usually require the taxpayer to stay current with all future

tax payments; failure to do so results in the plan's termination and severe collection actions. Good debt collection practices are even more important during a crisis. This is because the window for collecting tax debts may close more quickly in a recession, when taxpayers' cash-flow problems worsen and bankruptcies increase. In this situation, it is essential for tax agencies to (1) ensure early detection of tax arrears and establish appropriate time standards for follow-up, (2) maintain the quality and timeliness of tax arrears data, (3) target enforcement efforts on recoverable arrears—usually by focusing on the most recent and largest arrears first, (4) leverage the telephone context center to place outgoing debt collection calls, (5) write off arrears deemed unrecoverable, (6) implement proper organizational and staffing arrangements for collection enforcement, including a greater organizational focus for large tax debts, and (7) be vested with a full set of enforcement powers (Brondon, 2009).

In financial year 2004/05 the Ministry of Finance announced a tax amnesty which realised Kshs. 4.8B (KRA. Financial statements, 2004). Baer and LeBorgne (2008, p. 5) define a tax amnesty to be “a limited-time offer by the government to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness of a tax liability (including interest and penalties), relating to a previous tax period(s), as well as freedom from legal prosecution.” These temporary programs allow taxpayers who have previously evaded taxation to voluntarily remit unpaid taxes without incurring all the sanctions that failure of timely payment would ordinarily incur. If collected through enforcement action, taxpayers with 7 these liabilities would owe the tax plus various penalties and interest on the unpaid amount and might also be subject to felony prosecution. By participating in the amnesty, taxpayers can avoid certain program-specified consequences (Mikesell & Ross, 2012). The amnesty was to enable KRA to reduce on debt and to bring in more tax payers into the tax net.

1.1.3 Kenya Revenue Authority

The Kenya Revenue Authority (KRA) was established by an Act of Parliament, Chapter 469 of the laws of Kenya, which became effective on July 1, 1995. The Authority is responsible for assessing, collecting and accounting for all revenues in accordance with specific laws, advising the Minister for Finance on matters relating to revenue administration and performing such other functions in relation to revenue as the Minister may direct. In fulfilling its mandate, KRA administers 17 revenue Acts, with the key ones (in terms of revenue importance) being the Value Added Tax (VAT) Act (Cap. 476), the East African Community Customs Management Act (EACCMA), the Income Tax Act (Cap. 470), the Customs and Excise Act (excise provisions) (Cap. 472) and the Traffic Act (Cap. 403). The Kenya Revenue Authority is the predominant government revenue collection agency accounting for over 96% of Government Ordinary revenues. KRA fifth corporate plan undertakes to revamp its debt strategy with the objective of reducing debt annually by 22%. Initiatives will include; consolidating debt management in one department, data cleaning, a focus on collecting debt arising from court cases and efforts to have uncollectible debt removed from the books.

In terms of revenue collection and other support functions, the Authority is divided into the following Departments: Customs Services Department, Domestic Taxes Department, Road Transport Department, Support Services Department and Investigations & Enforcement Department. Each Department is headed by a Commissioner. KRA also has seven service Departments that enhance its operational efficiency. These are as follows: Human Resources Department, Finance Department, Board Corporate Services & Administration Department,

Internal Audit Department, Information & Communication Technology Department, Research & Corporate Planning Department and Marketing & Communication

1.2 Statement of the Problem.

Ideally, Kenya Revenue Authority must do all in its powers to collect debt that citizens owe to the organization without failure. Collection of such revenue is highly beneficial to the running of numerous government projects that benefit the country as a whole. In an effort to collect the taxes, the Authority sets targets that it strives to achieve regarding such collection. Targets are made as a measure of what can be achieved. An organization can only be perceived as performing well after it meets its targets and super cedes them, as well.

The main source of government revenue is tax. Though, the level of revenue of tax collected has been increasing since inception of KRA, the tax debt level continues to grow as the taxpayers continue to be non-compliant. The non-compliance is encouraged by poor management of revenue collection. Also it has been motivated by taxpayer's illiteracy level and ignorance on online return filing which has led to unnecessary debts due to wrong data entries. Wambugu (2012) argues that in many authorities taxpayers have become debtors having progressed through the system as non-payers, encouraged by lax management and political interferences. The authority has intensified its debt management programme over the years. In financial years; 2001/02 a debt of Kshs. 12B (7% of tax collected) was realised, 2002/03 Kshs. 18.6B of debt was collected, and improvement of 55% over the previous year, 2003/04 Kshs. 19.1B was collected attributed to development of a debt management system and in 2004/05 the debt collected was Kshs. 13B, this show a decline from previous years collections (KRA Financial Statement, 1996-2013).

However, for the longest time now, KRA has not been able to meet its targets at any one time. For example, in the year 2016, the target for all taxes to be collected for that particular Government Year (2016-2017) was Kshs 1.21 Trillion. However, with only four months left to the end of the fiscal year, the Authority was short from its target with a whopping 527.88 billion. It is estimated that from the fiscal year 2011/12 to 2015/16 average revenue collections by KRA fall short of between 24 percent and 13 percent. The shortfall in the revenue collection targets set does not only affect the performance of the Authority, but it also has an effect on the performance of the government. The rationale is that tax is the biggest contributor and source of government revenue which it in turn uses to fund the budget. A shortfall therefore contributes to under delivery of critical government projects. This poses a problem as the common citizen lacks specific government-funded services. In this regard therefore, all challenges that affect collection of revenue must be addressed to ensure smooth running of government services. This is due to the fact that some of the areas that the Authority intended to collect tax from are not well regulated leading to non-collection at all. The failure to meet the said targets leads to accumulation of debt which subsequently translates to the authority being tainted as underperforming.

This problem can be addressed by ensuring that all areas that generate income which should be subject to tax are identified and the necessary regulations put in place. This is in line with enlarging the tax base to accommodate all possible tax payers. In addition ensuring that there is minimal tax evasion should be a priority for the Authority as it ensures that all possible taxpayers enter the tax bracket. Moreover, strict government regulations concerning debt collection should be put in place to ensure people pay up the debt. The debt collection methods should be simplified to ensure that people pay debt as conveniently as possible.

Several studies have been done in KRA in many areas but none has been done on the effects of Debt collection on revenue targets in Kenya Revenue Authority.

1.3 Objectives of the Study

1.3.1 General Objective.

The general objective of the study was to identify the effects of debt collection on revenue targets in Kenya Revenue Authority.

1.3. 2 Research Objectives.

The study was to be guided by the following objectives.

- i) To identify how government regulations inhibit debt collection amongst small and medium tax payers
- ii) To establish how tax collection methods challenge debt collection amongst small and medium tax payers
- iii) To investigate how internal controls challenge debt collection amongst small and medium tax payers
- iv) To determine how the tax base challenges debt collection amongst small and medium tax payers

1.4 Significance of the Study.

1.4.1 Kenya Revenue Authority Management

The findings from the study will be helpful to Kenya Revenue Authority in reducing if not completely eliminating any cases of uncollected debt.

