

**THE EFFECT OF PERSONS WITH DISABILITY ACTS 2003 ON INCOMET TAX**

**REVENUE COLLECTION IN KENYA.**

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AND TECHNOLOGY**

**OCTOBER,2020**

## **DECLARATION**

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

Signature. ....

Mr. Peter Muriithi

Date.....

HDB336-C016-2164/2016

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

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Date.....

## **DEDICATION**

My foremost gratitude goes to our Almighty God for enabling and guiding me through this tedious process of proposal writing. Final is dedicated to my wife who gave me all the support from the start to the end of the research.

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## LIST OF ABBREVIATIONS AND ACRONYMS

<b>GDP:</b>	GROSS DOMESTIC PRODUCT
<b>KESRA:</b>	KENYA SCHOOL OF REVENUE ADMINISTRATION
<b>KNBS:</b>	KENYA NATIONAL BUREAU OF STATISTICS
<b>KRA:</b>	KENYA REVENUE AUTHORITY
<b>OECD:</b>	ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT
<b>DTD:</b>	DOMESTICS TAX DEPARTMENT.
<b>JKUAT:</b>	JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHONLOGY
<b>FDI:</b>	FOREIGN DIRECT INVESTMENT
<b>MENA:</b>	MIDDLE EAST AND NORTH AFRICA
<b>CIATA:</b>	CENTRE OF INTER AMERICAN TAX ADMINIATRATION.
<b>IBD:</b>	INDUSTRIAL BUILDING DEDUCTION
<b>TJN:</b>	TAX JUSTICE NETWORK
<b>UNCTAD:</b>	UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
<b>EPZ:</b>	EXPORT PROCESSING ZONE
<b>GDP:</b>	GROSS DOMESTIC PRODUCT
<b>EAC:</b>	EAST AFRICAN COMMUNITY

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## **ABSTRACT**

The enactment of the Persons with Disability Act of 2003 provided a legislative framework for inclusion and access to services by Persons with disabilities in all facets of life. The legislation however, provided some tax exclusions, deductions, credits, rebates, preferential tax treatments and sometimes tax deferrals to persons with disability with a view of empowering PWDs economically but distorting the principal of tax fairness. The study sort to investigate the effect of the Persons with Disabilities Act 2003 on tax revenue collection in Kenya. The specific objectives were; to establish the impacts of PWDs' 2003 legislative Acts on revenue collection in Kenya, to assess the impact of persons with disabilities' tax education and knowledge on revenue collection in Kenya and to establish the extent to which the medical condition of persons with disabilities affects revenue collection in Kenya. To achieve this objectives, the research adopted a descriptive research design and targeted a population of population is 570 taxpayers registered as persons with disability for purposes of tax exemption in the North of Nairobi administrative tax service office from where a sample size of 57 taxpayers were selected randomly. The study used both primary and secondary data and employed both the paired sample t-test and a multiple linear regression using Ordinary Least Square (OLS) estimates to analyse the data. The findings established that the study variables, PWDs' tax education, PWDs' Medical Condition and PWDs' knowledge on 2003 Acts Legislation indeed have an effect on taxations of persons with disability. Persons with disabilities (PWDs) are exempted from paying taxes on the first Kenya shillings 1,800,000 per annum on their income translating to tax/revenue loss of approximately Kenya shillings 540,000 per annum from each person leaving with disability in Kenya. The study concludes that the provision of tax exemption actually negatively affect revenue collection.

**Key words:** 2003 legislative Acts, tax education, Medical Condition, persons with disability

# CHAPTER ONE

## INTRODUCTION

### 1.0 Introduction

This chapter presents the background of the research on taxation of the persons with disabilities and the effect of persons with disability Act 2003 on tax revenue in Kenya. It further, presents statement of the problem, research objectives and questions and finally the importance of this research.

### 1.1 Background of the Study

Financial expert characterizes tax assessment as an obligatory commitment of assets from the natives to the states or government imposed on a premise of foreordained criteria and without reference to a particular advantages gotten by the citizen (Lipsev and chrystal, 2007; kandie, 2011; kinuthia, 2011; OECD, 2013). In Kenya, tax collection is the single biggest wellspring of government budgetary assets establishing about 92.4% of absolute government income (counting awards) (KRA, 2015). The legislature of Kenya uses charge income to meet its commitments, which incorporate giving open products and ventures, for example, security and support of peace. Other than raising income, governments duty assessments to accomplish financial security, fair salary circulation, ideal asset portion, and to advance social welfare (Poulson and Kaplan, 2008).

Assessment framework is of huge significance in running national pay, especially in created nations and has had an imperative impact in refined social orders since their starting point numerous years back (Lymer and Oats, 2009). Notwithstanding, it is essential to take note of that not all installments to government are charge installments: for instance, charges, tolls and 1

different duties are paid to accomplish a particular administration and are not carefully impose installments. In his book "The Wealth of Nations" which was distributed in 1776, Adam Smith proposed that a decent expense framework depends on positive basic qualities, in particular value, accommodation, conviction, and effectiveness (Lymer and Oats, 2009).

As indicated by Gcabo and Robinson (2007), charge accumulation is essential to any nation despite the fact that it isn't supported or comprehended by the nation's residents. They proceeded to contend that, however the citizens recognizes the need to make good on regulatory expenses and appreciate the advantages offered by the legislature in type of open administration (Gcabo and Robinson, 2007). As indicated by Poulson and Kaplan (2008), a country can't have any noteworthy monetary improvement without hopeful goad from astute governments. However, the improvement plan and projects of a nation can just be brought to conviction by the accessibility of accounts. A standout amongst the most dependable wellsprings of government income is through tax collection (Poulson and Kaplan, 2008).

Research demonstrates that Kenya's expense changes are utilized towards presentation of the new assessments or new rates of existing bases, the need to augment duty bases and lessen exceptions just as acquaint increasingly stringent regulatory changes with seal provisos (IEA, 2012). This has prompted an expanded income gathering from Kshs. 122 billion in the Financial Year 1995/1996 up to Kshs. 274 billion in FY 2004/2005 and further to Ksh. 1.210 trillion in FY 2015/2016 (KRA, 2016). Further, its important that Kenya's duty changes and change is outfitted towards acknowledging three normal targets of a decent assessment framework; to raise charge income for subsidizing government tasks without unreasonable government acquiring, to add to impartial dissemination of salary and to energize or demoralize explicit exercises (Poulson and

Kaplan, 2008). Without a doubt, raising assessment income is a key and direct target of duty changes in Kenya's expense framework, along these lines striking the suitable parity in gathering the consistently expanding contending needs visa viz empowering venture through lower charges (Lipse and Chrystal, 2007). It is the thought of the last that has seen the administration of Kenya, as different governments; present assessment impetuses with the conviction that tax collection is a proper strategy instrument in pulling in speculations (IEA, 2012).

### **1.1.1 Legalization of taxation of persons with disabilities in Kenya**

Kenya enacted the Persons with Disability Act of 2003 which came into force in June 2004. The Act provides a legislative framework for access to services and inclusion of Persons with disabilities in all facets of life. It provides for the achievement of equalization to opportunities by prohibiting discrimination in employment, education and health among others. It promotes and establishes structures for the provision of services to Persons with disabilities. The Act is currently being reviewed through the Persons with disabilities Amendment Acts 2014 to ensure conformity with the Constitution of Kenya, 2010 and CRPD. The CRPD which was signed and ratified by Kenya in 2007 and 2008 respectively is a human rights instrument with an explicit, social development dimension. It provides a paradigm shift from the medical and charity model of disability to social model where disability is viewed as socially constructed.

The Constitution enhances the protection framework for the rights of persons with disability and secures significant gains for persons with disability. Further, the government of Kenya established the Ministry of Labour, Social Security and Services in 2013 (Republic of Kenya, 2013). Under the current Ministry, the Department of Social Services is charged with the mandate to protect, advocate for needs of persons with disabilities, facilitate and coordinate disability mainstreaming

in national development planning and budgetary processes. The department, together with National Council for Persons with disabilities (NCPWD) runs the Cash Transfer Programme for persons with severe disabilities (Republic of Kenya, 2013).

According to the World Disability Report 2011 puts persons with disability to constitute 15% of the general population. However, according to the Kenya National Survey for Persons with disabilities conducted in 2007 by the National Coordinating Agency for Population and Development (NCAPD) in collaboration with Kenya National Bureau of Statistics (KNBS), the overall disability rate in Kenya is 4.6% which translates to 1.7 million Persons with disabilities. Out of the 1.7 million persons with disabilities, 65% regards the environment as a major problem in their daily lives (NCAPD, 2008). Persons with disabilities in Kenya represent a critical segment of the population and have for a long time experienced marginalization. In addition, a greater majority of persons with disabilities have either limited or no access to education, health, employment, rehabilitation or other basic public socio-economic services.

