

**CHALLENGES FACING VALUE ADDED TAX REFUNDS
PAYMENT PROCESS BY KENYA REVENUE AUTHORITY**

BY

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TECHNOLOGY**

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DECLARATION

DECLARATION

This research project is my original work and has not been presented for examination in any other learning institution.

Signature.....

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Date.....

HDB336-C016-1906/2016

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

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DEDICATION

I dedicate this research project to my family who encouraged me to pursue the program in spite of many challenges. To my Spouse and my three loving daughters, you have been a great source of motivation and inspiration. Thank you so much.

To my parents Mr. and Mrs. Mohamed Osman, whose struggle has seen me through my education challenges, I extend my heartfelt appreciation.

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May God bless you all!

ABSTRACT

Delay in VAT refunds payment has led to businessmen and traders accuse KRA of being quick to collect tax, but slow in refunding. In recent past KRA has put in place several measures to ensure that VAT refunds are timely processed and paid. These include staff training, introduction of tax audit, information technology, compliance checks, legislation and compliance laws. These measures are geared towards accelerating VAT refund processes. However, this has not been the case, and majority of taxpayers have to wait for upto three years before receiving tax refunds. The objective of the study was to establish the perceived challenges facing Value Added Tax (VAT) refunds payment process by Kenya Revenue Authority with an aim of establishing administrative impediments facing the process. The study used both qualitative and quantitative research methods to collect and analyze data. Structured questionnaire was administered to collect primary data from a population of 200 employees of Kenya Revenue Authority in the Domestic Taxes Department, Refund section. Ethical consideration was adhered to when collecting data from respondents. The study found that the further improvements are required in the area of increasing VAT refund administration capacity with an aim of increasing timely refund application, processing and payment. The Tax Authority needs to pay attention to taxpayer education, VAT refund compliance and timely audits. Finally, there is the need to recruit more staff and embark on training of newly engaged staff.

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Acronyms and Abbreviations

DR	Domestic Revenue
DTD	Domestic Taxes Department
ETF	Electronic Funds Transfer
ETR	Electronic Tax Register
ITD	International Tax Dialogue
KAM	Kenya Association of Manufacturers
KRA	Kenya Revenue Authority
LTO	Large Taxpayer Office
R & CP	Research and Corporate Planning
SPSS	Statistical Package for the Social Science
TI	Transparency International
VAT	Value Added Tax

Definitions of Terms

Value Added Tax (VAT): A generalized tax on the gross income of a business less purchases from other firms. In other words, it is an end consumer sales tax paid on almost all goods and services in the country (Osoro, 1993).

VAT refund: This is VAT revenue paid to taxpayers in excess of due to tax agency; KRA settles tax refunds on a first in first out basis after all returns has been subjected to an taxpayers' VAT audit (Income Tax Act of CAP 470).

Self-assessment system: An income system which requires taxpayers to calculate their own taxes on their income tax forms and pay the tax so calculated without the tax authority having to raise the assessment (Income Tax Act of CAP 470).

Tax: A compulsory levy on individuals and organizations made by the Government to raise revenue for financing public goods and services (Chossen, 2003).

Tax compliance: The willingness to act within the spirit and letter of a tax law and administration without the use of enforcement (Bjork, 2003).

CHAPTER ONE: INTRODUCTION

1.1 Introduction

Value added tax, referred to simply as VAT, is a cumulative consumer tax on the supply of goods and services by way of business and also on the importation of goods and services whether by way of business or otherwise (Nyamuga, 2001). Furthermore, it is a multi-stage tax collected, in the case of goods, at all stages in their passage from raw material to the finished products throughout the chain. This is from the primary producer, manufacturer, wholesaler, retailer and eventually the final consumer, who is the general public upon whom the entire burden of this tax falls. In the case of services it is chargeable when the service is rendered. According to Hinricks (1966) VAT is charged for the supply of all goods and services in Kenya in the course of furtherance of a business and on the importation of all goods and services into Kenya.

Kenya had its first experience of VAT in 1990/1991 fiscal year, replacing the sales tax due to rapid expansion of the economy (Nyamuga, 2001). The introduction of VAT was motivated by the argument that relative to sales tax, it had a higher potential, and that its collection and administration were more economical, efficient and expedient (Prest, 1995). In that period, VAT growth improved slightly for the first few years before peaking at around 44 percent in the 1993/4 fiscal year. Then there was drastic fall to about 31% in 1994/5 before recovery to around 38% in the following years. But this recovery could not be sustained (Muriithi and Moyi, 2003). Even though the decline was reversed, growth did not return to the level of its initial phase. Low growth does seem to indicate the possibility of a structural problem that the tax reforms may have failed to address (Wagacha, 1999). Hinricks (1966) found

that lack of skills and facilities for VAT administration could hamper its collection, and thus it depends on tax payers' compliance and the efficiency of the tax collector.

Value Added Tax has become a vital source of revenue in the country and it is basically a self assessed indirect tax which is simple and clear with stable tax laws. Its administration is straight forward, simple, with adequate service and support to taxpayers for registration, filing returns and refunds, effective collection enforcement, reasonable audit coverage, strict application of penalty and provision for independent review. The tax was perceived as the tax of the future in line with the country's objective of reducing reliance on direct taxes, as well as diminishing the role of other taxes (Nyamunga, 2001).

Table 1.2 shows the VAT revenue from 2007 to 2015. This revenue has been on the increase from 72.7 Billion in 2007 to 128.6 Billion in 2015 (KRA 5th Corporate Plan).

Table 1.1: VAT Revenue 2007-2015

YEAR	2007	2008	2009	2010	2011	2012	2013	2014	2015
The amount expressed in Billions (Kshs.)									
VAT									
Collected	72.7	78.3	81.2	82.9	86.7	94.6	96.3	111.9	128.6

Source: KRA (2017)

The proportion of actual VAT revenue to potential revenue in Kenya increased from 55% in 2007 to 58% in 2015. The VAT potential in Kenya has been greatly eroded by increased refunds arising from zero rating, Capital Investments and remissions. The VAT refund section is faced with increasing volume of refunds backlog which it has

to control within the mandate given by the government and to the expectation of the society.

1.2 VAT Payment and Refunds Process

VAT is a tax on consumer expenditure. According to Chen, M. (2005) VAT is an indirect tax charged on supply or importation of goods and services in Kenya, except those specifically exempt under the VAT Act. It was introduced as a measure to increase government revenue through the expansion of the tax base. VAT is levied at either the zero rate (0%) or the current general rate of 16% on the taxable value of supplies. It is payable by the 20th day of the month following the period of charge. A monthly VAT return (VAT 3) should be submitted together with the payment showing details of input and output tax separately (www.kra.go.ke).

The Domestic Taxes Department of KRA, which administers VAT, issues registration certificates to traders who are eligible for registration (KRA, 2008). Any person who in the course of his business has supplied, or expects to supply taxable goods or services or both with a value of Kshs 5 million or more in a period of 12 months should apply for registration. Suppliers with turnover of less than Kshs 5 million in a period of 12 months are required to pay Turnover Tax according to the Turnover rules. In the 2007 Finance Act, VAT on rent for commercial buildings was reintroduced.

If VAT revenue paid taxpayers is in excess of due to tax agency, then a taxpayer is supposed to apply for refund from the revenue agency. KRA settles tax refunds on a first in first out basis after all returns has been subjected to taxpayers' VAT audit.