1.4.2 The government of Kenya

In addition, it will be helpful to the government to set stringent measures to ensure that there is little or no debt and if any, it is collected within the shortest time possible.

1.4.3 The Debt Management Department

The study is also critical to employees working under Debt Section Department of the Kenya Revenue Authority as they will learn of new ways to collect debt and assess impacts of non-collection at an advanced level.

1.4.4 The future researchers/academicians

The study will be of help with literature review to other researchers

The researcher will also attain an advanced diploma in tax administration.

1.5 Limitation of the Study.

- (i) The respondents may decline to answer particular questions because they may feel under investigation or intimidated by some questions. The researcher will assure and convince the respondents on the significance of the research.
- (ii) The respondents might give the answers, as they should be instead of as they are. The researcher will use both closed and open ended questions in the data collection instruments; this will curb this situation of untruthful answer

CHAPTER TWO.

LITERATURE REVIEW.

2.1 Introduction

The researcher intended to develop sound foundation in respect to the research problem in terms of theoretical framework and past researches on similar study. In this regard, there was extensive study and research on theories on investment, an empirical literature on the variables, conceptual framework, and operational framework

2.2 Theoretical Framework

2.2.1 The Revenue Diversification theory

As a concept, diversification refers to the practice of changing the level of revenue diversity and selecting assets to minimize risk, so a jurisdiction with a diversified revenue structure can be described as relying on an array of revenue sources. This diversified revenue structure will avoid the imbalanced use of a given revenue resource at the cost of other revenue sources.

According to Bernelot (2013), the revenue diversification theory focuses on whether a more diversified, well-balanced revenue portfolio increases financial stability for county by reducing revenue volatility. There is a positive effect of the strategies adopted in raising revenues on finances. Commercial and market-oriented revenue strategies have been found to have a positive effect on revenue collection performance. Bernelot, (2013) suggest that revenue is derived from various sources and there must exist an equal balance between multiple incomes sources in the revenue portfolio of nonprofit organizations usually lead to increased financial stability. Revenue

is collected by the government upon its citizens for support or for the purpose of facilitating the Service Delivery in a country.

As a result of revenue diversification, state governments desperately sought new revenue sources, such as sales and income taxes, to reduced or replace their reliance on property tax revenues and finance public expenditures. In the United States of America, several states were forced to diversify their sources of revenue. Facing the double pressure of ever-growing demand for public services and the opposition to property tax increases, a reasonable reaction for local governments was to look for alternative revenue sources, such as local sales tax, income taxes and user charges. Although the primary target of the taxpayer opposition was the local property tax, the impact had also been extended to state governments through the form of limitations on revenue and expenditure or the size of their growth.

The tax revolt and the resulting limitations on revenue and expenditure largely changed the fiscal environment of local and state governments. Thus, revenue diversification is perceived as an important way for local and state governments to cope with the fiscal stress and maintain their operations (Carroll, 2005). The utmost advantage of revenue diversification as it is proficient in public finance is the perceived stability and predictability of revenue flow brought by a range of revenue sources. This theory is important since the uncertainty of revenue sources or fluctuations in revenue streams can cause disruption in service delivery and other long-term inefficiencies.

2.2.2 The expediency theory of taxation

The expediency theory of taxation states that every tax revenue collection report must pass the test of practicability, which must be the only consideration when any government is choosing a revenue collection report. Proposition is that the economic and social objectives of the

government should be treated as irrelevant, since it is useless to have a tax which cannot be levied and collected efficiently. However, there are pressures from economic, social and political groups. Every group tries to protect and promote its own interests and the government is often forced to reshape tax structure to accommodate these pressures (Bhartia, 2009). In addition, the administrative set up may not be efficient to collect the tax at a reasonable cost of collection. Taxation provides a powerful set of policy tools to the authorities and should be effectively used for remedying economic and social ills of the society such as income inequalities, regional disparities, unemployment, cyclical fluctuations and so on (Bhartia, 2009). The expediency is relevant to the present study in that, it seeks to explain influence of administrative set up in revenue collections by County Governments. This theory proceeds on the assumption that there is basically an exchange relationship between tax payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost supplies in proportion to the benefits recovered. The principle that this theory attempts to bring across is that taxes should be allocated on the basis of benefits received from government expenditure.

2.2.3 Ability to pay theory

The most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. It seems that if the taxes are levied on this principle as stated above, then justice can be achieved. However, the most contentious issue is on the clause 'ability to pay', which economists argue as follows:

(a) Ownership of Property: Some economists are of the opinion that ownership of the property is a very good basis of measuring one's ability to pay. This idea is out rightly rejected on the ground that if a person's earns a large income but does not spend on buying any property, he will then escape taxation. On the other hand, another person earning income buys property; he will be subjected to taxation

(b) Tax on the Basis of Expenditure: It is also asserted by some economists that the ability or faculty to pay tax should be judged by the expenditure which a person incurs. The greater the expenditure, the higher should be the tax and *vice versa*. The viewpoint is unsound and unfair in every respect. A person having a large family to support has to spend more than a person having a small family. If expenditure is made the basis of payment, the former person who is already burdened with many dependents will have to pay more taxes than the latter who has a small family

(c) Income as the Basics: Most of the economists are of the opinion that income should be the basis of measuring a man's ability to pay. It appears very just and fair that if the income of a person is greater than that of another, the former should be asked to pay more towards the support of the government than the latter. That is why in the modern tax system of the countries of the world, income has been accepted as the best test for measuring the ability to pay of a person.

2.3 Conceptual Framework

According to Mugenda (2008), a conceptual framework is a hypothesized model portraying the relationship between variables diagrammatically or graphically. It is essential in seeing the potential relationship and it is put to test to establish the significance of the proposed

relationship. This indicates the relationship between the independent variables formulated and the dependent variable.