### **1.1.2 Persons with Disability Tax Exemptions in Kenya.**

Tax exemption refers to a monetary exemption which reduces taxable income and result in a loss of state tax revenues available for appropriation (Radhakrishanan, 2008). It refers to all exclusions, deductions, credits, rebates, preferential tax treatments, and tax deferrals. Tax exemptions are exceptions to the general tax regime and may include, reduced tax rates on profits, tax holidays, accounting rules that allow accelerated depreciation and loss carry forwards for tax purposes, and reduced tariffs on imported equipment, components, and raw materials, or increased tariffs to protect the domestic market (Gruber, 2005). Thus tax exempt status can provide complete relief from taxes, reduced rates, or tax on only a portion of items. According to KRA

(2016) tax exemptions are provisions that grant any person or activity favorable conditions that deviate from the normal provisions of the tax legislation (KRA, 2016).

Tax exemptions come in many forms, but one thing they all have in common is that they either reduce or entirely eliminate your obligation to pay taxes. However, Tax exemptions, write-offs, and remissions have been massively abused leading to revenue losses (Gruber, 2005). Section 12 (3) of the Persons with disabilities Act, 2003 entitles an employee with a disability to exemption from tax on all income accruing from his employment. However, the PWDs have to apply for these exemption through NCPWD. While it can positively be reported that persons with disabilities who are in formal employment are benefiting from tax exemption, majority of persons with disabilities have little knowledge of this and have not applied for exemption. The process is also reported to be very tedious and discriminatory especially for persons with psychosocial disability (PWDs Act, 2003, Sec 12(3)). On the other hand, persons with disabilities in informal employment and owners of small business are not informed on how the tax exemption works. The existed of the legal framework on tax exemption for persons with disabilities with businesses is not known to them.

The Act also spells out a wide range of benefits and incentives for persons with disabilities, including exclusion from paying tax on income from jobs and exemption from import duty and value added tax, and it obliges the public and private sectors to reserve 5% of jobs for disabled persons. In the Act private employers who engage disabled persons in salaried employment are entitled to apply for a deduction from their taxable income equivalent to 25% of the total amount paid as salary and wages to such employees. The Act also ensures that an employer who improves or modifies physical facilities for the benefit of disabled employees is entitled to an additional deduction from his/her net taxable income. This deduction is equivalent to 50% of the direct costs of improvements, modifications or special services (International Labour Office, 2004).

### **1.1.3 Tax Revenue collection.**

According to a study by African Development Bank Group (AFDB, 2010) and KIPPRA (2006), the Narc Government took power in 2003 and introduced a number of tax reform that saw an upward trend in revenue collection from 2004/2005 (AFDB, 2010). In 2004 sharp rises in revenue collection was recorded due to the tax amnesty offered by the Kenya Revenue Authority which waived interest on all tax arrears (KIPPRA, 2006). This, in addition to the principle of self-assessment, led to significant increases in tax collections during that period (World Bank, 2014). According to Kenya Revenue Authority (2016), the Financial Years 2010/2011-2015/2016 that saw the country's total revenue significantly increases from KES 651 billion in 2010/2011 to a new high of KES 1.210 trillion with Exchequer Revenue standing at KES1.193 trillion in 2015/2016 representing a 44% increase in revenue in 6 years. The growth is largely attributed to significant increases in income tax, which increased from KES 272 billion in 2010/2011 to KES 650 billion in 2016, equivalent to 50% increase in collection. In the FY 2015/2016, KRA delivered an absolute increase in revenue collection of KES 141 billion with an overall collection of KES 1.210 trillion with Exchequer Revenue standing at KES1.193 trillion (KRA, 2016). It is important however, to highlight that substantial increases in revenue collection have been observed during periods where tax incentives has been effective. However, despite absolute increase in revenue collection year on year, the variance between the KRA collection targets and the actual exchequer revenue has been increasing from the year 2012/2013. According to KRA (2016), this is probably due to the increase in anticipated expenditures as a result of the implementation of the 2010 constitution following the 2013 general election (KRA, 2016).

## **1.2 Statement of the Problem.**

The study sort to investigate the effect of the Persons with Disabilities Act 2003 on tax revenue collection in Kenya at a time the government is currently confronted by huge fiscal deficits, declining external assistance and huge debt service charges that are adversely affecting the country's development process. Nevertheless, public expenditure continues to grow exponentially every fiscal year such that, more often revenue growth does not match the government spending pressures. Taxes constitute the largest sole component of public revenue in Kenya. Despite the fact that Kenya has vast opportunities and a huge potential to raise more revenue through taxation, is one of the high tax-burden countries in the world. Tax evasion as well as low compliance levels narrows the tax base while at the same time increasing the enforcement costs. Tax reforms in Kenya have also failed to achieve substantial increase and decrease in tax revenue collected and enforcement costs respectively. Therefore, of concern to policymakers is how Kenya can attain revenue stability and be capable of sustaining her public expenditures- even if the flow of foreign resources one day runs dry. How to achieve revenue stability in Kenya is not clear because there is very little literature on this topic.

Without a doubt, the 2003 piece of legislation was an important starting point to addressing challenges facing disabled persons in Kenya, and needs to be applauded. However, there is uncertainty about the extent to which employers can be held accountable in terms of hiring disabled persons. It is also important to ensure that employers are not only focused on the incentives that accompany hiring a disabled person at the expense of not taking responsibility in advancing disabled people's rights, as spelt out in the Act as well as in the *Standard rules on the equalization of opportunities for persons with disabilities* (Office of the High Commissioner for Human Rights 1993). Studies have shown that, while many governments' focus on employment opportunities for disabled persons is a step in the right direction, there are gaps that need to be addressed. For

example, Wilton and Schuer (2006), referencing employment policy developments in Canada and the UK, observed that: the focus (on employment opportunities) has not been accompanied by strategies focused on creating contexts for employment that ensure accessibility and accommodation in particular, and job security and living wages more generally. When governments have made employers and working conditions a focus of policy, programs have typically emphasized voluntary compliance and incentives, rather than mandatory change.

The other limitation that Wilton and Schuer pointed to is that: programs focused on employment transition typically assume that there are sufficient numbers of jobs/employers out there for disabled people wishing to move into paid unemployment, and that these opportunities provide livable wages, secure employment relations and the necessary 'flexibility' to accommodate workers. The contemporary economy is characterized by insecurity and material hardship produced by globalization, transnational ownership, disinvestments, casualization and flexibility, as well as the astonishing rise of low-paid unskilled service employment. Many disabled people, therefore, may be frustrated in their search for 'flexible' alternatives. Similarly, in the Kenya Persons with Disability Act hiring a disabled person is presented as more of a voluntary undertaking, as opposed to a mandatory one. Moreover, the Kenyan constitution has no disability provision, nor is there specific mention of people with disabilities. Nonetheless, there is a movement to reform the constitution to include disability-related provisions (International Labour Office, 2004).

Lipsey & Chrystal, 2007 stated that the government plays an important role in the growth process and apart from the expenditure it incurs for development projects, it can employ policies including favourable tax treatment of savings, investment, capital gains, research and development (R&D) and tax exemptions to encourage investments and innovations and to empower the marginalized in the society. However, studies in the recent past prove that tax exemptions offered to people

living with disabilities have not yielded the desired objectives. This has prompted the researcher to establish the impact of the persons with disabilities Act 2003 on tax revenue in Kenya .

### **1.3 Research Objective**

The main objective of this study was to investigate the effect of the Persons with Disabilities Act 2003 on tax revenue collection in Kenya.

#### **1.3.1 Specific research Objectives**

The study will be guided by the following specific objectives;

- I. To establish the impacts of PWDs' 2003 legislative Acts on revenue collection in Kenya.
- II. To assess the impact of persons with disabilities' tax education and knowledge on revenue collection in Kenya.
- III. To establish the extent to which the medical condition of persons with disabilities affects revenue collection in Kenya.

### **1.4 Study Questions.**

The study will be guided by the following questions;

- I. What is the impacts of the PWDs' 2003 legislative Acts on revenue collection in Kenya?
- II. What is the effect of persons with disabilities' tax education and knowledge on revenue collection in Kenya?
- III. What is the effect of PWD's medical condition on revenue collection in Kenya?