According to Nyamuga, (2001) VAT refund process has several procedures that take approximately 3 days and costs a minimum of Kshs 900, and involve physically visiting KRA headquarters at Times Tower, Nairobi. The, taxpayers can wait up to maximum of three years before KRA undertakes taxpayers VAT audit. Further, there are more delays before the audit process is undertaken and VAT refund due paid.

1.3 Statement of the Problem

It is estimated that Kshs.6 billion is lying idle at KRA as VAT refunds owing to the red tapes in processing the refunds (KAM, 2008). Delay in VAT refunds payment has led to businessmen and traders accuse KRA of being quick to collect tax, but slow in refunding. According to KAM (2008) this has expose firms to liquidity constraints.

Taxpayers complain that VAT refunds process is long. This is despite an agreement between Treasury and Kenya Revenue Authority (KRA) to pay firms before auditing their tax return records. Both institutions formulated a framework that will see companies rated based on their tax payment compliance history, with those perceived to be low risk receiving refunds within 60 days to 90 days. "Companies will be classified as high (red), medium (amber) and low risk (green), with the low risk firms receiving refunds before returns are audited," said KRA (2008). Further, the tax agency said companies with a history of non-compliance were not to enjoy the new incentive and has to continue to wait for their records to be audited before receiving the refunds. Speedy refunds, analysts said, can result into increased liquidity among companies, as money previously tied up at KRA would be available as capital for business activities. However, this has not been the case, and majority of taxpayers has to wait for more than three years before receiving tax refunds.

Before the new incentive, KRA settled tax refunds on a first in first out basis and all returns were subjected to an audit before approval. Further, in the recent past KRA has put in place several measures to ensure that more VAT refunds are timely processed and paid. These include staff training, adequacy and motivation, introduction of tax audit and information technology, compliance checks, legislation and compliance laws. However, the impact of these measures on accelerating VAT refund processes has not been carried out.

Therefore there is need to find challenges facing VAT refunds process. According to various sources accessible, no such study has been conducted in Kenya. Existing studies have researched on VAT productivity by estimating its elasticity and buoyancy (Auriol and Warlters, 2005; Thirsk, 1995; Keen and Mintz, 2004; Musgrave, 1998). Others have focused on, tax administration (Keen *et al*, 2001; Chen, 2005; Hines, 2004). Studies on VAT carried out in Kenya includes implication of tax reforms (Osoro, 1993); tax reform and revenue mobilization in Kenya (Muriithi and Moyi, 2003) and the most recent study by Karingi *et al* (2005) focused on tax reform experience in Kenya. This study aims at filling this gap.

The purpose of this study is to determine perceived challenges facing VAT refunds payment processing at Kenya Revenue Authority (KRA).

1.4 Significance of the study

The findings of the study are useful to the KRA administration in taking structural reform measures, automate and modernize the VAT refund process, modify VAT

refund section and other related VAT legislation. It also forms a basis for simplifying and harmonizing regulatory processes among the various governments' regulatory agencies.

The findings also assist the Kenya Revenue Authority in reallocation or redeployment of staff and other resources for optimal utilization, in resolving difficulties with VAT refund process and other public institutions involved in the similar process.

The findings are crucial to the taxpayers who have to wait for long before being paid their money back by Kenya Revenue Authority. This will address their illiquidity problems.

The Government will benefit from findings of the study, as it can use the findings in implementation of the trade facilitation measures by reducing the cost of doing business in Kenya and thereby attracting foreign direct investment into the country as part of its agenda in achieving the Vision 2030. All this will create a good business environment.

1.5 Objectives of the study

1.5.1 General objective

The main objective of this study is to determine perceived challenges facing VAT refunds payment processing at Kenya Revenue Authority (KRA).

1.5.2 Specific objectives

- i. Establish the extent audit and compliance checks influence VAT refunds,

- ii. Examine how VAT legislation contributes to VAT refunds,
- iii. Determine the extent to which the role of information technology affects VAT processing refunds, and
- iv. Investigate how staff training and adequacy affect VAT refunds.

1.6 Research questions

This study answered the following questions:

- i. How do audit and compliance checks influence VAT refunds?
- ii. How does VAT legislation influence VAT refunds?
- iii. To what extent does the role of information technology affect VAT refunds?
- iv. To what extent does staff training and adequacy affect VAT refunds?

1.7 The Scope of the study

The study focuses on perceived challenges facing VAT refund Payment process by Kenya Revenue Authority (KRA). The Domestic Taxes Department (DTD) is mandated to administer the provisions of the Value Added Tax Act Cap 476 of the Laws of Kenya, hence will be the area of interest. A simple survey targeted at the staffs of Domestic Taxes Department (DTD), VAT refund section will be carried out. Issues relating to VAT audit and compliance checks as well as VAT refund process will be examined.

1.8 Limitations of the study

In pursuit of this study, several limitations envisioned. First, is the cost in terms of time, effort and finances to carry out an extensive and exhaustive research. Second, due to nature of Kenya Revenue Authority functions, in some cases it was difficult to

obtain accurate information because of fear of appraising/victimization on the part of the respondents. However, with assurance of confidentiality of the information obtained, this problem was minimized. Lastly, the study was qualitative, relying on staff perceptions and views on the subject; the quality of data depends on them. There were data inconsistencies as the study relied on data from different secondary sources. However great care was exercised to ensure the data was reliable in estimating the model. This was done by ensuring that data to measure one variable was obtained from one single source for the entire period under study, and using ratios for consistency.

1.9 Chapter Summary

The chapter one outlines the background of the study which supports the problem under investigation. Then research objective, the research questions, the importance and scope of the research are given. This study determines perceived challenges facing VAT refund process payment by Kenya Revenue Authority (KRA).

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter gives an overview of VAT in Kenya. It outlines VAT process of paying VAT starting from registration, computation, Audit and then outlines factors that affect timely payment of VAT refunds. Factors such as staff training, adequacy, audit and compliance checks, information technology and VAT legislation are reviewed. It then gives an overview of the literature showing the research gap to be filled. Lastly, the conceptual framework of the study is provided.

2.2 Theoretical Review

Classical taxation theory was for a long time of greatest significance. According to this theory, the most important role of taxation was that of providing state revenues. The classical theory was founded by Adam Smith. In his book ‘An Inquiry into the Nature and Causes of the Wealth of Nations’ Adam Smith defined the taxation system, specifying the major circumstances for its foundation and proposing four main taxation principles namely: equity, determination, convenience and thrift of taxation administration. His work was later on advanced by D. Ricardo and J Mills. Proponents of the classical theory of taxation argued that the realization of taxation’s main role of provision of state revenue could only be achieved on the basis of the principles of equity and justice. However, as economic relations became a bit complicated prompting the need for stringent state’s regulation, classical theory views on the role of taxation changed in the course of many decades. Consequently, different taxation theories were developed, which had the most important effect on the taxation policy of the countries with advanced market economy.

Keynesian taxation theory was introduced by John Keynes in his book “The General Theory of Employment, Interest and Money,” in which he advocated for state interventions in the processes of market economy regulation. Keynes was of the view that fast economic development must be grounded on a market expansion and an accompanying increase in consumption. Therefore, state intervention is attained at the level of effective demand. A major assumption in Keynes theory is that economic growth is correlated to monetary savings only in the situations of full-employment. On the other hand, too much saving hamper economic development as they lead to an inactive form of income and are not invested in production. Subsequently, Keynes proposed that surplus savings must be deducted with the assistance of taxation. The state must therefore intervene with the intention of deducting income savings with the assistance of taxation in order to fund investments and cover state expenses. Keynes further contended that high level progressive taxation is essential and that low tax rates lead to reduced state revenues and as a result contributes to economic instability.