Independent Variables

Dependent Variables

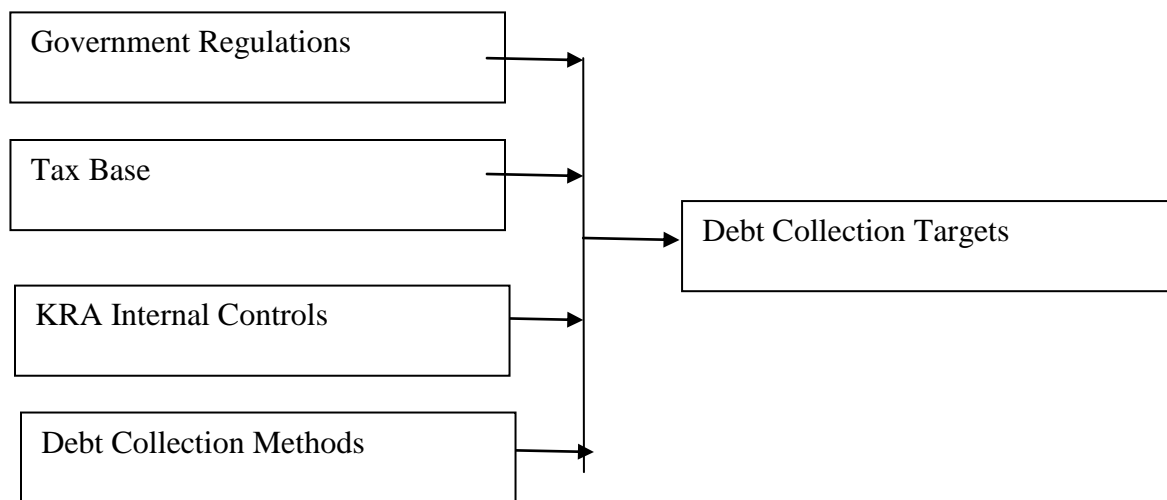


Figure 2.1 Conceptual Framework

2.4 Empirical literature

2.4.1 Government regulation and its impacts on debt collection

Barnett and Grown, (2004) affirmed that governments in both developed and developing countries collect taxes to fund public services. They argued that taxation is the only known practical manner for collecting resources in order to finance public expenditure for goods and services consumed by any citizenry. However, this is not strictly true, as developing countries get revenue from other sources besides taxation, including non-tax revenue such as user-fees and licenses charged for services rendered by ministries, department and agencies, as well as income

from sale of government assets and privatization. Moreover, many developing countries are dependent on foreign aid as an external source of revenue.

The government has now invaded the gambling and casino sector that is an untapped market for taxes. It seeks to tame the sector by increasing the tax rates for gross profits from 15% to 35% for all companies that seek to venture into the market. It is therefore important that we analyze the effects of government regulation on debt collection as some of these regulations will be a boost to the revenue targets of Kenya Revenue Authority.

2.4.2 Tax base and its effect on debt collection

Mohamed, (2009) on his study on the Gross Domestic Product of Nations, specifically in Kenya argued that the informal sector comprises economic activities not regulated by laws such as environmental, labor or taxation. However, the sector is subject to the regulations of the local authorities for orderly business operation, and generally not monitored for inclusion in the Gross Domestic Product (GDP) of Nations. It is therefore paramount to comprehend that the informal sector is quite large, estimated at 34.3% and accounting for 77% of employment statistics.

Ouma et al (2009) when studying the informal sector asserted that over 60% of those working in the informal sector are the youth, aged between 18-35 years, 50% being women. It also revealed that approximately two million people are employed by the informal sector.

This therefore necessitates the need for tax policy debates and research on the potential of this sector towards expanding Kenya's tax base. If the authority seeks to increase its tax base to cover the informal sector, the amount of debt would significantly reduce and would be a huge boost in meeting the revenue collection targets of the Authority.

2.4.3 Internal controls and their effect on debt collection

Chuke (2012) describes internal controls as a set of organizational policies and approved internal processes crafted by management of an organization to ostensibly achieve management's primary objective of ensuring that the business operates flawlessly. He argues that the internal control environment usually includes the following context: Personnel integrity and quality. The staffs play a dual role: on one hand, they are the subjects of internal control in the organization and control the implementation of their assignment; on the other hand, they are the objects of internal control in the organization and supervised and controlled by the other. Any item of internal control system shall not go beyond the staffs' integrity and quality that creates, manages, implements and supervises the controls. He further explained that a business is said to be running smoothly if they are able to stick to the management policies, to protect the organization assets, set up a system that would stop and eradicate manipulation of the accounting information.

Management uses internal control as a check of its staff due to the fact that managers are not able to monitor the activities of the organization. It therefore adopts the internal control in such a way that the system checks itself and any irregularity within the system is detected and corrected. This is to ensure that the system is detected, checks itself and use devices such as segregation, supervisions of work and knowledge of performance. The effective arrangement and implementation of this control system would ensure proper management. Most staff and managers are corrupted to bend the internal controls of the Kenya Revenue authority and there is need, therefore, that these systems be streamlined to ensure that debt collection is not compromised in any way.

2.3.4. Debt collection methods and their effect on debt collection

According to Annette (2007), tax debt is tax that has become due but has not yet been paid. Tax debt comprises of principal tax payable, penalties and interest. Any penalty and interest charged becomes tax due and payable. Failure to collect tax violates the principles of equity and neutrality. In an effort to help taxpayers cope with the crisis, some countries are considering the implementation of tax amnesties, moratoria on auditing taxpayers, and other similar measures. International experience has shown that such measures are not effective tools for improving revenue collection and create perverse incentives for currently compliant taxpayers to stop complying with the tax laws. Tax debt comes about where a taxpayer has self-assessed himself but has failed to pay, additional assessment has been made by the commissioner on income that was not declared by the taxpayer on earlier self-assessment or estimated assessment is made where the taxpayer had not made a self-assessment and taxes payable remain undisputed and unpaid after 30 days after the issues of assessment notice. Tax debt may also come about as a result of poor data entry resulting to ledger error hence reporting of wrong debts in the system. The tax debt needs to be validated and collected and for this reason debt management strategies have to be put in place by a revenue agency.

Moyi&Ronge, (2006) argue that improving tax collection requires mechanisms for voluntary tax payment and coercing payment by non-complying taxpayers. It requires adequate withholding systems, an appropriate penalty structure, use of audits and provision of incentives linked to tax recovery, and taxpayer's incentives for prompt payment. Kenya Revenue Authority has also in the past introduced tax amnesty to the taxpayers. The amnesty was to enable KRA to reduce on debt and to bring in more tax payers into the tax net. There are various ways of collecting debt

that is owed to the Authority by taxpayers. This therefore prompts the study of how the debt collection methods impact on the revenue targets.

2.5 Critiques of the study

The previous studies around taxes and the impact they have on the daily running of the economy have not gone deep to investigate the effect of tax that is not collected. They are majorly on methods of tax collection, ways to increase taxes collected and many other areas surrounding taxes with exclusion to tax debts. In addition, no major conclusive research has been carried out to investigate how targets set by Kenya Revenue Authority are affected by the taxes that fail to be collected from individuals and companies that should be paying these taxes. The research is therefore critical in addressing these two issues and ensuring that a formidable recommendation can be drawn from the research.