### **1.5 Significant of the research.**

Every government collects taxes to finance planned activities of the provision of goods and services to its people. Every player in the taxation industry, however, needs to plays her rightful part and pay to the state her rightful share of taxes. Information obtained from this study will

help the Kenyan government, policy makers, legislature and regulatory bodies such as the Kenya Revenue Authority in improving taxation systems and therefore, tax policies in Kenya.

This study provides an insight to the investors on the challenges facing tax exemptions. Investors need to establish business strategies putting into consideration the long term effects of their decisions on the business and the economy. It is necessary to educate potential investors and citizens so as to encourage support and compliance for good macroeconomic policies.

### **1.6 Scope of the Study.**

The study focuses on taxpayers with disability within North of Nairobi revenue station. North of Nairobi is based within KRA headquarters located in Times Tower, on Haile Selassie Avenue, in the central business district of Nairobi, the capital and largest city of Kenya. Physically, KRA headquarters are located within the coordinates 01°17'25.0"S, 36°49'26.0"E (Latitude:-1.290267; Longitude: 36.823899). According to KRA taxpayers' registers, there are approximately 361,215 active taxpayers. Of these about 960 registered taxpayers are PWDs registered as per Persons with Disability Acts 2003.

### **1.7 Limitations of the Study**

Time was a limiting factor for the researcher since he is in full time employment and therefore did not have adequate time especially in the collection of data, the researcher was faced with the challenge of insufficient data. Data from the field was insufficient to be used to answer the research objectives sufficiently and Limited resources on the part of the researcher were another limitation. The researcher lacked adequate funding for conducting the research owing to the fact that She is self-sponsored student.

Tax exemptions is a wide concept, and due to constraints in time and resource availability, the research focused specifically on the income tax while there are other forms of taxation such as VAT, customs and excise among others. Therefore, the study did not conclude on all exemptions

in taxation in Kenya. This is because Tax exemption in Kenya is driven through different tax regime which are: Income tax, VAT, Customs Duty, Exercise Duty.

### **1.8 Assumptions of study.**

The study assumed that all the respondents' participants gave truthful and honest answers. Also the study assumed that all the data collected had a normally distribution.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter covers the theoretical and empirical review revolving around the impact of the persons with disabilities Act 2003 on tax revenue in Kenya. It also presents the conceptual framework on which the research will be based.

#### 2.1 Theoretical Literature Review

A theoretical orientation is important to this research because the theory allows the researcher to appreciate the scope and nature of social inequity and link social problems to common social and economic structure for persons with disability in Kenya. This research will combine three theories: The Tompkins (1996) ideas of stigma to highlight the experiences and challenges disabled people face when participating in the Labour market in Kenya, the Keynesian economic theory attributed to John Maynard Keynes whose most influential work, *The General Theory of Employment, Interest, and Money*, was published in 1936 and the rational theory.

##### 2.1.1 Tompkins stigma theory

Tompkins theory of stigma hypothesizes that each general public, a few people have more prominent power than others and that people with significant influence by and large force their standards, qualities and convictions on the individuals who are less incredible (Tompkins, 1996). People with great influence set the models that are anticipated from people inside a given culture and furthermore decide how every part in that culture can be ordered (Garland-Thomson, 1997). Tompkins recognized three types of disgrace: (i) evil entities of the body or different physical deformations; (ii) imperfections of character or frail will, including oppressive or unnatural convictions, qualities and dispositions; (iii) inborn shame or disgrace of race, country or religion

(Titchkosky 2003, 141–2). Tompkins contended that every one of these types of shame uncovers that a disparaged individual is set apart as having 'undesired distinction. The various types of shame additionally show how demonization makes a mutual, socially kept up and decided origination of an ordinary individual (the 'normate'), which is etched by a social gathering endeavoring to characterize its very own character and limits (Garland-Thomson, 1997). Shame, consequently, is a near or scaling apparatus that is utilized to build 'in' and 'out' bunches in the public eye. Predominant gatherings develop generalizations to slander and exercise expert over different gatherings that they regard 'mediocre' (Tompkins, 1996; Garland-Thomson, 1997; Titchkosky, 2003).

In the public eye the non-incapacitated, who are by and large in places of intensity, utilize their capacity to socially impact and control the handicapped and to build them as various. In spite of the fact that Tompkins has been reprimanded for neglecting to disclose why society reacts to crippled individuals in negative ways (Garland-Thomson, 1997; Titchkosky, 2003). Rosemarie Garland-Thomson (1997) noticed that Tompkins works still support the early field of inability thinks about in the sociologies. Thomson included that disgrace hypothesis places inability in social settings to demonstrate that incapacity is a social portrayal of physical change or design and an examination of bodies that structures social relations (Garland-Thomson, 1997, p. 32). In this way, the hypothesis permits a comprehension of the manners by which overbearing connections between 'non-disabled' individuals and 'crippled' individuals are organized and, specifically, the manners by which 'non-handicapped' individuals build debilitated individuals as 'freak' by making principles and standard marks that render the last 'outcasts'. Such mastery breaking points handicapped people's entrance to training, business, riches, influence and different open doors in the public arena.

### **2.1.2 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). Absolutely 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.

The theory suggests that taxpayers are amoral utility maximizers who are influenced by economic motives such as profit maximization. Any country all over the world is concerned about empowering less and disadvantaged people in the society such as the people with disabilities. Thus any country is concerned with maximizing the profit of those people with disabilities in active employment and business enterprises for maximum benefits. Thus people with disability will look at taxation aspect as one with incentives to promote their wellbeing and maximizes the opportunity for improving their social well fare.

### **2.1.3 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). 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, C, 2005).

### **2.2 Empirical literature.**

A number of studies have established that prior to December 2003 there were no special laws in place governing matters related to disability in Kenya (Kiwara, 1998). Kiwara (1998) in his study established that an intense lobbying campaign by disabled people ensured in Kenya and this in 1997 led to formation and establishment of a task force by the government in 1997, which included representation by Kenyan disabled persons' organizations (Kiwara, 1998). According to the International Labour Office (2004), five years after formation, the task force presented its recommendations, based on data collected from people with disabilities across the country. Based on that information, a draft bill was brought for discussion in parliament in April 2003, following which the Persons with Disabilities Act 2003 was enacted on 31 December 2003 (International Labour Office, 2004).

The Act stipulated that a National Council for Persons with Disabilities (NCPD) be established. As identified in the *Kenya law reports*, the mandate of NCPD was, among other functions, to formulate and develop measures and policies aimed at: (i) achieving equal opportunities for persons with disability by ensuring that they obtain education and employment to the maximum extent possible, and ensuring that they participate fully in sporting, recreational and cultural activities, affording full access to community and social services; (ii) cooperating with the government during the national census to ensure that accurate figures of persons with disabilities are obtained in the country, for purposes of planning; (iii) putting into operation schemes and projects for self-employment or regular or sheltered employment for the generation of income by persons with disabilities; and (iv) coordinating services provided in Kenya for the welfare and rehabilitation of persons with disabilities and implementing programmes for vocational guidance and counseling among others (International Labour Office, 2004).

The Act stipulates that ‘the government would take steps to the maximum of its available resources, with a view to achieving the full realization of the rights of persons with disabilities in employment, health, access and mobility. In terms of employment, the Act prohibits discrimination in employment, indicating that: no employer shall discriminate against a person with a disability in relation to the advertisement of employment; the recruitment for employment; the creation, classification or abolition of posts; the determination or allocation of wages, salaries, pension, accommodation, leave or other such benefits; the choice of persons for posts, training, advancement, apprenticeships, transfer, promotion or retrenchment; the provision of facilities related to or connected with employment, or; any other matter related to employment (Republic of Kenya, 2009).

A wide range of benefits and incentives for persons with disabilities are spelled out in the Act, including exclusion from paying tax on income from jobs and exemption from import duty and

value added tax Republic of Kenya, 2009). Further it obliges the public and private sectors to reserve 5% of jobs for disabled persons. The Act provides for private employers who engage disabled persons in salaried employment are entitled to apply for a deduction from their taxable income equivalent to 25% of the total amount paid as salary and wages to such employees (ITA, 2010). The Act further ensures that an employer who improves or modifies physical facilities for the benefit of disabled employees is entitled to an additional deduction from his/her net taxable income. This deduction is equivalent to 50% of the direct costs of improvements, modifications or special services (PWD Act, 2003).