However, Keynes theory was later on challenged by the neo-classical theory, developed by J.Mutt and A Laffere, which is of the view that the state is obliged to eliminate impediments to free market competition since the market can and must regulate itself devoid of external intervention. Consequently, neo-classical theory differs from the Keynesian one and gives a moderately passive role to state regulation of economic processes. Neo-classical theory proposed that a tax policy ought to be established on the following assumptions: taxes must be as small as possible and corporations should be granted significant tax exemptions. If not, a high tax burden would deter economic activity and restraint the investment policies of corporations, this would lead to stagnation in economic development. The theory argues that a

controlled taxation policy would let the market to provide freely for fast development and result to substantial expansion of the tax base. Arthur Laffer advanced neo-classical taxation theory by establishing a quantitative relationship between progressive taxation and budget revenues, and developed the widely known “Laffer curve.” According to Laffer, an increase in the tax burden leads to an increase in state revenues only up to a level, where they start to decrease. The higher the tax rate, the higher the motivation for tax evasion. When the tax rate reaches a certain limit, entrepreneurship incentives are suppressed, the motivations for production expansion are reduced, taxable income decreases, and as a result, a part of the taxpayers will transfer from the legal to the shadow sector of the economy. Laffer considered that 30% of income is the maximum taxation rate that can be deducted for state budget purposes.

2.3 Empirical Literature Review

Bovenberg (1987) and Giesecke and Nhi (2010) have examined the impact of the various VAT systems in a given economy. They discuss the possibility of moving away from a uniform taxation rate by multiplying rates and the possibility to exempt goods. The key variables in the analysis are consumption, sectorial factor reallocation, production, government revenue, and household welfare. Emini (2000) showed that by postulating budget neutrality with a lower level of taxation than the one set down in the finance act, reestablishing VAT neutrality by expanding the tax base enables economic expansion and an increase in household welfare compared to the initial situation. An increase in inequalities¹⁶ between household categories must nonetheless be noted. When Emini rejects the hypothesis of budget neutrality and re-establishes the VAT at the official rate, he shows that the sudden increase in VAT

leads to a strong loss in reallocation, especially for sectors with a weak ex ante tax burden. In this context, household welfare decreases, as inequalities.

VAT is a consumption tax charged on both local sales and importation of taxable goods and taxable services. VAT is paid by Consumers of taxable goods and taxable services. It is collected by registered taxpayers (traders) who act as the agents of the Government (Muriithi, M and Moyi, E. 2003). Both reported that VAT on imported goods is collected by VAT is a consumption tax charged on both local sales and importation of taxable goods and taxable services. VAT is paid by Consumers of taxable goods and taxable services. It is collected by registered taxpayers (traders) who act as the agents of the Government (Muriithi, M and Moyi, E. 2003). Both reported that VAT on imported goods is collected by the Commissioner of Customs Services Department while local VAT and that on imported services is paid to the Commissioner of Domestic Taxes.

Osoro (1991) observed that increasing expenditure requirements in the 1980s forced developing countries to undertake tax reforms, of which, most of these reforms focused on tax structure rather than on tax administration geared towards generating more revenue from existing tax sources. According to OECD (2010), a growing number of countries that operate a VAT are considering fundamental reforms to increase their revenue raising capacity and to addressing efficiencies of the current system.

According to Bird and Wallace (2004) VAT revenue collection implies the increase in performance of VAT revenue. They indicated that this can be measured either by the

VAT productivity or the VAT efficiency. On the other hand, “VAT productivity”, simply means the ratio of VAT revenues to GDP divided by the standard rate of the VAT. On the other hand “VAT efficiency”, sometimes called “C- efficiency,” is the ratio of VAT revenues as a percentage of and services divided by the standard rate, so it has a unit value for a uniform tax on all consumption. This is the most reliable VAT performance measure and hence appropriately used to explain VAT growth. Therefore, this implies that all those factors that affect VAT efficiency influence its growth (Bird and Wallace, 2004).

Bird (1995) studied problems affecting VAT collection. He identified one such problem as the existence of a gap between the institutional requirements for good VAT administration and the real fiscal institutions that exist in the country. In addition, he termed VAT as “self-assessed” tax, though he identified prior conditions that need to be satisfied before a basically self-assessed tax can be successfully implemented. These conditions include: simple, clear, stable tax laws; adequate service and support to taxpayers in complying with tax obligations; simple procedures for registration, filing, payment and refund; effective collection enforcement; reasonable audit coverage; strict application of penalties; and provision for independent review. Unfortunately many developing countries do not satisfy all (or even most) of these conditions. “In the circumstances, VAT as actually implemented is often more difficult than tax as set in law, let alone “ideal” VAT”, he said (Bird, 1995).

2.3.1 VAT Payment Process and Requirements

Muriithi, M and Moyi, E. 2003 summarizes the VAT payment processes requirements as follows; Both reported that VAT on imported goods is collected by the Commissioner of Customs Services Department while local VAT and that on imported services is paid to the Commissioner of Domestic Taxes.

- 1) A registered person for purpose of VAT is a person who is obliged to charge VAT on all taxable supplies made by him. A registered person is one who has supplied or expects to supply in the course of his business taxable supplies exceeding the value of Shs. 5 million in a twelve month period.
- 2) Prior to June 2007, for designated goods and services the suppliers were required to registered for VAT irrespective of whether or not the exceeded the Shs. 5 million thresholds, however, the requirement has been removed.
- 3) A registered person should file VAT 3 i.e. monthly return by the 20th day of the month following the tax period. Where the 20th day falls either on a weekend or a public holiday, the return must be submitted on the last working day prior to the weekend or public holiday.
- 4) The return must always be submitted whether there is tax payable or not. Failure to submit a return, late filing or submission of payment returns without payment of the tax due is liable to a default fine of Shs. 10,000 or 5% of the tax due, whichever is the higher. An additional compounded interest of 2% per month is also levied on the tax due.

5) As per the VAT regulations, the VAT Registration Certificate must be displayed in a prominent place on the business premises. Where there is more than one place of business, certified copies of the Certificate must be displayed at each premise. Copies may be certified by the Commissioner. Failure to do this attracts a default penalty of Shs. 20,000 and a fine of up to Shs. 200,000 and/or imprisonment for up to two years.

A registered person should issue his clients with a tax invoice which should have the following details (KRA, 2008):

- ✓ The name, address, PIN and VAT registration number of the supplier
- ✓ The serial number of the invoice
- ✓ The date of the invoice
- ✓ The date of supply, if different from the date of the invoice
- ✓ The name, address, PIN and VAT registration number of the person to whom he supply was made, if this is known to the supplier
- ✓ The taxable value of the supply, if different from the price charged
- ✓ The rate and amount of tax charged on each of the supply
- ✓ Details of whether the supply is a cash or credit sale, and details of cash or discount, if any
- ✓ The total value of the supply and the total amount of VAT charged
- ✓ A logo unique to the business, if available
- ✓ The unique identification number of the electronic tax register, printer or special secure fiscal device for record signing.