There are some empirical studies on debt collection management. However, most studies done in Kenya have focused on working capital management, credit selection and analysis, and trade credit theories. Some of the empirical studies are discussed in the section. The United States Government Accountability Office- GAO (1996;2008) reviewed the Internal Revenue Service's (IRS) tax debt collection practices. It found that every year IRS successfully collects over a trillion dollars in taxes owed the government, yet at the same time tens of billions more remain unpaid. This was attributed by lack of reliable and accurate information on the nature of the debt and the effectiveness of IRS collection tools; old debts that are uncollectable as the debts are untraceable, deceased, and defunct corporations; antiqued computer hence need for modernisation and use of out-dated collection processes. The data on debt from 2002 to 2008 was collected and analysed. They analysed yield of each collection tool applied and changes in

debt inventory. GAO has identified material weaknesses in IRS's controls over unpaid tax assessments and collections partly due to the lack of agency wide cost-benefit data and related performance measures. Although IRS has made some progress on these weaknesses, progress has not been sufficient to resolve them. Dohrmann & Pinshaw (2009) did an in-depth research on direct taxes at federal tax administrations in a diverse set of 13 countries: Australia, Belgium, Brazil, Canada, Chile, Denmark, France, Ireland, Norway, South Africa, Spain, Sweden and the United States. They found that the more important drivers of collection performance are demand management, taxpayer segmentation, streamlined debt-settling operations and performance tracking. The high performing tax administrations determine the probability of default based on the taxpayer's ability and willingness to pay. Effective segmentation, combined with early validation of debt, ensures resources allocated to cases that will yield the highest returns; dynamic risk scoring enables tax administrations regularly to re-prioritize and reallocate resources to cases with higher-risk profiles. Segmentation is used to determine contact strategy. Top performing tax administrations offer taxpayers flexible instalment agreements based on an assessment of their financial situation, occasionally negotiating interest payments and penalties. They also found that the top performers in collections rigorously track the performance of the entire collections unit as well as individuals, against the most critical measures. They communicate these results to staff, and adjust and improve their operations accordingly. (Hira, 2011) concurs that segmented approach is important as it ensures that focus on groups of taxpayers is correct as clearly different segments of the market and industry will have different idiosyncrasies. Tax arrears tend to rise sharply during an economic downturn. According Brondon (2009) this is because when credit is tight or unavailable, credit-constrained taxpayers may be tempted to use tax evasion as an alternative source of finance for their operations. For

example, businesses may fail to remit to the government the taxes they have withheld from their customers (value-added tax—VAT) or employees (payroll taxes). Also, taxpayers who face severe economic stress—such as the risk of bankruptcy—may perceive the downside risks of tax evasion (penalties) to be minimal compared with the potential upside gains

Kariuki (2011) found that there is a great emphasis on credit screening and debt collection by large Kenyan firms, where also 80% of the credit activity and staff is. Most companies do not outsource credit activities due to the sensitivity required in dealing with customers and wish to retain flexibility in credit extension and collection matters. He also observed that legal debt recovery is difficult due to poor court systems, corruption and long court hearings. However, with the on-going judicial reforms, firm may look into ways of dealing with perpetual bad debtors through the legal process available. Arbitration is also becoming an important dispute resolution mechanism because it is cheaper than going to court, takes a shorter time, and does not severely impair good customer relationships since the arbitrator is mutually agreed upon by the both parties in a commercial disagreement.

In a study by Kilonzo (2012) on the effects of tax amnesty on revenue growth in Kenya, he found that there was negative association between revenue growth, inflation and tax amnesty and a positive relationship between tax revenue growth and gross domestic product (GDP). The results indicated that amnesty by itself does not have a positive effect on revenue growth. Governments have been granting amnesty to its citizens in order to encourage them to be compliant. The taxpayers in most cases are exempted from paying penalties and interests accrued over the time they were non-compliant.

2.6 Knowledge gap

The study sought to establish the effect of debt collection on revenue collection target for Kenya Revenue Authority. The Authority has many accruals and the study sought to investigate the effect of these tax accruals on the targets it has set to achieve in its budgetary estimations.

2.7 Summary

Tax debt is an important aspect when it comes to revenue collection. Just like in private businesses, the tax agencies should take collection of debt seriously in order to foster a good image to the population that the taxation of a country is fair and equitable. This will encourage compliance to the tax laws in place and enhance revenue performance. Hence this will enable the government to finance its annual budget. There is need to analyse the strategies put in place by KRA in collecting tax debt and find out how efficient they are. The information needed to manage debt needs to be up to date. This will enhance collection of delinquent accounts using appropriate collection tools and even write-off tax debts which have been rendered unrecoverable due to various reasons. This will enable the authority to have a better way to follow up on debt and knowing its debtors. In this view and from the literature review, the study will establish the effect of debt management tools on revenue collection at KRA.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter dealt with the description of methods applied in carrying out the study. It describes the research design, target population, sampling techniques: instruments used for data collection, data collection procedures, and methods of data analysis.

3.2. Research Design

The research used a descriptive research design, which was appropriate for gathering, summarizing, presentation, and interpreting information (Kothari, 2004). It enabled the researcher to gather qualitative data from a large population at a particular time (Mugenda 2003). The method was appropriate for the study since it assisted the researcher to produce statistical information on the impact of debt collection on Kenya Revenue Authority Revenue collection targets. It also helped in formulating principles of knowledge and solution to significant problems. The design used both quantitative and qualitative data in order to find the solutions to the factors affecting debt collection.

3.3 Sample Frame

The researcher used stratified random sampling technique when selecting the sample for the study from the population. Within each stratum, simple random sampling was used to pick a sample size of 50%. This ensured that each element was given a fair chance of being included in the study. The expected sample frame was 66 people.

3.4 Target Population

The study targeted all the small and medium taxpayers in Nyeri Station, Central region office. The researcher administered questionnaires to a sample from the target population of 200 who are registered as taxpayers and who fall in this category.

3.5 Research Instrument

Questionnaires were administered to collect primary data. Gall and Borg (1996) points out that, questionnaires are appropriate for studies since they collect information that is not directly observable as they inquire about feelings, motivations, attitudes, accomplishments as well as experiences of individuals. They further observe that questionnaires have the added advantage of being less costly and using less time as instruments of data collection. Each questionnaire had two parts. Part one consisted of personal information of the respondents. Part two had questions relating to the effects of debt collection on KRA revenue collection targets. The researcher designed questions that were brief and to the point to ensure the meaning was not ambiguous. The questionnaires were administered through drop and pick-later method to the sampled population.

3.6 Data Collection Methods

The studies used primary and secondary data collection sources and were gathered as follows:

3.6.1 Primary Data

This is original data which is originated from the purpose of the research at hand (Rudolph et al 2009). The key instruments which used in collecting primary data was self-administered questionnaires. Questionnaires are measuring instruments that ask respondent to answer a set of questions or respond to statements to beef up facts and information of interest to the researcher

(Schwab, 2005). Cooper and Schindler (2006) advocates for the use of questionnaires in descriptive studies because it is less costly and participants can easily be reached. The structured questionnaires had a customized five Likert scale which was used collect qualitative data on the independent variables from the respondents. Respondents were asked to indicate agreement with each item. Each item had a five point scale ranging from 1= Strongly Agree, 2= Agree, 3 = Neither Agree or Disagree, 4= Disagree and 5 = Strongly Disagree. The data collected was edited to ensure consistency across respondents and detected omissions. (Schwab, 2005) A5-point Likert scale was used to obtain the ordinal data (Kannan & Aubur, 2004) from questionnaires with structured questions were adopted.

3.6.2 Secondary Data

Secondary data involved information not collected directly but from published materials and other sources obtained. Secondary data collection sheet was developed and adopted to collect quantitative secondary data using document analysis method. The data was extracted from annual reports of listed companies for the period 2005-2015. The annual reports and Handbooks were obtained from NSE to supplement published annual financial statements. The purpose for collecting secondary data was to cross validate the primary data collected.