### 2.3 Conceptual Framework.

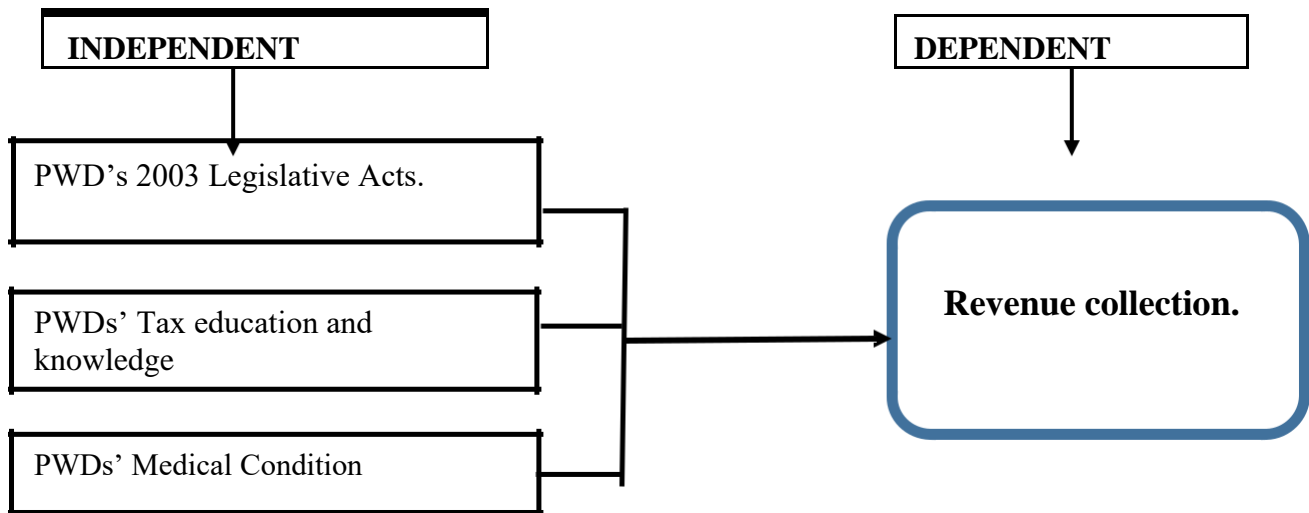


Figure 2.1 Conceptual Framework

## **2.4 Research gap.**

Without a doubt, the 2003 piece of legislation is an important starting point to addressing challenges facing disabled persons in Kenya, and needs to be applauded. However, there is uncertainty about the extent to which employers can be held accountable in terms of hiring disabled persons. It is also important to ensure that employers are not only focused on the incentives that accompany hiring a disabled person at the expense of not taking responsibility in advancing disabled people's rights, as spelt out in the Act as well as in the Standard rules on the equalization of opportunities for persons with disabilities (Office of the High Commissioner for Human Rights, 1993). Studies have shown that, while many governments' focus on employment opportunities for disabled persons is a step in the right direction, there are gaps that need to be addressed. The focus of other studies (on employment opportunities) has not been accompanied by strategies focused on creating contexts for employment opportunities that provide livable wages, secure employment relations and the necessary living wages more generally. When governments have made employers and working conditions a focus of policy for persons with disability, programs have typically emphasized voluntary compliance and incentives, rather than mandatory change in tax regime.

Data on the participation of disabled persons in employment, not only in Kenya, but also in many other African countries, is either lacking or very limited. What is generally agreed on is the fact that in low income countries disabled people are amongst the poorest of the poor (Malinga, 1998, cited in Neufeldt, 1998, 11) and the fact that the disabled population has proportionately the greatest number of unemployed (Malinga, 1998). Disabled people have lower income levels, if any, than the rest of the population and are less likely to have savings and other assets than the non-disabled population because of low education. Thus failure to empower disabled persons who live in extreme poverty. Wanzala (2006) observed that, in spite of enforcement of the Persons With Disability Act 2003, there continued to exist deficiencies in service delivery for disabled persons

in Kenya. Wanzala also noted that implementation of the requirement to exempt from taxation the first 150,000 for employment income for persons with disabilities had not materialized.

## **2.5 Summary and conclusion from the literature.**

The contemporary economy is characterized by insecurity and material hardship produced by globalization, transnational ownership, disinvestments, casualization and flexibility, as well as the astonishing rise of low-paid unskilled service employment for persons with disability. While the Kenyan government has made commendable efforts to increase the employment of disabled persons in the country, mainly as a result of the introduction of the Persons with Disabilities Act in December 2003, which is the main legal instrument concerned with disabled persons in Kenya, the country still has a long way to go in terms of fostering equal treatment at work for disabled people. Okong'o (2006) noted that since enactment of the law on persons with disabilities in 2003 the Kenyan government had done little to enforce it. Okong'o argued that the Act had had no impact on the lives of those who needed it most.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND**

#### **METHODOLOGY 3.0 Introduction**

This chapter comprises the research design, data collection and procedure, data processing and analysis design and presentation.

##### **3.1 Research Design**

Tavakol (2011) defined research design as the scheme, structure, outline, plan or strategy of investigation used to give answers to the research questions. This study aim was to establish the impacts of person with disability Act 2003 on revenue collection and as such the research adopted 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, 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 and the design has enough provision for protection of bias and maximization of reliability.

##### **3.2 Target Population**

A population is the entire gathering of elements about which extrapolations are made (Cooper and Schindler 2011) or is a group of the variables that is being studied (Chandan, Singh and Khanna 2010). The population under this study was the taxpayers with disability in North of Nairobi District, Nairobi county. This population is 570 according to Kenya Revenue Authority Report (2017).

### **3.3 Sampling procedure**

Mugenda and Mugenda (2008) define sampling means selecting a given number of subjects from a defined population as representative of the whole population (Mugenda and Mugenda, 2008). However, according to Saunders et al. (2009), sampling procedures details the activities that helps the researcher in arriving at a representative sample to be used in solving the research problem (Saunders et al., 2009). The following sampling designs were employed in this study;

#### **3.3.1 Sampling frame.**

The sampling frame for any probability sample is a whole list of entire cases in the population from which sample is derived (Saunders et al., 2009). The 570 taxpayers with disability in North of Nairobi District formed the sample frame for this study. This was according to KRA register (KRA, 2017) which shows that about 570 persons with disabilities are registered as the taxpayers in the district.

#### **3.3.2 Sample Size**

The sample size is the number of sampling units selected from the population for investigation (Chandan, Singh and Khanna, 2010). According to Kothari (2004), the bigger the size of the sample, the lower the possible error in taking a broad view of the population (Kothari, 2004). However, Mugenda and Mugenda (2003) contends that a sample size of 10% is appropriate when the population is small and exhibits the same characteristics. Thus adopting Mugenda and Mugenda (2003) approach of sample size determination, 10% of 570 registered persons with disability as per KRA (2017) is 57 persons. This research targeted a minimum sample size of 57 registered taxpayers with disability in North of Nairobi District.

### **3.3.3 Sampling Technique.**

The study employed a simple random sampling technique. This sampling technique provides each sampling units/elements with an equal opportunity/chance of selection for study and minimizes biasness (Saunders et al., 2009). The research used a random sampling technique to arrive at a representative person from the entire population of interest. Thus 57 persons with disability registered as taxpayers were randomly selected for the study.

### **3.4 Data Collection procedures.**

This research used both primary and secondary data. Primary data was gathered and generated for the project at hand directly from respondents mainly using questionnaires. The questionnaire had both open and close-ended questions. The closed-ended questions were used to test the rating of various attributes, and provided more structured responses that facilitated tangible inferences and recommendations. Secondary data collected was from Kenya Revenue Authority Historical data on Tax that was supposed to be paid without PWD 2003 Act application for the year 2016 and tax that was actually collected after application of PWDs 2003.

A research permit was obtained from KESRA registrar office Nairobi to give permission to the research to carry out data collection exercise. An introductory letter was sent to department and section heads two weeks prior to commencement of the exercise to enable the relevant Authorities to prepare for the exercise in advance to avoid inconvenience. The researcher administered the questionnaire individually to all the respondents of the study. The researcher distributed the questionnaire via a drop & pick method.

### **3.5 Reliability and Validity.**

Mugenda and Mugenda (2003) define unwavering quality (reliability) as a measure of the extent to which an examination instruments yields consistent steady results or information after repeated trial (Mugenda and Mugenda, 2008). According to Tavakol (2011) Validity (legitimacy) is the extent to which results obtained from the analysis of the data actually represents the marvel under study (Tavakol, 2011). The surveys instruments were pre-tried. This guaranteed consistency and steadfastness of the examination instruments and their capacity to tap information required. Crude information from the instruments were subjected to an unwavering quality investigation from which Cronbach's co-efficient alpha were methodically, systematically and consistently computed using Cronbach's Alpha (Tavakol, M., 2011). According to Mugenda and Mugenda (2008), a prescribed unwavering quality of 70% is viewed as dependable for information accumulation (Mugenda and Mugenda, 2008).