Effective 16th June 2006, a tax invoice issued under the VAT Act should be serially numbered and either generated through an ESD or attached to an ETR receipt containing details of the transaction. As per the VAT regulations, input VAT can only be claimed on an original tax invoice from a supplier. Therefore, one can only claim the input VAT if one is possession of an original supplier's tax invoice reflecting details as enumerated above. A VAT control account should be maintained in the ledger showing totals of the output tax and input tax in each period and the tax payable or refundable. Apart from being a legal requirement, this provides an additional financial control to aid in detection of any error. The VAT control account should be reconciled monthly with the VAT return and where differences arise, these should be immediately investigated and reconciled. The VAT payable/ claimable per month is usually the difference between the Output VAT and the Input VAT. Output VAT refers to the VAT charged by the company to its clients, while Input VAT is the VAT charged to the company by its suppliers.

VAT Rates is 16% or 0%. 16% is the general rate of tax applicable to all taxable goods and services other than those that are Zero rated, and 0%: this applies to certain categories of goods and services, which include exports, agricultural inputs, pharmaceuticals and supplies to privileged persons. The purpose of zero rating is to make the supplies cheaper as dealers in these goods and services can claim input tax incurred in the course of their business. Zero rated supplies are taxable supplies but since the rate of tax is 0%, output tax is charged at 0%.

2.3.2 VAT Audit

The Kenya Government has in the recent few years shifted emphasis of taxation from direct to indirect taxation (Chen, 2005). VAT has therefore, grown to be one of the major revenue earners for the government. During the same period the Kenya Revenue Authority has also embarked on extensive audit procedures for taxpayers as part of their tax modernisation programmes whose emphasis has again been shifted to VAT. Unlike Income Tax audits where they usually audit two consecutive years and then may give you a breather for three to four years, VAT audits are done on a continuous basis. According to Chen (2005) the subsequent audit will therefore pick up from where the previous audit ended. The audit will usually focus on:

- Compliance with VAT laws and regulations
- Assessment of VAT not correctly charged.
- Disallowance of input tax incorrectly claimed.
- Identification of other offenses and errors.
- Levying of penalties and interest for the defaults and errors.
- Educating taxpayers thereby ensuring better compliance in future.

Additional circumstances triggering VAT Audits: Whilst most taxpayers will be subjected to annual or bi-annual VAT audits, the following circumstances can trigger an audit as well: Audit of related companies, Sales in accounts different from VAT 3 figures, Imported goods figures not tallying with customs records, Persistent refunds for non-export entities, Information from competitors, employees, etc, Persistent late submission of returns and Transactions requiring PIN (Karingi et al, 2005). Once the audit has been completed, and if taxpayer has paid more the tax liable, then a refund is applied by the taxpayer.

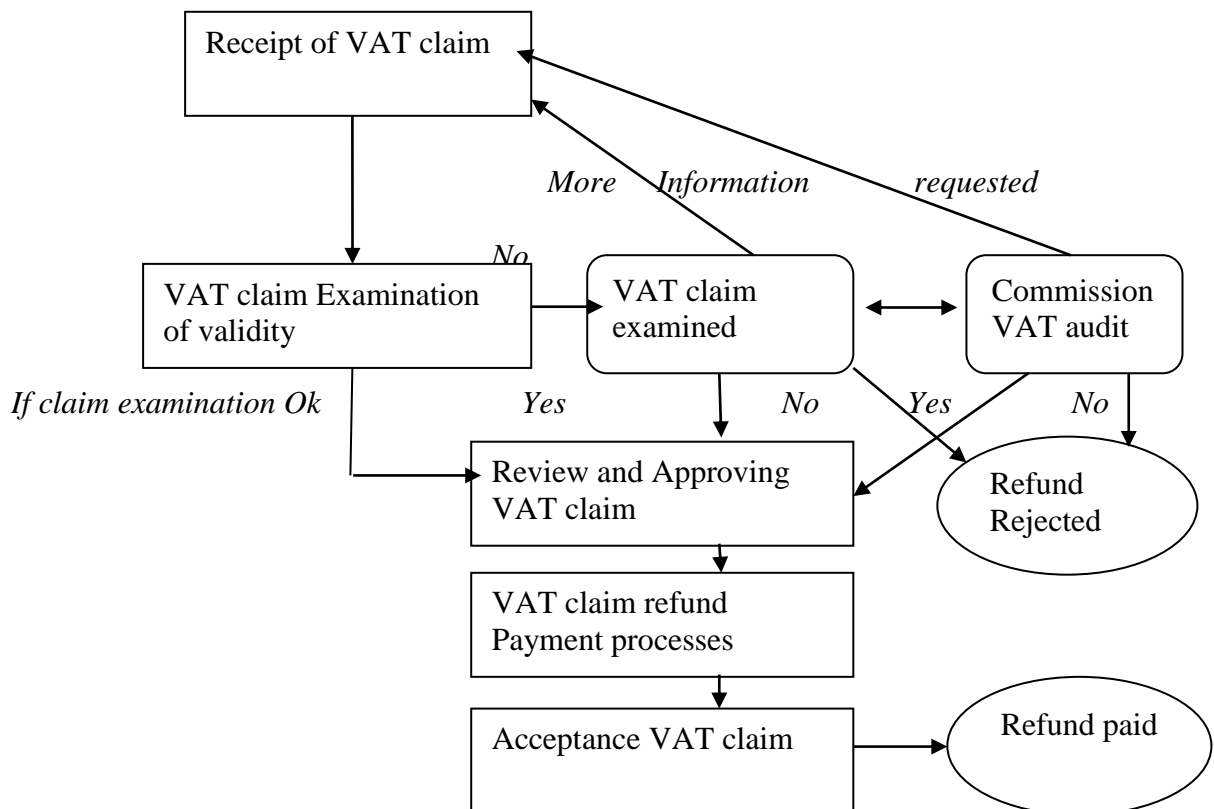
2.3.3 VAT refund Process in Kenya

VAT Act provides for VAT refunds arising from the following; Excess input tax, overpayments or credit resulting from withholding taxes, VAT paid on bad debts, Tax paid in error, etc. All the VAT refund applications need to complete and all documentations relation to the refunds claim attached.

2.3.4 Processing and procedures of VAT refunds

The process of VAT refund begins with application from taxpayers, who qualify for refunds under the VAT Act CAP 476. All refunds application are submitted on the prescribed forms and within specified time frame, and all requirements for claim attached. Processing and procedures of VAT refunds is described in the following diagram;

Figure 2.1: Processing and procedures of VAT refunds



Source: Author (2017)

2.4 Case Studies

This section reviews practices of and simplification of VAT refund countries with the aim of learning from their experiences to help inform the process of simplifying the process in Kenya.

2.4.1 Canada

Canada introduced reforms in its taxation registration process in order to reduce the administrative burdens on small businesses through the introduction of several initiatives in 1990 (ILO, 2003). One such initiative is “Clearing the Path” (CTP) introduced in 1994 by the Minister of Finance in order to reduce the administrative burdens faced by businesses during the recessions of the 1990s. The CTP initiative aimed at streamlining and simplifying VAT refund through offering the following services in an OSS at the single business window: First, Preparing electronic applications for claim, Second Scan and send the document electronic, and Third if approved refund is banked.

This approach led to the reduction in unnecessary paper work. From 1995 this initiative was located in 40 sites including tax offices, libraries, Canada Post’s business centre among others (Travis, 1996). According to *Doing Business* (2007), this process takes only 10 days, making Canada’s VAT refund process one of the fastest and simplest.

2.4.2 Singapore

In Singapore, the VAT refund process was also simplified by the use of information technology. Applying for a refund claim is done online at the Directory of Business

and Company names. This is done electronically by logging into www.bizfile.gov.sg, which is an electronic filing system, or by going to the self-help kiosks. According to the ACRA website, 98% of VAT refund claims are paid within 30 days of relevant documents.