3.7 Data collection procedures

The primary data collection procedure starts with identifying the respondents and their accessibility. The availability the questionnaires and competent research assistants was ascertained. The availability of request permission to collect data was confirmed and advance letters send to the respondents regarding the voluntary nature of the study and how the information would be used. The data collection procedure involved distribution of the

questionnaires to the respondents by the researcher and four research assistants. The research assistants were instructed to ensure punctuality in appointments, friendliness and use of clear and simple language when physically delivering questionnaires. Secondary data was extracted from annual reports, financial statements and handbooks from NSE.

3.8 Pilot test results

The study carried out a pilot test to test the validity and reliability of the questionnaires in gathering the data required for purposes of the study. The questionnaires was validated by discussion it with the supervisors and six randomly selected Chief Financial Executive officers of the six listed companies. Their views were evaluated and incorporated to enhance content and construct validity of the questionnaire. The six selected firms formed 10% of the target sample. According to Mugenda & Mugenda (2008) argue that (10% of the sample size) is represented in order to facilitate identification of the potential errors or biasing effect of different questions and procedures. The pilot test sample was within the recommended range as the rule of the thumb suggests that 5% to 10% of the target sample should constitute the pilot test (Mugenda & Mugenda, 2008).

The major purpose for pilot testing was to test whether the questionnaires could obtain the required results. The pilot study was used to find out the clarity and objectivity of the selected questions. The advantages of conducting the pilot test include enhancing the training of field staff, review of the instrument, prevention of wasteful expenditures on a full blown survey whose results may not be applicable. Piloting involves testing the validity and reliability of the data collection instrument and in this case the questionnaires. Validity in qualitative research refers to credibility and trustworthiness of the data presented. Reliability in relation to qualitative research

data is the measure that the data provided is consistent with what previous research literature has said or if similar research with a different group of participant's yields a similar set of data.

3.8.1 Reliability of the Research Instruments

Reliability refers to the ability of a research instrument to consistently measure characteristics of interest over time. It is concerned with consistency, dependability or stability of a test (Nachmias & Nachmias, 1996). Reliability is measure of the degree to which a research instrument yields consistent result after repeated trials (Mugenda & Mugenda, 2003). According to Sekaran & Bougie (2010) the measurement of the reliability and the validity of a data instrument help the researcher to gauge the goodness of the variables of measurement. Reliability was measured using Cronbach's Alpha coefficient which is used to measure the internal consistency of the variable measures. Factor Analysis was further used to determine the underlying dimensions of variables and to determine the key factors from a large number of variables.

Reliability in research is influenced by random error. According to Zikmund (2010), errors may arise from inaccurate coding, ambiguous instruction to the subjects, fatigue, interview bias etc. These errors results to inconsistencies in the measurement, which ultimately affect the reliability of the data collected (Mugenda & Mugenda, 2003)

Cronbach's Alpha which measures how well a set of items or variables, measures a single un-dimensional latent construct that is a coefficient of reliability or consistency was used for this study. Cronbach's Alpha was adopted since it was used with continuous and non - dichotomous data. In particular, it was used for testing questionnaires using a Likert scale. The study employed test re-tests method to determine the reliability tool.

Cronbach's alpha generally increases when the correlations between the items increase. The coefficient measures the internal consistency of the test. A commonly accepted rule of thumb is that an alpha of 0.7 indicates acceptable reliability and 0.8 or higher indicates good reliability (Gliem & Gliem, 2003). Very high reliability (0.95 or higher) is not necessarily desirable, as this indicates that the items may be entirely redundant. The reliability of the questionnaires was tested using the Cronbach's Alpha correlation coefficient with the aid of Statistical Package for Social Sciences (SPSS) software. The Cronbach's Alpha was used in this study to measure the internal consistency of the variables.

3.10 Data Analysis and Presentation

Data was analyzed through statistical procedures which covered a broad range of descriptive analysis, from simple procedures that are used regularly like computing an average to complex and sophisticated methods. Besides using frequencies and descriptive analysis, the study used multiple linear regression analysis to test the statistical significance of the various independent variables. According to Faraway (2002) multiple linear regression is used in situations where the number of independent variables is more than one and hence was suitable for this study as it has more than one independent variable. According to International Business Machines (IBM) (2010), the assumptions of linear regression must be met by the data to be analyzed, these assumptions state that the coefficients must be linear in nature, the response errors should follow a normal distribution and the errors should have a common distribution. The study applied normality test which included one sample Shapiro-Wilk Test to test whether the data was normally distributed.

The study sought to ascertain the causal effect of one variable upon another and to explore such issues; the researcher collected data on the underlying variable of interest and employed

regression to estimate the quantitative effect of the causal variable upon the variable that they influence. The study assessed the statistical significance of the estimated relationships, through (t-test) to check whether there was a significance difference between the means of the two groups in the dependent variable when the independent variable was held constant. IBM Base (2010), states that a paired samples t-test compares the means of two variables for a single group. Analysis of Variance (ANOVA – F test) was also used to determine the effect of independent variables and the control variable on the dependent variable, separately and in combination. According to Jackson (2009) multiple regression analysis involves combining several predictor variables in a single regression equation. Therefore with multiple regression analysis; the study was able to assess the effect of multiple predictor variables on the dependent measures.

3.10.1 The Qualitative Analysis

Qualitative data collected through questionnaires was first edited and response rate calculated. The data was then categorized into different themes according to research variable and descriptive statistics such as mean, standard deviation and frequency distribution which according to Kothari (2012) measures the point about which items have a tendency to cluster and describe the characteristics of the data collected was computed. Qualitative data for the study was derived from the questionnaires and the purpose for analyzing them was to establish, evaluate, examine, determine, assess and to investigate moderating of board composition on the relationship between capital structure and financial performance of companies listed on the NSE in Kenya.

3.10.2 The Quantitative Analysis

Quantitative data was analyzed using inferential statistics where both parametric (Chi- Square test) and non- parametric (Pearson correlation coefficient) test were used. Chi-square test was used to test statistically significant difference between large and mutually unrelated parametric samples. The aim was to determine if the means of two unrelated samples differ.

Pearson correlation test was conducted to test level of significance between all independent variables and dependent variables. Pearson's correlation coefficient was used as a measure of linear correlation. The measure is symbolized by letter r and varies between -1 and +1, with 0 indicating no linear relationship while Coefficient of determination (R^2) measures the amount of variation in the dependent variable explained by independent variables. The closer the R^2 is to 1 the better the regression line to the actual data (Sekaran, 2000).

Factor analysis was used to group together variables which have something in common. In factor analysis, the goal of extraction is to remove as much common variance in the first factor as possible (Child, 2006). ANOVA was used to test whether the regression analysis model used is fit or the relationship of the variables just occurred by chance. Significance of F ratio was used to determine whether model used was fit or not. When the F ratio is significant the model used is considered fit and vice versa (Weeks & Namusonge, 2016). A P- value of less than 0.05 indicates that the P - statistics is high and that the null hypothesis of independent needs to be rejected since it's not true.