### **3.6 Data Analysis.**

Data collected was simplified, organized and tabulated to make it easier to understand. Excel software helped transform the variables into format suitable for analysis, after which SPSS was used for data analysis. Collected data was analyzed through descriptive statistics. Inferential analysis was used to make references from the data to more general conditions while descriptive statistics was used to simply describe what's going on in the data. Measures of central tendencies, standard deviations and percentages were used to describe the data. The quantitative reports obtained from the analysis were presented using tables.

### 3.6.1 Data Analysis for Secondary data.

The secondary data was analysed using the paired sample t-test to determine if two means are different from each other when the two samples on were taken from the matched individuals or the same individuals. When two samples are involved and the values for each sample are collected from the same individuals (that is, each individual gives us two values, one for each of the two groups), or the samples come from matched pairs of individuals then a paired-samples t-test may be an appropriate statistic to use. The test is described below;

The two means and the corresponding standard deviations are calculated by using the following equations ( $n_A$  and  $n_B$  are the number of measurements in data set A and data set B, respectively):

**Equation 1: Mean and standard deviation..... (i)**

$$\bar{x}_A = \frac{\sum_{i=1}^{n_A} x_i}{n_A} \quad \bar{x}_B = \frac{\sum_{i=1}^{n_B} x_i}{n_B}$$
$$s_A = \sqrt{\frac{\sum_{i=1}^{n_A} (\bar{x}_A - x_i)^2}{n_A - 1}} \quad s_B = \sqrt{\frac{\sum_{i=1}^{n_B} (\bar{x}_B - x_i)^2}{n_B - 1}}$$

**Equation 2: The pooled estimate of standard deviation.....(ii)**

Then, the pooled estimate of standard deviation  $s_{AB}$  is calculated:

$$s_{AB} = \sqrt{\frac{(n_A - 1) s_A^2 + (n_B - 1) s_B^2}{n_A + n_B - 2}}$$

**Equation 3: The statistic  $t_{exp}$  (experimental(Pooled) t value).....(iii)**

Finally, the statistic  $t_{exp}$  (experimental(Pooled) t value) is calculated:

$$t_{\text{exp}} = \frac{|\bar{X}_A - \bar{X}_B|}{S_{AB} \sqrt{\frac{1}{n_A} + \frac{1}{n_B}}}$$

$t_{\text{exp}}$

value is compared with the critical (theoretical)  $t^{\text{th}}$  value corresponding to the given degree of freedom  $N$  and the confidence level chosen. If  $t_{\text{exp}} > t^{\text{th}}$  then  $H_0$  is rejected else  $H_0$  is retained. The sample means for the respective variables ( Before 2003 PWD's Legislative Act and After 2003 PWD's Legislative Act) were formulated as follows;

$X_A$ - This represented data for tax collection before 2003 PWD's Legislative Act and

$X_C$ - This represented data for tax exemption provided to PWD

$X_B$ - This represented data for tax collection after 2003 PWD's Legislative Act.

This test assumes that:

(a) a normal distribution for the populations of the random errors,

(b) there is no significant difference between the standard deviations of both population samples.

Ordinary Least Square (OLS) estimates were employed to estimate the linear regression coefficient. Correlation analysis was used to show the correlation between the effectiveness of the amnesty and voluntary tax compliance.

### 3.6.2 Data Analysis for primary data.

The study employed a multiple linear regression model to analyse the primary data. The study used Ordinary Least Square (OLS) estimates to estimate the linear regression coefficient. Correlation analysis was used to show the correlation between the variables.

The research model estimated was a multiple linear regression model as follows:

#### Equation 4: The multiple linear regression model.....(iv)

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

Where  $Y$ = Tax collection from PWDs;

$\beta_0$  - is the  $Y$  intercept or co-efficient of constant of the equation,

$\beta_i$  - is the coefficient of each independent variable ,

X<sub>1</sub>- PWDs Tax knowledge on 2003 Acts, X<sub>2</sub>-

PWD's tax Knowledge and Education,

X<sub>3</sub>- PWD's medical conditions and  $\varepsilon$ - is the error term capture the un-explainable effect on tax debt realization

The study used the analysis of variance (ANOVA) test and t-significance to establish the significances of the relationship between independent variables and tax compliance.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.0 Introduction

The main objective of the study was to investigate the effect of the Persons with disabilities Act 2003 on revenue collection in Kenya. Both primary data and secondary data was used.

Student's t-test for comparison of two means of the data, descriptive, correlation and regression analyses were used in data analysis.

#### 4.1 Data Validity

Reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. Cronbach's alpha was calculated by application of SPSS version 20 for reliability analysis. The value of the alpha coefficient ranges from 0-1 and may be used to describe the reliability of factors extracted at 0.5 significance level from dichotomous and or multi-point formatted questionnaires or scales.

**Table 4.1: Reliability Coefficients**

Items	Cronbach's Alpha	Number of items
PWD's Knowledge on 2003 Act legislation	0.865	8
PWD's tax Knowledge and Education	0.853	6
PWD's medical conditions.	0.825	8

*Source: researcher's computation (2018)*

A higher value shows a more reliable generated scale. Cooper and Schindler (2008) have indicated 0.7 to be an acceptable reliability coefficient. Table 4.1 shows that Knowledge on legislation had the highest reliability ( $\alpha=0.865$ ) followed by Taxpayers with disabilities' Education ( $\alpha=0.853$ ), and Taxpayers with disabilities' medical conditions ( $\alpha=0.825$ ). This illustrates that all the three instruments were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Mugenda and Mugenda, 2008).

## 4.2 The impacts of the PWDs' 2003 legislative Acts on revenue collection in Kenya

Persons with disabilities Act of 2003 exempt the first 150,000/= Kenya shillings per month from taxation of persons with disabilities in Kenya. This translate to about Kenya shillings 1,800,000/= per annum leading to tax/revenue loss of about 540,000/= Kenya shillings per annum from each person living with disability in Kenya. This exemption has been criticized in the past that it is burdensome and intrusive.

**Table 4.2: Persons with Disability tax exemption report**

S/N	TAX SUPPOSED TO PAID Without PWD 2003 Act application		TAX EXEMPTION		TAX PAID AFTER PWDs 2003 ACT APPLICATION		
	GROSS TAXABLE INCOME	TAX BEFORE 2003 PWD ACT	EXEMPTED INCOME	TAX ON EXEMPTED INCOME	GROSS TAXABLE INCOME	NET TAXABLE INCOME	TAX COLLECTION AFTER EXEMPTION
	2016	2016	2016	2016	2016	2016	2016
1	2,802,576	840,773	1,800,000	540,000	2,802,576	1,002,576	300,773
2	1,250,939	375,282	1,250,939	375,282	1,250,939	0	0
3	1,949,488	584,846	1,800,000	540,000	1,949,488	149,488	44,846
4	364,734	109,420	364,734	109,420	364,734	0	0
5	414,962	124,489	414,962	124,489	414,962	0	0
6	1,279,570	383,871	1,279,570	383,871	1,279,570	0	0
7	2,245,745	673,724	1,800,000	540,000	2,245,745	445,745	133,724
8	223,619	67,086	223,619	67,086	223,619	0	0
9	5,649,639	1,694,892	1,800,000	540,000	5,649,639	3,849,639	1,154,892
10	1,799,859	539,958	1,799,859	539,958	1,799,859	0	0
11	1,319,053	395,716	1,319,053	395,716	1,319,053	0	0
12	1,800,000	540,000	1,800,000	540,000	1,800,000	0	0
13	620,381	186,114	620,381	186,114	620,381	0	0
14	2,176,247	652,874	1,800,000	540,000	2,176,247	376,247	112,874
15	3,872,223	1,161,667	1,800,000	540,000	3,872,223	2,072,223	621,667
16	197,056	59,117	197,056	59,117	197,056	0	0
17	950,763	285,229	950,763	285,229	950,763	0	0
18	163,864	49,159	163,864	49,159	163,864	0	0
19	697,469	209,241	697,469	209,241	697,469	0	0
20	4,373,911	1,312,173	1,800,000	540,000	4,373,911	2,573,911	772,173
21	1,476,859	443,058	1,476,859	443,058	1,476,859	0	0
22	1,704,350	511,305	1,704,350	511,305	1,704,350	0	0
23	1,551,721	465,516	1,551,721	465,516	1,551,721	0	0