2.4.3 New Zealand

In New Zealand, it is possible to lodge VAT refund claim, send all relevant documentation, and receive the refund electronically through the tax office website. Information on VAT refund & claimant business is also made available online (ILO, 2003). Additionally, Inland Revenue provides free VAT refund education and advice to businesses according to the New Zealand Companies Office¹. According to *Doing Business 2008*, VAT refund in New Zealand can be summarized into three procedures. The first is to lodge VAT refund claim and all supportive document the Companies Office online which takes one day then apply for VAT audit and audit is undertaken, finally receive refund cash, which takes an average of 11 days. (Source: *New Zealand Companies Office* www.companies.govt.nz/cms/our-services/form-a-company-online, 2007)

2.4.4 Mexico

Mexico has set up the "Sistema de Apertura Rapida de Empresas" (SARE), an online tax registration (including VAT refunds) and set up system geared towards simplification of the VAT claims that has cut down the time it takes to process claims from 102 days to 52 days. Although the number of procedures varies depending on

the size of the company, it takes a considerably shorter time than in the past (OECD, 2003).

2.4.5 Turkey

In Turkey, the VAT refund process previously involved 12 steps and took approximately 5 months to complete. It had limited computerization, and was not provided online at all. Stakeholders in the process came together in a series of meetings to determine how to eliminate certain steps in the process. From 2003, through the “Law Amending Turkish Trade Law, Tax Procedure Law, Stamp Duty Law, Labour Law and Social Insurance Law,” registries were required to directly provide the relevant data to tax, eliminating the requirement for notarizations and stamp taxes at regional registries (OECD, 2003). The VAT refund process reforms involved a shift from government authority to a private body to enhance the sharing of information with the relevant agency. This was facilitated by changing the mentioned legal reforms. The reforms lead to the simplification of the steps into 3 steps which can be done in 30 days using one single window (ILO, 2003).

2.5 Causes of Delays in Processing and Payment of VAT Refunds

2.5.1 Lengthy VAT Audit and Compliance

Compliance is the willingness of individuals and other taxable entities to act within the spirit as well as the letter of tax law and administration, without the application of enforcement of activity. Tax authorities need to be professional, responsive, fair, open and accountable in helping the tax payers comply with tax obligations and should also be effective in bringing to account those who intentionally avoided their obligations (Bjork, 2003). Improving compliance and reducing non-compliance means collect

VAT tax collection. Enforcement of this tax audit rules is complicated by the many statutory records such as tax invoice, cash book and debit note, that have to be maintained. Payment of tax is done by illiterate tax payers who do not follow the required procedures and more so enforcement of the the Act requires high caliber and honest staff for continuous audit and these may not be easy to find (Simiyu, 2003).

The appropriate record keeping is very important in VAT audit administration. This is because it serves as a source of reference in the future and also in case of a disagreement arising between the client and the tax collector. KRA uses the S2005S system in its documentation. However, this system has yet to be fully activated because it lacks a module for timely data capture, causing backlog in data analysis and dissemination to various stakeholders (Owour, A. 2006).

Bird (1995) observed that explanation of the decline of the VAT in Ukraine lies in tax administration. Weak administration elicited low compliance and its inherent weaknesses increasingly exploited by the growing private sector to evade paying VAT. VAT evasion, the size of underground economy, and corruption are closely linked; and they lead to low VAT collection. He recommended the need for strict VAT audit and compliance checks. A recent study, for example, found a high correlation between level of evasion and the Transparency International (TI) index of perception of corruption (World Bank, 2005). Low VAT revenue collection is associated with the high levels of evasion. “Levels of evasion at Ukrainian levels in all likelihood reflect not just weak administration but such more systematic structural problems as the prevalence of corruption and a large underground economy- implying low VAT revenue collection” (Bird, 2005: 37).

Thomas and Michael (2005) questioned the capability of VAT to generate revenue especially for lower income countries. They identified ineffective VAT compliance as a major hindrance to VAT revenue collection. If VAT can be administered adequately, however, the conventional conclusion, that it offers the best way for a country to make up revenue losses from trade liberalization appears generally to hold: Though much more convincingly for more developed countries than for the poorer countries in which trade taxes are generally more important and alternative tax bases less accessible. The critical point is that a country must have the capacity to administer VAT adequately in terms of VAT audit and compliance checks.

Hyun, M.Z. (2005) in a study of tax compliance in Japan and Korea, derived the model of estimating tax compliance which implied that if tax audit is strongly implemented and the penalty is increased, the level of tax compliance is increased. The study says that tax audit is one of the most effective policies to protect the behaviour of tax evasion. On tax rate, he said that from theoretical model for tax compliance, it had an ambiguous effect on the level tax compliance, this depending upon taxpayers' attitude to risk. The empirical evidence on the effects of tax rates on the level of tax compliance has been contradictory. Clotfelter's (1993) investigation of the relationship between marginal tax rates and tax evasion found that marginal tax rates have a significance effect on the amount of tax evasion.

Roberts, J (1998) suggests that to encourage compliance there is need to codify the practice of self-assessment so that it is entrenched into the existing laws. This in turn will help in developing an effective penalty provision system and in setting up progressive compliance improvement initiatives that will set in motion tax payer

awareness campaigns and sensitization programmes. Vazques (2005) notes that the manner in which enforcement rules are determined can also influence compliance. Social norms and morals have been cited as reasons for higher compliance with the rules. Simple personal ethics based on religion or cultural norms may affect compliance behaviour independently of the fiscal exchange between the government and the tax payers. The threat of detection and punishment is clearly a factor and increased enforcement leads to increased compliance.

2.5.2 Stringent VAT Refund Legislation

Value Added Tax legislation covers laws as well as other regulations that guide tax policies and administration. These include rates of VAT, who is to pay VAT, on what VAT is levied, when VAT is to be paid and the punishment for non-compliance, and VAT refunds rules among other rules (Simiyu, 2003).

Different authors have come up with impediments facing the enforcement of the VAT refunds rules. Enforcement of this rules is complicated by the many statutory records such as tax invoice, cash book and debit note, that have to be maintained. Payment of tax is done by illiterate tax payers who do not follow the required procedures and more so enforcement of the the Act requires high caliber and honest staff for continuous audit and these may not be easy to find (Simiyu, 2003).

Engman (2005) studied the effect that institutions (rules and regulation) and relevant reductions in transaction costs may have on government revenue and foreign direct investments. The analysis drew on empirical data from country experiences. The study distinguished factors that affected VAT revenue performance and also reviewed

some country surveys that had examined traders' views on VAT and its impact on business performance. The study found that improved and simplified administration procedures through legislation would have a significant positive impact on VAT revenue collection. It further showed that a large number of developing countries had managed to boost government revenue by implementing modernization programmes like ETR that resulted in more efficient collection of VAT.

Recent studies have questioned the capability of VAT to generate more revenues, especially in lower-income countries (ITD, 2005; Thomas and Michael, 2005). These studies observe that the inefficiency of VAT legislation is a major problem affecting more revenue collection coupled with weak administrations. However, they note that if VAT can be administered adequately and taxpayers comply with the set guidelines, then it offers the best way for a country to make up more revenues. The critical point is that a country must have the capacity to administer VAT adequately. Other things being equal, the average economic cost of collecting revenue is less with VAT simply because the base of VAT is invariably broader. Hence, more revenue is collected. However, measures should be taken to curb evasion (ITD, 2005).