3.10.3 Empirical Model

In multivariate analysis, multi-linear regression model was used in explaining decision to financial performance by testing variables used as the independent variables of the study. The

idea was to identify meaningful, stable relationship among the sets of data. Regression measures the causal relationship between one dependent and one independent variable. Multiple regression analysis measures the effects of multiple independent variables on one dependent variable. Multiple regressions was therefore adopted to measure the effects of multiple independent variables on the dependent variable and effects of multiple independent variable on the moderating variable. (Okello et et al., 2015). The five independent variables were regressed against dependent variable on a multiple linear regression analysis and a combination of the five independent variables were then regressed on financial performance while controlling for board composition, to ascertain the moderating effect of board composition.

The study builds on the models developed by Kajola (2008) and advanced by Okougbo (2011) in his study of corporate and firm performance; empirical evidence from selected listed companies in Nigeria which specifies the model given below;

The multiple linear regression models before moderating effect is specified as follows:-

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \epsilon \dots \dots \dots (i)$$

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.0 Introduction

The research objective was to establish the effect of debt management tools on revenue collection at Kenya Revenue Authority. The study was conducted for the period of financial years 2017/08 where various data on revenue collected, inflation, GDP and debt collected was obtained from relevant sources. This chapter presents the analysis and findings with regard to the objective and discussion on the same. To analysis the data descriptive, correlation and regression analyses were used. The findings are also presented in percentages and graph.

4.1 Data Presentation

4.1.1 Descriptive Statistics

Table 4.1 Descriptive analysis of variables Descriptive Statistics

N	Minimum	Maximum	Mean	Std. Deviation	
Debt Collected (in Billion)	11	9.8580	22.7000	15.030482	4.4036613
GDP Series (in Billion)	11	1083.5790	3440.1150	2061.287364	780.9480342
Inflation rate (%)	11	.0470	.2530	.125782	.0601024
Revenue Collected (in Billion)	11	201.6990	881.2000	457.854455	216.0077666
Valid N (listwise)			11		

4.1.2 Government Regulations

Respondents were asked what they felt about an increase in taxes in the gambling sector in a bid to enhance debt collection. 74.5% felt that the increase of taxes would not affect debt collection

as this would be an increase in the revenue and not debt. Moreover, the respondents felt that the government was not doing enough to regulate the gambling sector. 14.5% of the respondents agreed that an increase in taxes would be good for debt. However, 9% of all the respondents strongly agreed that indeed the government was doing all in its power to ensure that the debt levels of KRA go to the lowest levels.

Table 4.1 Government Regulations

Levels	No.	Percentages (%)
Strongly Agree	6	9
Agree	10	14.5
Disagree	1	1
Strongly disagree	49	74.5

As an institution of Government, KRA also has regulations on payment of taxes and filling of returns. 62% of all respondents felt that the regulations on filing and payment of taxes by specific dates were a move in the right direction with regards to debt collection. The respondents strongly agreed that these regulations have reduced the debt accumulation thus assisting KRA achieve the targets it has set.

4.2.1 Correlation Analysis

The table below shows the Pearson correlation coefficient generated from the data.

Table 4.2: Pearson correlation coefficient

Correlations

	Debt Collected (in Billion)	GDP Series (in Billion)	Inflation rate	Revenue Collected (in Billion)
Debt Collected (in Billion) Pearson Correlation Sig. (2-tailed) N	1 11	.000 11 1.000	-.123 .719 11	.053 877 11
GDP Series (in Billion) Pearson Correlation Sig. (2-tailed) N	-.000 1.000 11	1 11 11	-.053 .877 11	.995
Inflation rate Pearson Correlation Sig. (2-tailed) N	-.123 .719 11	-.053 .877 11	1 11 11	-.071 .836 11
Revenue Collected (in Billion) Pearson Correlation Sig. (2-tailed)	-.053 .877 11	.995 .000 11	-.071 .836 11	1 11 11

** . Correlation is significant at the 0.01 level (2-tailed).

A correlation coefficient, denoted by r , enables one to quantify the strength of the linear relationship between ranked or numerical variables. This coefficient takes the values between -1 and +1 (Saunders, Lewis , & Thornhill, 2009). There is no statistically significant relationship between debt collected and revenue collected ($r= 0.053$, $p>0.01$) and the relationship between

rate of inflation and revenue collected ($r = -0.071$, $p > 0.01$). However, there is a statistically strong positive relationship between revenue collected and GDP ($r = 0.995$, $p < 0.01$).

4.3 Regression Analysis

Table 4.3: Model Summary Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.997a	.993	.991	20.9660075

a. Predictors: (Constant), Inflation rate, GDP Series ((in Billion), Debt Collected (in Billion))

From the finding in the above table the adjusted R squared () is coefficient of determination which shows the variance in revenue collected due to changes in inflation rate, GDP, and debt collected. is 0.991, which means that 99.1% of the total variance in the revenue collected has been explained by the independent variables. The R squared (R²) is 0.993 which means that 99.3% of variation in the revenue collection was explained by the changes in rate of inflation, GDP, and debt collected.

Table 4.3.1 : ANOVA

Model	Sum of square	df	Mean square	F	sig
Regression	463516.538	3	154505.513	351.490	.000
Residual	3077.014	7			
Total	466593.552	10	439.573		

a. Predictors: (Constant), Inflation rate, GDP Series ((in Billion), Debt Collected (in Billion)

b. Dependent Variable: Revenue Collected (in Billion)

To determine the goodness of fit of the model ANOVA analysis was done. From the above table the significance level of the model is 0% which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p- value) is less than 5%.

Table 4.3.2: Regression Coefficients

Model	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
B			Beta		
1	(Constant)	-142.120	34.253	-4.149	.004
Debt Collected (in Billion) (X4)	2.535	1.517	.052	1.671	.139
GDP Series ((in Billion) (X3)	.275	.009	.995	32.358	.000
Inflation rate (X2)	-41.365	111.313	-.012	-.372	.721

a. Dependent Variable: Revenue Collected (in Billion)

From the findings the following regression model was established;

$$Y = -142.12 - 41.365X_2 + 0.275X_3 + 2.535X_4$$

From the findings of the regression analysis, it was found that holding inflation rate, GDP and debt collected at constant zero the revenue collected would be -142.120 Billion. The model further reveals that a unit increase in rate of inflation would lead to a decrease in revenue collected by a factor of -42.365, a unit increase in GDP would lead to an increase in revenue collected by a factor 0.275 and a unit increase in debt collected would lead to an increase in revenue collected by a factor of 2.535. The finding indicate that the y- intercept and GDP are statistically significant at 5% level of confidence while debt collected and inflation rate are statistically insignificant at 5% level of significance.