24	3,233,513	970,054	1,800,000	540,000	3,233,513	1,433,513	430,054
25	3,071,487	921,446	1,800,000	540,000	3,071,487	1,271,487	381,446
26	2,270,568	681,170	1,800,000	540,000	2,270,568	470,568	141,170
27	2,066,970	620,091	1,800,000	540,000	2,066,970	266,970	80,091
28	1,034,954	310,486	1,034,954	310,486	1,034,954	0	0
29	2,033,652	610,096	1,800,000	540,000	2,033,652	233,652	70,096
30	979,737	293,921	979,737	293,921	979,737	0	0
31	1,298,005	389,402	1,298,005	389,402	1,298,005	0	0
32	1,702,995	510,899	1,702,995	510,899	1,702,995	0	0
33	2,314,322	694,297	1,800,000	540,000	2,314,322	514,322	154,297
34	1,832,400	549,720	1,800,000	540,000	1,832,400	32,400	9,720
35	3,065,306	919,592	1,800,000	540,000	3,065,306	1,265,306	379,592
36	997,044	299,113	997,044	299,113	997,044	0	0
37	7,461,633	2,238,490	1,800,000	540,000	7,461,633	5,661,633	1,698,490
38	5,001,916	1,500,575	1,800,000	540,000	5,001,916	3,201,916	960,575
39	2,127,329	638,199	1,800,000	540,000	2,127,329	327,329	98,199
40	1,064,980	319,494	1,064,980	319,494	1,064,980	0	0
41	1,239,013	371,704	1,239,013	371,704	1,239,013	0	0
42	1,776,000	532,800	1,776,000	532,800	1,776,000	0	0
43	1,191,947	357,584	1,191,947	357,584	1,191,947	0	0
44	4,366,154	1,309,846	1,800,000	540,000	4,366,154	2,566,154	769,846
45	1,797,422	539,227	1,797,422	539,227	1,797,422	0	0
46	1,744,581	523,374	1,744,581	523,374	1,744,581	0	0
47	1,221,821	366,546	1,221,821	366,546	1,221,821	0	0
48	3,863,451	1,159,035	1,800,000	540,000	3,863,451	2,063,451	619,035
49	1,425,310	427,593	1,425,310	427,593	1,425,310	0	0
50	1,107,402	332,221	1,107,402	332,221	1,107,402	0	0
51	1,273,830	382,149	1,273,830	382,149	1,273,830	0	0
52	833,002	249,901	833,002	249,901	833,002	0	0
53	1,483,165	444,950	1,483,165	444,950	1,483,165	0	0
54	1,432,629	429,789	1,432,629	429,789	1,432,629	0	0
55	933,052	279,916	933,052	279,916	933,052	0	0
56	1,597,258	479,177	1,597,258	479,177	1,597,258	0	0
57	1,823,500	547,050	1,800,000	540,000	1,823,500	23,500	7,050
<b>TOTALS</b>	<b>109,551,376</b>	<b>32,865,413</b>	<b>79,749,346</b>	<b>23,924,804</b>	<b>109,551,376</b>	<b>29,802,030</b>	<b>8,940,609</b>

Source: KRA data (2016/2017)

When a tax exemption is provided to persons with disability there is revenue loss in the process as noted from table 4.1 above, a tax amount of Ksh. 23,924,804 was lost in 2016 through tax exemption. Without the provision of 2003 Persons with Disability Acts on tax exemption, Ksh.

32,865,413 was to be collected from persons with disabilities. However, since the first Ksh. 150,000 per month is exempted thus reducing the amount of taxable income and in some cases making these persons with disability to pay no tax at all despite.

**Table 4.3: Descriptive statistics for Persons with Disability tax exemption**

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Tax before 2003 PWD Exemption.	57	49159.00	2238490.00	576586.26	416628.986	1.831	.316	4.225	.623
2003 PWD Exemption Tax.	57	49159.00	540000.00	419733.47	146986.833	-1.111	.316	.275	.623
After 2003 PWD Exemption.	57	.00	1698490.00	156852.81	337005.302	2.774	.316	8.342	.623
Valid N (listwise)	57								

From the findings, the tax before the application of PWDs Act of 2003 Kshs. 576,586.263, tax exempted on average was Kshs. 419,733.47 while that paid by the persons with disability during the same period was Kshs. 156,852. In addition, the standard deviation depicts a slight variation in the tax paid before, exemption and after the application of PWD's Act of 2003.

**4.2.1. Relationship between Tax paid before the provision of the PWDs Act of 2003 and Tax exemption due the application of provision of the PWDs Act of 2003**

Relationship between Tax paid before the application of PWDs Act of 2003 and Tax paid after Tax exemption provided by the PWD act of 2003. The study tested the following hypothesis:

There is a significant relationship between Tax paid before exemption the provision of the PWDs Act of 2003 and Tax exemption provided by the provisions of PWDs Act of 2003.

**Table 4.4: Paired Samples Statistics for Tax before the 2003 PWDs Act**

	Mean	N	Std. Deviation	Std. Error Mean
Tax before				
Pair 1 Exemption_	576586.2632	57	416628.98640	55183.85734
Exemption	419733.4561	57	146986.83324	19468.88167

**Table 4.5: Paired Samples Correlations for Tax before the 2003 PWDs Act**

	N	Correlation	Sig.
Pair 1 Tax before Exemption & Exemption	57	-0.666	0.001

The results indicate that the parametric Pearson correlation or “r” value is significant at 0.001 and the p-value (Sig) for the correlation coefficient is less than  $p < .05$  and thus statistically significant.

**Table 4.6: Paired Samples Test for Tax before the 2003 PWDs Act**

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 Tax_before - Exemption	156852.80	337005.30	44637.44	67433.26	246272.34	3.514	56	0.477

From the findings, the t calculated at 56 degrees of freedom at 95% confidence interval of the difference = 3.514. The critical t value is 2.03 at 95% confidence interval of the difference. Since  $p=.477$  (greater than 0.05 at 95% level of confidence), we accept the null hypothesis that there is no significant relationship between Tax collection from persons with disabilities before 2003 PWDs Act and Tax exemption provided to persons with disabilities due to the provision of the PWDs Act of 2003. Provision of tax exemption actually affect revenue collection negatively as according to the t–tests there is significance negative correlation between tax collected before the tax exemption and after the tax exemption. This clearly indicates that the provision for tax

exemption decreases revenue collection. That in essence means that the more the tax exemption provided the less revenue is collected.

#### **4.2.2 Relationship between Tax paid after the provision of the PWDs Act of 2003 and Tax paid before the provision of the PWDs Act of 2003**

The study tested the following hypothesis:

There is significant relationship between Tax paid after the application of PWDs Act of 2003 and Tax before the application of the Act.

**Table 4.7: Paired Samples Statistics of Tax paid after the 2003 Act**

	Mean	N	Std. Deviation	Std. Error Mean
Pair 2 Tax Before Exemption	576586.2632	57	416628.98640	55183.85734
Tax After Exemption	156852.8070	57	337005.30220	44637.44273

**Table 4.9: Paired Samples Correlations of Tax paid after the 2003 Act**

	N	Correlation	Sig.
Pair 2 Tax Before Exemption & Tax After Exemption	57	-0.946	0.000

The results indicate that the parametric Pearson correlation or “r” value is highly significant at -0.946 and the p-value (Sig) for the correlation coefficient is less ( $p < .05$ ) and significant.

**Table 4.8: Paired Samples Test of Tax paid after the 2003 Act**

	Paired Differences					t	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 2 Tax before exemption- Tax After Exemption	419733.45	146986.83	19468.88	380732.59	458734.31	21.559	56	.000

### 4.3 The effect of PWDs’ tax education and knowledge on legislative Act 2003 on revenue collection in Kenya.

Knowledge on persons with disability legislative act of 2003 is vital for both the taxpayers with disability and tax officer to assure an efficient and effective administration of tax exemptions for disabled in Kenya. As a result, taxpayers with disability may be able to obtain financial benefits in order to be at par with other normal citizens and other taxpayers. This enables the disabled ones to also actively participate in national development of their nation. Knowledge on PWDs legislative Act 2003 is one of the factors in management of tax exemptions is correlated to the taxpayers’ with disability ability to understand what is expected of them in terms of taxation rights, and aids the taxman in efficient management of exemptions in tax administration.