Nyamunga, J. B. (2001) carried out a study on the tax reforms and revenue mobilization in Kenya. He found that VAT default was the major problem eroding its revenue, and accordingly recommended measures aimed at VAT rationalization. This included introduction of stiff penalties for defaulters in the following areas: late VAT returns, failure to issue VAT invoices and failure to maintain proper books of accounts. Another aspect of VAT that elicited much interest from taxpayers in Kenya was the tax refund system. At the time of inception, the refund system was

characterized by weak controls and corruption that led to revenue loss (Nyamunga, 2001). Administrative changes were undertaken thereafter (in the mid-1990s) to streamline the refund system. The improved management that followed has been behind the introduction of tight verification measures and elimination of refund for the large backlog of claims.

Scott, C. (2005), commenting on VAT legislation, suggested that the withholding tax system should be broadened and strengthened so that much tax is tapped at the source to avoid the complexities associated with a weak tax withholding tax system. However, according to the Inland Revenue Service (IRS,1999) principles that would encourage compliance need to be emphasized. To IRS, these principles include equitable tax treatment that would involve the non-discriminatory application of tax laws and regulatory requirements.

2.5.3 Limited use of Information Technology (IT) in VAT refund Process

The ongoing diffusion of new IT and e-business technologies among firms is a current example of the dynamics of technological change and economic development (Koellinger 2006). Economic theory suggests that the diffusion of new technologies can have far reaching consequences. Most fundamentally, it may change the type of products, and services that are offered and trade. It may also change the production costs of existing products. Hence, virtually all economic spheres can be affected by such changes, including innovation dynamics, productivity and growth, the development of market structures, firm performance, and the demand for (certain types of) labour. Not all new technologies will necessarily lead to disruptive or even measurable changes in any of these variables. Yet, there is good reason to believe that

e-business as a technological paradigm, comprised of various tools and applications to optimise the flow and the availability of commercially relevant information based on computer networks, has such a general scope to yield a measurable economic impact.

Koellinger (2006) conceptualisation of ICT as an enabler of innovation allows a market-based economic approach to study the impact of ICT on corporate performance. The restructuring is important to an organization in achieving its goals. As part of the restructuring programme KRA has in the recent past invested a lot in the management information system and ICT. A key area in these developments is introduction of EFT, which has enhanced VAT administration (Alice, 2006). With EFT tax payers are supposed to deposit their VAT at selected banks. They are issued with VAT books which serve as bank deposit slips to be used for depositing VAT in the Commissioner's bank account. These also serve as VAT 3 returns which are later sent to DTD. This has reduced tax evasion, theft and corruption as tax officers do not receive tax money directly (Owuor, A. 2006). However, there is limited integrated use of IT in VAT refund process.

The Integrated Tax Administration System (ITAS) for domestic tax administration has is being implemented; however it lacks components that enable integrative functionality for VAT refund. Therefore, the critical functions of VAT refund are still manually done, thus delaying timely reconciliation and compliance checks (Owour, A. 2006).

2.5.4 Staff training and adequacy

Training can generally be termed as a means of acquiring skills, knowledge and competencies. Training is important to individuals, institutions, organizations as well as the government and its departments/agencies. According to Garavan (1997) training is defined as “a planned and systematic effort to modify and develop knowledge, skills and attitudes through learning experiences, to achieve an effective performance in an activity or range of activities. Training can be active or reactive. Proactive training may be initiated due to expected changes outside the organization, which has implications for individuals and groups on how they perform their jobs.

The purpose of training is to improve knowledge, skills and change of attitudes. It is one of the most important potential motivators. This can lead to many possible benefits for both individuals and the organization. Training can increase the confidence and commitment of staff (Alice, 2006). Training is therefore a key element of improved organizational performance. Training increases the level of knowledge of an individual and organization. It reconciles the gap between desired targets or standards and performance.

Hinricks (1966) studied implementation of VAT and the underlying problems. He noted that VAT is difficult to collect because of the lack of skills and facilities for tax administration. Given this, a complicated VAT structure is not feasible and the amount of revenue from it will depend on tax payers compliance and the efficiency of the tax collector. However, he singles out VAT as an important source of government revenue during the early stage of economic development. In addition, revenue from VAT is not stable because of periodic fluctuations in the prices of

private consumable goods and services. This tends to complicate plan implementation in many developing countries (Hinricks, 1966). The critical point is that a country must have the capacity (human and capital) to administer VAT adequately.

Motivation is the psychological process that gives purpose, direction and intensity to behaviour. It is mainly responsible for differential work output and is the most important determinant of effective job performance (Kreitner, 1989). Kreitner further states that employee motivation or the desire to perform is the foundation of productivity improvement. The issue of employee motivation is important as it establishes a substantial foundation for high performance levels and less unproductive time.

Motivating people is about getting them move in the direction you want them to go in order to achieve a result. Motivation therefore is goal directed behaviour. Cole (2004) said motivation is a process of arousing action, sustaining the activity in progress and regulating the pattern activity. It can be said to be the management of functions and inspiring subordinates so that they can perform tasks with a higher degree of enthusiasm. It is a feeling of commitment to do something well and being prepared to get energy and effort into it. Motivation as observed from the various theories and systems can result in high work productivity, cooperation, effectiveness, overcoming work challenges, willingness of the workers to accept responsibility, few industrial disputes, etc. Lack of it, on the other hand, can lead to low performance, high absenteeism, apathy and indifference. In the case of revenue, its presence would lead to effective collection and enhanced performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the general methodology to be used in this study. It specifies the research design, target population, sampling design, data collection procedures, instruments and data analysis.

3.2 Research Design

This study is carried out using a descriptive survey design. This was preferred because the target population was large. The survey is appropriate as it enable the researcher to obtain information from a broad category of respondents, covering the whole population frame work, which is important for purposes of comparison and generalization.

The study focuses on both qualitative and quantitative characteristics and status of the VAT refunds process at KRA. A descriptive design describes the state of affairs as it exists at present (Herve, 1988). The researcher also notes that this methodology permitted collection of data about variables or subjects as they are found in a social system or society.

3.3 Target Population

Borg and Gall (1989) define the target population or the universe of a study as all the members of a real or hypothetical set of people, events or objects to which an investigator wishes to generalize the results of the research study. Mugenda and Mugenda (1999) define the population as an entire group of individuals, events or objects having common observable characteristics. The target population was

Domestic Taxes Department (DTD) staff involved in VAT refund process. There were about 150 staff involved. The department of VAT refund process is housed at the KRA head offices in Times Towers, Nairobi (www.kra.go.ke).

3.4 Data collection Procedures and Instruments

Primary data was used for the purpose of this study. The data was collected using a structured questionnaire. A questionnaire is a series of written questions on a given topic. These questions were either open-ended or close-ended. The instrument is considered appropriate for the study because all the respondents are literate. It is also less costly in terms of time, and is more flexible for busy respondents. The questionnaire was divided into two parts. Part one is general and gathered demographic data of the respondents. Part two will gathered information on:

1. Step by step VAT refund process
2. Administrative process affecting/slowing the process.

The questionnaire was structured in such a way as to allow respondents to express their views freely.

The questionnaires was administered through drop and pick method. The instruments were left with the respondents, as they required time to respond to the questions. The date and the time when the completed questionnaires are to be picked was agreed upon by respondents and the researcher. Follow up was done though personal visits telephone calls and emails to facilitate responses and also enhance the responses rate.