4.4 Debt collected and Revenue collected

Table 4.6: Debt collected versus revenue collected Financial Year	Revenue Collected (in Billion)	Debt collected (in Billion)	Debt/Revenue
2007/08	433.915	22.700	5%
2008/09	481.300	9.858	2%
2009/10	534.600	5.001	1%
2010/11	634.903	12.995	2%
2011/12	707.360	17.011	2%
2012/13	881.200	18.739	2%

The findings in the table above shows the percentage of debt collected against the revenue collected for each financial year. It shows that percentage of debt collected against the revenue collected has been decreasing over the years from 9% in 2002/03 to 2% in 2012/13 financial years. In the financial year 2007/08 the debt collected was inclusive of 15 Billion paid by the treasury to facilitate the restructuring of Telkom Kenya. This shows that the amount of debt

collected decrease for some periods but increased in the last three years but not at the rate of growth in revenue collection. There was a sharp drop of debt collected in the financial years 2008/09 and 2009/10 where debt collected was Kshs. 9.858 Billion and Kshs. 5.001 Billion respectively.

4.4.2 Debt Collected, Debt Written off and Year End Debt balances

Table 4.7: Table showing the percentages of debt collected, written off against year end debt balances Financial Year	Debt collected/ Debt balance	Debt witten off/Debt Balance
2008/09	16%	22%
2010/11	10%	41%
2012/13	6%	44%
2014/15	15%	43%
2016/17	16%	32%
	16%	57%
AVERAGE	13%	39%

The table above show that the debt collected average 13% against debt balances over the six year under the study. While debt written off against debt balances at year end average at 39%. The data used comprised data for the last six year. This is because the prior year had gap and the analysis could not be generalised for the whole period under study.

4.5 Summary and Interpretation of the Findings

The correlation analysis revealed that there is a strong positive relationship between revenue collected and the GDP ($r=0.995$, $p<5\%$) and a weak positive relationship between revenue collected and debt collected ($r= 0.053$, $p>0.01$). The findings also found that there is a negative relationship between the revenue collected and the rate of inflation ($r= -0.071$, $p>0.01$). This

implies that revenue collection is strongly and positively affected by GDP while weakly affected by the debt collected while it is negatively affected by the rate of inflation. The adjusted R squared (R^2) is coefficient of determination which shows the variance in revenue collected due to changes in inflation rate, GDP, and debt collected. is 0.991, which means that 99.1% of the total variance in the revenue collected has been explained by the independent variables. The R squared (R^2) is 0.993 which means that 99.3% of variation in the revenue collection was explained by the changes in rate of inflation, GDP, and debt collected. The ANOVA analysis showed that the data used in the model is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The p-values of the regression coefficient were determined and it revealed that the constant and GDP were statistically significant at 5% level of confidence with the $p < 5\%$. The debt collected and the rate of inflation were not statistically significant at 5% level of significance with $p > 5\%$. This shows that revenue collected is strongly associated with the constant and GDP while it is weakly associated with the debt collected and rate of inflation.

From the findings the following regression model was established;

$$Y = -142.12 - 41.365X_2 + 0.275X_3 + 2.535X_4$$

This model revealed that if the rate of inflation, GDP and debt collected are zero then the revenue collected would be Kshs. -142.12, if rate of inflation increased by a unit then the revenue collected would decrease by a factor -41.365, if GDP increased by a unit then the revenue collected would increase by a factor 0.275 and if debt collected increased by a unit then the revenue collected would increase by a factor 2.535.

The findings also show that the debt collection has not been keeping pace with the overall revenue mobilization by KRA. This is shown where the revenue collected has been growing over

the years covered by the study while the debt collected has either been decreasing or increasing only marginally over the years under the study.

The findings also found that the average debt collected against debt balances at year is 13%. This shows that the debt is not being efficiently collected using the tools available. The average debt written-off against debt balances at year end is 39%. This shows that there is a chance that the debt being reduced is out of waivers or ledger cleaning.

Kariuki (2011) found that there was no significant relationship between the debt collection strategies on the financial performance of companies at the Nairobi Securities Exchange. The study also found that there is no significant relationship between debt collection management and market performance and no significant relationship between bad debt and any of the variables tested in the regression model.

Brondon (2009) indicated that tax arrears tend to rise while payments reduce during economic downturn. This can be seen for the financial years 2008/09 and 2009/10 where debt collected was Kshs. 9.858 Billion and Kshs. 5.001 Billion respectively. McTavish (2013) saw that the Michigan Office on Tax Compliance Bureau did not sufficiently pursue taxpayers with potential tax deficiency. This lapse by the authority lends to growth in tax debt that would be contained at an early stage.

Implementation of proper debt management strategy aimed to target collection activities more effectively to increase the likelihood of recovery, improve the speed of collection, and reduce cost is important. This will prevent taxpayers getting into debt by supporting them before their tax liabilities become overdue and communicating more effectively (Comptroller and National Audit Office, 2012).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter comprises of the summary of major findings and conclusions reached after analyzing the data. The researcher gave recommendations on the effects of debt collection on revenue targets in Kenya Revenue Authority, and discussed the recommendations for further research as well

5.1 Summary

The objective of the research study was to establish the effect of debt management on revenue targets collection at Kenya Revenue Authority. Descriptive, correlation and regression analyses were used. From the descriptive analysis of the various variables, the study found that the mean of debt collected was Kshs. 15.030482 Billion, the mean of GDP over the period under study was Kshs. 2,061.287364 Billion, the mean of revenue collected was Kshs. 457.854455 Billion and the mean of the inflation was 12.5782%. From the correlation analysis, the study found that there is a positive relationship between revenue collected and GDP and debt collected and a negative relationship between the revenue collected and rate of inflation. The relationship between revenue collected and GDP was found to be statistically significant at significance level of 0.01. The regression analysis was carried out to establish the association between the revenue collected and the independent variables rate of inflation, GDP and debt collected. it was found that there was a positive association between revenue collected and GP and debt collected while

there was a negative association between revenue collection and rate of inflation. The significance of the model was determined and the processed data, which is the population parameters, had a significance level of 0%. This shows that the data is ideal for making a conclusion on the population's parameters. The following regression model was established;

$$Y = -142.12 - 41.365X_2 + 0.275X_3 + 2.535X_4$$

The model summary found that the value adjusted R squared () is 0.991, which means that 99.1% of the total variance in the revenue collected has been explained by the independent variables. The R squared (R²) is 0.993 which means that 99.3% of variation in the revenue collection was explained by the changes in rate of inflation, GDP, and debt collected.

From the finding above, debt collected versus revenue collected, it was found that the ratio of debt collected to revenue collected has been decreasing over the years under the study. This shows that the debt collection has not been growing as compared to the growth of revenue over the years. It was also found that the average debt collected against debt balances at year 30 is 13%. This shows that the debt is not being efficiently collected using the tools available. The average debt written-off against debt balances at year end is 39%. This shows that there is a chance that the debt being reduced is out of waivers or ledger cleaning.

5.2 Conclusion

From the results of the findings it can be concluded that debt management and collection in itself does not strongly affect revenue collection. It was found that there was a weak positive relationship between revenue collected and debt collected. Though debt collection contributes to the revenue collection by KRA, debt is not a major factor that drives revenue collection. GDP greatly affect the revenue collected as there is a strong positive relationship between revenue collected and GDP.