To understand the comprehensive overview of the persons with disabilities’ tax knowledge towards the tax law and how it would be affected income tax exemption management the researcher incorporated nine questions with five response classes namely, strongly disagree, disagree, uncertain, agree and strongly agree, to measure tax knowledge of respondents.

From table 4.10 below, study mean score of those that prominence of the statement, I know I should obtain KRA identification number with a mean score of 4.10 on five point Likert scale test items while Standard deviation is 2.424 was the highest. This indicated that, on the average, personal income taxpayers with disabilities have understood that they are required to be registered with the

revenue authority but still they have difficulties to understand the tax system of the country. Form the table its evident that the respodent do not have full understanding about the tax laws and guidelines about taxation and exemption of their incomes. This implies that, most persons with disabilities cannot interpret taxation laws when computing their tax liabilities but have some abilities interpret taxation laws when computing their taxes.

**Table 4.10 Descriptive Statistics of respondents' knowledge on PWDs 2003 Legislative Acts.**

<b>Variables</b>	<b>Mean</b>	<b>Std</b>	<b>Mode</b>	<b>Median</b>	<b>Skewness</b>	<b>Kurtosis</b>
Tax officers know how to handle deaf taxpayers.	2.10	1.434	2	3.00	1.072	-0.668
Tax officers know how to handle dumb taxpayers.	2.49	0.391	1	2.00	1.212	1.172
Tax officers know how to handle disabled taxpayers who do not know how to read and write.	3.56	1.357	2	2.00	-0.524	-1.461
I understand that I should request for renewal of the exempt certificates even if my disabilities is permanent	3.71	2.204	3	3.00	-0.554	-0.533
I know that tax exemption is given depending on how my disability impact on my productivity.	2.26	1.053	2	2.00	0.422	-1.022
Applications sometime take too long to be approved in head office.	2.14	1.052	1	1.00	-1.321	-1.161
I know I have to defend my documentation even after inspection and examination of my records.	1.71	1.204	3	3.00	0.264	0.413
I have to send my applications with proper contacts and the name written should be the same as the one used to register PIN.	1.36	1.251	2	2.00	-0.433	-1.013
I know I should obtain KRA identification number.	4.10	2.424	3	14.00	1.073	-0.868
I know that tax exemption is given depending on how my disability impact on my productivity.	1.49	0.390	1	1.00	1.312	1.072

I know that only the first 150,000 my actual income received from all sources is exempted per year.	1.56	0.367	2	2.00	0.514	-1.661
I am aware that because of my disability, I should apply for disability's tax exemption certificates.	2.71	1.204	3	3.00	-0.564	0.513
I know I should apply for tax exemption certificates within the stipulated time.	1.26	1.053	2	2.00	0.433	-1.033
I know I should file my tax returns on time even if I have tax exemption certificate.	2.14	1.057	1	1.00	1.321	1.161

*Source: researcher's computation (2019)*

Tax knowledge is vital to assure that the tax administration to be going inclusive. As a result, taxpayers with disability may be able to assess and fill their tax liabilities properly and also file their tax returns forms on time. Tax knowledge as one of the factors in management of tax exemptions is correlated to the taxpayers' ability to understand taxation laws, and their willingness to comply.

To understand the comprehensive overview of the persons with disabilities' tax knowledge towards the tax law and how it would be affected income tax exemption management the researcher incorporated nine questions with five response classes namely, strongly disagree, disagree, uncertain, agree and strongly agree, to measure tax knowledge of respondents.

The method of interpretation was indicated that, the frequencies of the first two classes responses were interpreted to mean the factors in the question was acceptable and indicated the taxpayer had had tax knowledge. On the other hand, the frequencies of the last two classes signify in the interpretation the factors on respondents reflection was unacceptable and interpreted the taxpayer did not had tax knowledge. The three responses class was taken uncertain.

#### **4.4 The effect of PWD's medical condition on revenue collection in Kenya**

With regards to the persons with disability medical condition in relation to income tax exemptions, Tax Trocedures Acts (TPA) 2015 requires that a thorough verification of the impacts of disability on the taxpayer's productivity by a qualified tax officer and Medical reports signed by the director of medical services as proof of their disability. However, verification of how the disability impacts on the taxpayer's productivity by the tax officer is difficult with a mean score of 3.71 on five point likert scale test items while Standard deviation is 1.204. This indicated that, the productivity of taxpayers with disabilities is not easy to measure thus an hinderance to effecient and effective management of tax exemptions in the country. Furthet, medical report processing from the ministry and verification of thier authenticity by the tax officer has long beaurocratic processess that sometimes may discourage taxpayers with disability from enjoying their taxation rights. In some cases, taxpayers' disabilities seem more of conditions than disabilities, but with approved medical reports tax officers not able to question. Table 4.11 below shows summary descriptive of respondents' medical condition.

**Table 4.11 Descriptive Statistics of respondents' Medical condition.**

<b>Variables</b>	<b>Mean</b>	<b>Std</b>	<b>Mode</b>	<b>Median</b>	<b>Skewness</b>	<b>Kurtosis</b>
Medical reports take too long at the Ministry to be signed.	2.14	1.057	1	1.00	1.321	-1.161
Verification of the authenticity of medical reports provided is difficult because some are signed on behalf the director of medical services.	1.49	0.390	1	1.00	1.312	1.072
Some taxpayers' disabilities seem more of conditions than disabilities, but with approved medical reports officers not able to question.	1.56	0.367	2	2.00	0.514	-1.661
Verification of how the disability impacts on the taxpayer's productivity by the tax officer is difficult.	3.71	1.204	3	3.00	-0.564	0.513
The process of obtaining the certificates is too long and tedious.	1.26	1.053	2	2.00	0.433	-1.033

*Source: researcher's computation (2019)*

#### **4.5 Summary Descriptive Statistics**

The descriptive statistic considered was mean and standard deviation. Persons with disabilities Tax knowledge and education showed a mean of 2.5141 with a standard deviation of 0.0193. This implies that taxpayers with disability are barely tax educated. Persons with disabilities' knowledge and education on 2003 Acts legislation had a mean of 3.5141 with a standard deviation of 0.1899 indicating that knowledge on PWDs Acts of 2003 is high for the taxpayers with disability. Persons with disabilities' medical condition had a mean of 1.25 with a standard deviation of 0.364. The result shows that persons with disabilities are not informed and educated on the tax matters. The results is shown in tabe 4.12 below.

**Table 4.12 Summary Descriptive Statistics results for independent variables.**

Variable	PWDs' Tax education	PWDs' knowledge on 2003 Acts Legislation	PWDs' Medical Condition
Mean	2.5141	3.5141	1.25
Median	4.95	5.22	2.68
Minimum	3.51	2.54	1.16
Maximum	1.74	1.411	7.87
Std. Dev.	0.0193	0.1899	0.364

Source: researcher's computation (2019)

#### 4.6 Correlation Analysis

The study sought to establish the impact of the Persons with disabilities Act 2003 on income tax revenue mobilization. Pearson Correlation analysis was used to achieve this end at 95% confidence levels. Th summary of the finding is as shown in table 4.13

**Table 4.13 Correlation Analysis**

		PWDs Income tax collection	PWDs' Tax education	PWDs' knowledge on 2003 Acts Legislation	PWDs' Medical Condition
PWDs Income tax collection	Pearson Correlation	1	0.634	0.509	-0.486
	Sig. (2-tailed)	0.000	0.000	0.000	0.000
	N	57	57	57	57
PWDs' Tax education	Pearson Correlation	0.634	1	0.402**	0.496**
	Sig. (2-tailed)	0.000	0.000	0.000	0.000
	N	57	57	57	57
PWDs' knowledge on 2003 Acts Legislation	Pearson Correlation	0.509	0.402**	1	0.376**
	Sig. (2-tailed)	0.000	0.000	0.000	0.000
	N	57	57	57	57
PWDs' Medical Condition	Pearson Correlation	-0.486	0.496**	0.376**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000
	N	57	57	57	57

Source: researcher's computation (2019).