3.5 Data analysis

Data analysis is the process of systematically searching, arranging, organizing, and breaking data into manageable units, synthesizing the data, searching for patterns, discovering what is important and what is to be learned. Interpretation and analysis of data was done using the statistical package for the social sciences (SPSS) to ensure objectivity. The data collected was coded and entered into the computer, after which analysis were done. Descriptive statistics was used to describe the data. The data has been represented in the form of diagrams, frequency tables and bar graphs. The mean standard deviations for each attribute was calculated and interpreted. Measures of association were used to examine the relationship between the independent and dependent variables.

This was followed by analysis using inferential statistics based on examination of each hypothesis formulated for the research. Inferential statistics are used to draw conclusions about the reliability and generalisability of the findings. According to Leary (2004, p. 38), inferential statistics are used to assist in answering questions such “How likely is it that my findings are due to random extraneous factors rather than to the variables of central interest in the study? How representative are the findings of the larger population from which the sample was taken?” In order to test the research hypotheses, the inferential tests used include the Pearson Product-Moment Correlation Coefficient, regression analysis and Analysis of Variance (ANOVA).

3.6 Instrument Validity and Reliability

Validity according to Borg and Gall (1989) refers to the degree to which a test measures what it purports to measure. A pilot study was conducted to evaluate the

validity of the research instrument. The purpose of pre-testing was to assess the clarity of the items on the instrument so that those items found to be inadequate in measuring the variables could either be discarded or modified to improve the quality of the research instrument. During the pre-test study, the researcher discussed each item on the questionnaire with the respondent to determine its suitability, clarity and relevance for the purpose of the study. Thereafter, a mock analysis was conducted so as to check the validity and reliability of the instrument. Modification where found necessary was made on the instrument before it is finally used for the proposed study.

Mugenda & Mugenda (1999) defines reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Reliability of the instrument was tested using the split half method. This method involved splitting the items on the test into two halves (odd and even items). The odd numbered items were placed in one sub-test while the even numbered ones are placed in another test. The scores of the two sub sets were computed for each individual and the two test scores correlated using the Pearson product moment correlation coefficient. If the correlation is high, it implies that the instrument is reliable.

3.7 Ethical Considerations

The research values of voluntary participation, anonymity and protection of the respondents from any possible harm was upheld during the study. As a matter of fact, firstly, the researcher ensured that the respondents participated voluntarily in the study. Therefore, the study was conducted in a manner that does not significantly disrupt their daily routine. Secondly, the researcher assured respondents that data collected was used for academic purposes only and that it was treated with strict

confidentiality. Thirdly, the researcher ensured that the respondents were protected from any possible harm that could arise from the study. Wording of the questionnaires, for instance was made simple and straightforward.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF RESULTS

4.1 Introduction

This chapter presents the analysis and interpretation of the primary data on the perceived challenges facing Value Added Tax (VAT) refunds payment process by KRA. The data collection instrument was a questionnaire with both open and close ended questions. The first part of the questionnaire sought information of general nature like education level, current designation, duration of years worked at KRA, gender, job position, and age. The second part sought information on the challenges facing timely processing and payment of Value Added Tax (VAT) by KRA.

4.2 Demographic Characteristics of the Respondent

4.2.1 Response Rate of Respondent

This section sought data on the respondent's like education level, current designation, duration of years worked at KRA, gender, job position, and age. This was meant to establish the suitability of the respondent to the study as these characteristics can influence the challenges facing timely processing and payment of Value Added Tax (VAT) at KRA. A total of two hundred questionnaires were distributed to the respondents. Out of the 200 questionnaires, 140 questionnaires were returned duly filled. 60 questionnaires were not filled thus being left out of the analysis. This represented a 70% response rate. According to Mugenda and Mugenda (2003), a response rate of 50% and above is a good for statistical reporting.

4.2.2 Job Position of Respondent

The research sought to find out the job grades held by the respondents at KRA. The job grade in the questionnaire was to determine the authority of the respondents in the field under investigation. This was also to ensure the questionnaires were answered by the target persons hence making their responses valid and reliable as a true representation of the current situation. Table 4.1 below shows the response.

Table 4.1: Job Position

Job Position	Frequency	Percent	Cumulative Percent
Seniors Managers	39	28	28
Supervisors	53	38	66
Officers	38	27	93
Support Staff	10	7	100
Total	140	100	

Source: Author, 2017

The findings presented in table 4.1 shows that respondent Supervisor position were majority with 38% followed by Senior Managers at 28 and Officers at 27% respectively. The support staff were the minority at 7%. This showed that majority of the respondents were Supervisors, Senior managers and Officers implying that they were in a position of decision making in VAT refund payment process.

4.2.3 Age of Respondent

The researcher sought to find out the age distribution of the respondents. This is presented in table 4.2. The intension here was to know the age of the respondent as it

is perceived to be experiencing challenges facing timely processing and payment of Value Added Tax (VAT) at KRA.

Table 4.2: Age

Age	Frequency	Percent	Cumulative Percent
18-30	51	36	36
31-40	63	45	81
41-50	18	13	94
51-60	8	6	100
Total	140	100	

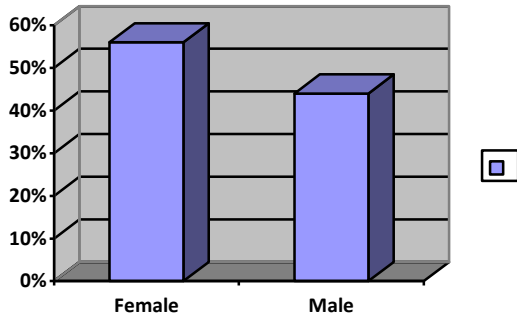
Source: Author, 2017

The study revealed that 41% of the respondents were between 18-30 years, 43% were between 31-40years, 10% were between 41-50 while 6% formed the minority of the respondents who were between 51-60 years. This showed that most of the respondents were between 18-30 and 31-40 years forming the majority of the respondents. It is perceived young and middle aged people accept change more easily thus having fewer challenges in processing of refunds. Thus they will accept the system more easily.

4.2.4 Gender of Respondent

The study sought to find out the Gender distribution in the Authority for the purpose of the study. The questionnaire was distributed to both male and female respondents. This is shown on figure 4.1 below.

Female Male
56% 44%



Source: Author, 2017

The findings on gender distribution among the respondents showed that 44% were male while 56% were female. Although female were more than male, the difference is not significant and therefore the study is not skewed towards any gender. This is also important for the study as will get to understand the opinion of both genders.

4.2.5 Education Level of Respondents

The study sought to establish the level of education of the respondents. Perception is influenced by the level of education and therefore establishing it will help identify the influence of education to this study. The study also sought to find out if the respondents were skilled enough and were computer literate to handle the refund process in the Authority. This is represented in table 4.3 below.

Table 4.3

Education Level	Frequency	Percent	Cumulative Percent
PhD Degree	0	0	0
Masters Degree	22	16	16
University Degree	102	73	89

Diploma	14	10	99
Secondary	2	1	100
Primary	0	0	100
Total	140	100	

Source: Author, 2017

The study found out the majority of the respondents had a University degree at 73%. 16% of the respondents had Masters Degree qualifications. 14% of the respondents had a diploma and 2% had secondary level education. Neither of the respondent had a PhD degree nor had the highest education level at primary. Given the education levels presented in table 4.3, it can be concluded that the respondents were competent and qualified employees. They had the requisite academic credentials to understand the area of refund. This also implies that the respondents had the capacity to give quality response for the purpose of this study.