Therefore, revenue collected is affected strongly by the growth in economy. From the finding the rate of inflation in the economy affected revenue collection negatively albeit their weak relationship. Though debt collection is not a strong determinant of revenue collection it is important that the authority uses effective tools to manage debt and this will reduce debt portfolio and that following up on unpaid taxes will foster equity and encourage compliance amongst taxpayers.

It has been noted that the revenue collected has been growing steadily in the years under study while the debt collected is not growing. The growth in revenue collection is attributed to the Tax Reforms and Modernisation (TRM) being carried on at KRA. The TRM has only focused on growing tax bases while not looking at improving debt collection. Therefore, the authority should modernise the debt management function by employing debt management systems and move from manual system.

To deter non-compliance the authority should improve on debt collection. This will change the attitude the taxpayers maybe having concerning effectiveness of the authority in collection tax in that if the taxpayers do not believe that the government will collect overdue taxes, they may be less motivated to pay. This will hence have a negative effect on revenue base over time.

outstanding especially from the unreachable debtors. With enhanced debt collection tax compliance will increase and taxpayer will pay their tax promptly to avoid being followed up with punitive consequences on unpaid taxes. The reforms on tax filing going on is encouraging with the introduction of online filing using ITMS and the latest improved system called iTax. This will go a long way to ensure data capture is accurate as it will be captured by the taxpayers.

However, there is need for the authority to sensitize the taxpayers on the advantages of online filing, educate the taxpayers on how to use the system and put in place mechanism to help the taxpayers to embrace the new technology. There is need for the treasury to fast track waivers processing to enable the KRA reduce its debt portfolio accordingly. Where the waiver has been denied then the authority will be better place to follow up with that debt soon rather than later and where it has been granted then the debt can be written off from the system and update its debt portfolio. The society in general is ignorant about their tax laws, hence there is need for KRA to simplify the tax system and make it easy for the taxpayers to know their tax obligations and honour them accordingly. This will avoid cases of debt arising out of audit as the taxpayer is assessed on what he was ignorant about.

5.3 Policy Recommendations

The study makes a few policy recommendations that may be effected by the key decision makers. There is need for KRA to install a debt management system. This will ensure that data on debt outstanding, debt collected, uncollectable debt and debt write-off are up to date and reliable. Also establish a data base with sufficient details about the debtors such as the telephone, mail and physical addresses in order to fast track the collection of the debt outstanding especially from the unreachable debtors. With enhanced debt collection tax compliance will increase and taxpayer will pay their tax promptly to avoid being followed up with punitive consequences on unpaid taxes. The reforms on tax filing going on is encouraging with the introduction of online filing using ITMS and the latest improved system called iTax. This will go a long way to ensure data capture is accurate as it will be captured by the taxpayers. However, there is need for the authority to sensitize the taxpayers on the advantages of online filing, educate the taxpayers on how to use the system and put in place mechanism to help the taxpayers to embrace the new technology.

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5.4 Limitation of the Study

The study used secondary data sourced from KRA Statistical publication, the World Bank data bank, and from the revenue departments. The study was limited to the degree of precision though the data was sourced from reliable sources. There was lack of uniformity in how the various departments maintain their data hence the research could not analyse in detail the debt collected through the various tools put in place and see what tools were more effective.

There are other factors that affect the revenue collected each year and not only the ones presented in the model. For example, factors like taxpayers' behaviour and taxpayer education have an effect on how the taxpayers comply with the tax laws including honouring their debt obligations. This is not quantifiable to be included in the model used above. During data collection it was found that the operations in all the debt departments were done manually. There is not debt management system in place. This increases the chances of errors in the data produced by these departments. There was time limitation to carry out the study which necessitated the use of secondary data. The primary data may provide more information that would give better information on debt management tools and the factors that affects their efficiency.

5.5 Suggestion for further studies

There is on-going organisational restructuring at KRA and part of it includes the restructuring of the debt units to form a Centralised Debt Management Unit that will deal with the corporate debt. They are in the process of profiling the debtors and collecting as much data as they can on the taxpayer. A research may be carried out to establish the effect of centralisation of debt unit on debt collection.

There is growth in adoption of online filing in the recent past by the taxpayers. This is envisaged to reduce on wrongful debt and enhance compliance. A research may be done to establish the impact of online filing on debt portfolio and revenue collection.

A government may declare tax amnesty as it deems appropriate. A study may be done to investigate the effect of amnesty in reducing debt portfolio and increasing revenue collected.

An exploration study on possible future trends on debt collection if KRA, through the parliament, introduced third party debt collector.

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Appendix 11: Questionnaire

PART A: Background information

PART A:

1. What is your Age bracket?
 - a) 18-35
 - b) 36 and Above
2. What is your gender?
 - a) Male
 - b) Female
3. What is your current occupation?.....

PART B: EFFECTS OF DEBT COLLECTION ON KRA REVENUE COLLECTION TARGETS

Government Regulations

- 5 .Do you agree that an increase in taxes in the gambling industry will affect debt collection?
 - a) Strongly Agree
 - b) Agree
 - c) Strongly Disagree
6. To what extent is the government working to regulate and increase taxes in the gambling sector?
 - a) Very great extent
 - b) Great extent
 - c) Moderate extent

d) Little extent ()

e) Very little extent ()

7. Do you agree that filing of tax returns and payments is helping in elimination of tax debts?

a) Strongly agree ()

b) Agree ()

c) Neither agree nor disagree ()

d) Disagree ()

e) Strongly disagree ()

8. In your opinion, what more regulations can the government put in place to help enhance debt collection?

.....

Tax base

9. Do you agree that exclusion of Juakali has affected the debt collection?

a) Strongly agree ()

b) Agree ()

c) Undecided ()

d) Disagree ()

e) strongly disagree ()

10. What influence does lack of information on tax issues affect debt collection and revenue?

a) Not at all influential ()

b) Slightly influential ()

c) Moderately influential ()

d) Very influential ()

e) Extremely influential ()

11. What in your opinion what can KRA do to include everyone in the tax base?

.....

TRAINING

12. Do you agree that KRA staff are unapproachable?

- a) Strongly Agree ()
- b) Agree ()
- c) Strongly Disagree ()

13. To what extent do you think KRA officials are corrupt?

- a) Very great extent ()
- b) Great extent ()
- c) Moderate extent ()
- d) Little extent ()
- e) Very little extent ()

14. What influence do you think KRA trainings on the public have on debt collection?

- a) Not at all influential ()
- b) Slightly influential ()
- c) Moderately influential ()
- d) Very influential ()
- e) Extremely influential ()

In what other ways do internal controls affect debt collection in KRA?

.....

Debt Collection Methods

15. To what extent does KRA employ its machinery in the process of debt collection?

- a) Very great extent ()
- b) Great extent ()
- c) Moderate extent ()
- d) Little extent ()
- e) Very little extent ()

16. Do you think KRA should attach property in a bid to collect the unpaid debts?

- a) Strongly Agree ()
- b) Agree ()
- c) Strongly Disagree ()

17. Suggest what can be done to improve and enhance debt collection and thus improve revenue targets of KRA.....