The results provided in table 4.6 above, Correlation analysis showed that, there was a strong positive correlation between income tax revenue mobilization and PWDs' Tax education which was statistically significant ( $r = .634, n = 57, p < .0005$ ). Also results in Table 4.5 above showed that, there was a strong positive correlation between income tax revenue mobilization and PWDs' knowledge on 2003 Acts Legislation, which was statistically significant ( $r = .509, n = 57, p < .0005$ ). However, there was also a moderate negative correlation between revenue mobilization and PWDs' Medical Condition, which was statistically significant ( $r = -0.486, n=57, p<0.0005$ ). Further analysis was done using Multiple regression analysis in order to determine relationship and magnitude of relationship between Income tax Exemption management and three factors namely PWDs' Tax education, PWDs' knowledge on 2003 Acts Legislation and PWDs' Medical Condition as it is described in three tables below:

#### 4.7 Regression Analysis

##### 4.7.1 Model Summary

R-square values present the strength of the relationship between Income tax revenue from person with disability and independent variables. From the adjusted determination coefficients, generally moderately strong linear relationships were established between dependent and independent variables. Adjusted R-square value 0.699 was established. Their R-squared value of 0.743 was established and this implies that 74.3 % of the variation in dependent variable is attributed to the changes in the independent variables.

**Table 4.16 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.686	.743	.699	.13828	1.879
a. Predictors: (Constant), Tax education, knowledge on legislation, medical condition.					

Author: Research Findings (2019)

### 4.7.2 Analysis of Variance

Analysis of Variance's (ANOVA) F-test was used to make simultaneous comparisons between two or more means; thus, testing whether a significant relation exists between variables (dependent and independent variables); thus, helping in bringing out the significance of the regression model. Since the value ( $p=0.038$ ) were below 0.05, it can be concluded that the regression models were significant

**Table 4.17 ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.290	1	.048	2.2857	.038
	Residual	.419	56	.021		
	Total	.708	57			
a. Dependent Variable: PWDs Income tax collection						
b. Predictors: (Constant), Tax education, knowledge on legislation, medical condition.						

Author :Research Findings (2019)

The results provided in table 4.8 ANOVA above showed that overall, the model applied in this study can statistically significantly predict the outcome variable of relationship between dependent variable "Income tax revenue mobilization" and predictors "PWDs' Tax education, PWDs' knowledge on legislation and PWDs' medical condition" to a large extent as demonstrated by p-value less than 0.05 in a ANOVA table.

### 4.7.3 Regression Coefficients

**Table 4.18 Regression coefficients.**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.421	1.247		.347	.03251
PWDs' tax education	.002	.001	.347	-2.797	.011584
PWDs' Medical Condition	.009	.055	-.044	-.170	.025605
PWDs' Knowledge on 2003 Acts Legislation	.050	.103 40	.062	.475	.030541

a. Dependent Variable: PWDs Income tax Exemption

b. Independent variables: PWDs' tax education, PWDs' Medical Condition and PWDs' knowledge on 2003 Acts Legislation.

All the explanatory variables are statistically significant at 5% level of significance in explaining the variation in model.  $ITM = 0.421 + 0.347 \text{ PWDs' tax education} - 0.044 \text{ PWDs' Medical Condition} + 0.062 \text{ PWDs' Knowledge on 2003 Acts Legislation}$

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter covers various sections including the summary of the study, the conclusion and the limitations of the study. The chapter will also cover recommendations for further research as well as implications for policy and practice.

#### **5.2 Summary of the study.**

The study objective sought to investigate the effect of the Persons with disabilities Act 2003 on Income tax revenue collection among taxpayers with disability. The study finding established that the study variables, PWDs' tax education, PWDs' Medical Condition and PWDs' knowledge on 2003 Acts Legislation indeed have an effect on taxations of persons with disability. These findings are in line with (Sandford, Godwin and Hardwick, 1989), studies in United Kingdom (UK) in the 1970s and 1980s.

Their findings established that lack of taxpayers with disabilities' education and knowledge on tax matters and their right enshrined in the person with disability act 2003 hinders the effective management of personal income tax exemptions and other tax exemption management. This finding concludes that taxpayers will create a kind of resentment against authorities with too complex tax systems. In addition, because of the complexity of the system, the taxpayers often need to rely on external tax professionals who by means of sophisticated tax avoidance engineering will minimize tax payments.

The study findings established that there is a positive influence of knowledge on income tax revenue collection. This knowledge is related to the taxpayers' ability to understand taxation laws,

and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations. The study found out that in general, taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government .

The study recommended that iTax systems requires taxpayers to understand all the laws and regulations that govern taxation. This is necessary because taxpayers with disabilities will have to calculate themselves the amount of tax they need to pay and exempted income and make the necessary payment. These study findings are in line with studies done by Mohani, (2001) which affirms that taxpayers will accept and comply with the tax laws and system, if they have ample knowledge to understand the system. Thus, education programs organized by the tax authority or other public education institutions are needed to enhance taxpayers' with disability ability to understand Self-assessment system and to increase their confidence in fulfilling their responsibilities as taxpayers. More, their study established that greater education is directly linked to a likelihood of effective tax management.

### **5.3 Conclusion**

This research project was conducted in order to investigate the Impact of the Persons with disabilities Act 2003 on Income tax Exemption management among taxpayers with disability in kenya. Based on the findings of this research, this research concludes that, effective and effecient management of personal income tax exemptions for taxpayers with disability can be achieved through educating persons with disability on tax matters and the PWDs Acts of 2003. This will enables them to know what is expected of them with regards to tax exemption in kenya. This is in line with KRA mission of fostering and facilitating the taxpayers for enhanced compliance with the

tax laws. Many documentation requirement and long beaurocratic process too cannot be ignored. It is further concluded that Government should pay attention to the factors such as tax education and medical requirements that presents difficult huddles in management of the persons with disabilities exepmtions in kenya.

### **5.3.1 The impacts of the PWDs' 2003 legislative Acts on revenue collection in Kenya.**

Persons with disabilities (PWDs) are exempted from paying taxes on the first Kenya shillings 1,800,000 per annum on their income translating to tax/revenue loss of approximately Kenya shillings 540,000 per annum from each person leaving with disability in Kenya. A clear sign that it is burdensome and intrusive. The provision of tax exemption actually affect revenue collection negatively as according to the t-tests there is significance negative correlation between tax collected before the tax exemption and after the tax exemption. This clearly indicates that the provision for tax exemption decreases revenue collection. That in essence means that the more the tax exemption provided the less revenue is collected.

### **5.3.2 The effect of PWDs' tax education and knowledge on legislative Act 2003 on revenue collection in Kenya.**

Tax knowledge is vital to assure that the tax administration to be going inclusive. The finding established that Knowledge on persons with disability legislative act of 2003 is vital for both the taxpayers with disability and tax officer to assure an effecient and effective administration of tax exemptions for disbled in kenya. Its evident from the finding that averagely, personal income taxpayers with disabilities understand that they are required to registerd with the revenue authority but still they have difficulties to understand the tax system of the country. This implies that, most persons with disabilities cannot interpret taxation laws when computing their tax liabilities but have some abilities interpret taxation laws when computing their taxes.

The level of education received by taxpayers is an important factor that contributes to their understanding of tax responsibilities, especially regarding registration and filing requirements notwithstanding knowledge on PWDs act of 2003. Time taken to process the necessary documentation such as duly signed medical reports and verification of the reports by the tax officers, are positively correlated with bad and ineffective exemption management behaviour and thus negatively correlated with efficient income tax exemption management behaviour for persons with disability. Obtaining a tax exemption certificate is the highest motivation for persons with disability in Kenya.

### **5.3.3 The effect of PWD's medical condition on revenue collection in Kenya**

Tax Procedures Acts (TPA) 2015 requires that a thorough verification of the disability impacts on the taxpayer's productivity by a qualified tax officer and Medical reports signed by the director of medical services as proof of their disability. It's evident from the findings that medical report processing from the ministry of health and verification of their authenticity by the tax officer has long bureaucratic processes that sometimes discourage taxpayers with disability from enjoying their taxation rights. In some cases, taxpayers' disabilities seem more of conditions than disabilities, but with approved medical reports tax officers not able to question.

### **5.4 Recommendation**

In the light of the major findings of this study and the above conclusion, the following recommendations are suggested:

Tax knowledge has significant impact on tax exemptions management, there should be continual training of tax payers with disability in order ensure that they are aware and practice tax laws put in place. This way, management of income tax exemptions will be efficient and effective.

Tax officers at all level should aim to improve their knowledge on persons with disability acts

2003, and devise effective ways of verification of the authenticity of records brought to the by the taxpayers with disability for effective and efficiency in tax exemption administration in order to improve income tax exemptions management for persons with disabiliy.

The tax policy should be clear and understandable in such a way that will insure proper submission of accurate and current documents and return for proper documentation and computation.

### **5.5 Recommendations for Further Research**

As a result of the above mentioned limitations the researcher identified the following areas as areas of further researcher. It will be necessary for a study to be carried out on cost benefits analysis of tax exemptions in Kenya to establish whether the taxpayers really get the value from this exemption.

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