4.2.6 Years worked for KRA

The respondents were requested to indicate the period under which they had worked at KRA. This information aimed at testing the working experience appropriateness of the respondent in answering the questions regarding the perceived challenges facing VAT Refunds process at KRA. It was expected that the longer the years of experience at KRA the more likely it is to obtain reliable information on VAT Refund they have interacted with the process longer. Also the more knowledgeable the respondent would be about KRA's systems and operations. Table 4.4 below presents the findings.

Table 4.4

Years Worked	Frequency	Percent	Cumulative Percent
Less than 1 year	4	3	3
2 – 5 years	8	6	9
6 – 10 years	30	21	30
11years and above	98	70	100
Total	140	100	

Source: Author, 2017

The table indicates that 3% of respondents had worked at KRA for less than a year, 6% had worked for KRA between 2-5 years and 21% had worked between 6-10. The majority of the respondents at 70% had worked for KRA between 11 years and above; this implies that the respondents had worked for a period long enough to understand the systems and processes at KRA. Thereby understands the factors affecting the payment of VAT Refunds.

4.2.7 Taxpayers Respondents' distribution by type of VAT refund

Taxpayers' respondents were classified according to type of VAT refund they had applied for. Forty percent of the refund was due to excess input tax, 27% overpayments or credit resulting from withholding taxes, 12% VAT paid on bad debts and 21% VAT paid in error.

Table 4.5

VAT refund applied for	Frequency	Percentage
Excess input tax claimants	60	43

Overpayment resulting from withholding tax claimants	36	26
VAT paid in bad debts claimants	18	13
Tax paid in error claimants	26	18
Total	140	100

Source: Author, 2017

4.3 Perceived challenges facing VAT refunds payment process

This section reports on the perceived challenges facing value added tax refunds payment process by Kenya Revenue Authority.

4.3.1 Compliance and audit checks on VAT refund

In order to assess the compliance and audit checks, respondents were asked several questions regarding these two factors. The questions asked, expected answers and the respondents' responses in terms of percentages are given in Table 4.6 below. The findings of this table indicate that 90% of respondents reported that VAT payers comply with application process, 7% reported that they do not comply while 3% were not aware whether they comply or not. All the respondents (100%) reported that compliance affects VAT refund process. Regarding the audit checks, 70% of the respondents reported that there are delays before VAT refund audit checks are undertaken, 26% reported that there are no such audit checks undertaken while 4% did not respond. Again all respondents reported that compliance and audit checks influence the time it takes before VAT refund are processed and paid.

Table 4.6

Statement	Yes	No	Don't know	Total
Do the VAT payers comply with refund application process	90%	7%	3%	100%
Does the compliance affect the VAT refund process	100%	-	-	100%
Are there delays in audit checks for VAT refund	70%	26%	4%	100%
Do compliance and audit checks influence VAT refund claims process	100%	-	-	100%

Source: Author (2017)

4.3.2 VAT Refund Compliance

On VAT taxpayers compliance the respondents' views were as follows: 90% of respondents reported that VAT payers comply application procedures, 7% reported that they do not comply while 3% were not aware whether they comply or not.

Table 4.7

Responses	Frequency	Percentage
Yes	127	90
No	8	7
Missing	5	3
Total	140	100

Source: Author (2017)

On VAT compliance and its effects on VAT refund the taxpayers respondents' views were as follows; all the respondents (100%) reported that compliance affects VAT refund process. 90% of taxpayers reported that they comply with all application procedures however, delays are inevitable due to inefficiency in KRA.

4.3.3 VAT Refund Audit checks

On VAT audit checks the taxpayers respondents' views were as follows; 70% of respondents reported that there are delays in VAT audit checks, 26% reported that there are no such audit checks while 4% did not respond. Hence, there are delays in undertaking VAT refund checks contribute impromptu payment.

4.3.3.1 Respondents' opinion on VAT refund compliance and audit checks

The respondents were asked to rate their agreement with statements below using five point Likert scale (strongly agree=1, fairly agree=2, neither agree nor disagree=3, disagree=4, and strongly disagree=5). Their percentage responses are provided in Table 4.8 below. The findings indicate that 91% of respondents reported that tax payers comply with VAT refund payment procedures while 76% reported that these procedures were not complicated. Though 87% of the respondents reported that VAT audit checks are efficient, 91% reported that audit checks have influenced VAT refund process negatively. Regarding VAT refund compliance 30% of respondents reported that is at its best.

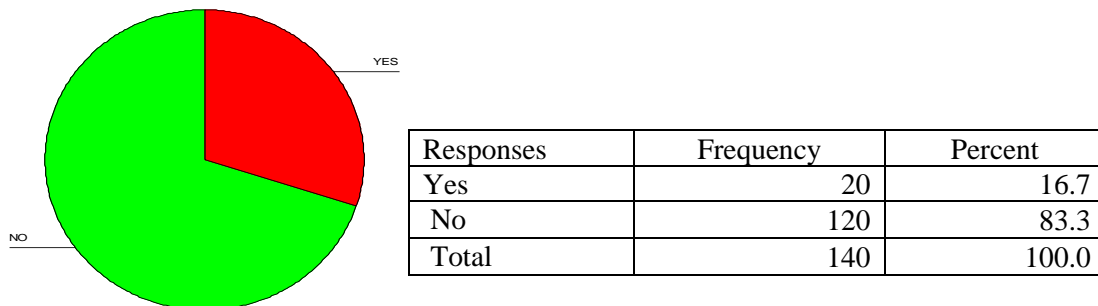
Table 4.8

Statements/ Responses	1	2	3	4	5
Tax payers comply with VAT payment procedures	4%	87%	2%	7%	-
The VAT audit checks are efficient	7%	80%	11%	2%	-
The audit checks have positively influenced VAT collection	32%	59%	9%	-	-
VAT payment procedures are not complicated	30%	46%	13%	9%	2%
The VAT refund compliance is at its best, approaching 100%	4%	26%	22%	44%	4%

Source: Author (2017)

4.3.4 VAT Refund legislation

In regard to VAT refund legislation, 87% of respondents reported that they don't understand the act governing the refund. Among them, 92% were taxpayers respondents. However, majority staff (94%) of them indicates that they understand the Act but they are not consulted in decision making on how to streamline the VAT refund process. The results in the graph 4.1 show that the majority by (83.3%) from the participants said that the legislation has an effect to whole refund process. On the other hand a minority of (16.7%) said that they agree on that.



Graph 4.1: Respondent Opinion on whether VAT refund legislation affects Refund process

All respondents reported that tax payers' education may enhance their understanding of the legal provisions governing VAT refund. According to them this can enhance compliance with application process and timely processing and payment. Most of the respondents (87%) do not understand the provisions of the Act governing VAT refund these are section 11, 12 and 13 of the VAT Act CAP 476 . Fifty-five percent of the respondent reported that there are sections of the VAT legislation that inhibit the claim and payment process. 37% reported that parts of the VAT legislation are complicated. These results are shown in Table 4.9 below.

Table 4.9

Statement / Responses	Yes	No	Total
Do you understand the provisions of the Act governing VAT refund?	87%	13%	100%
Does the legal provision discourage VAT refund?	100%	-	100%
Are there section of legislation that inhibit VAT refund process?	55%	45%	100%

Source: Author (2017)

Cross tabulations were made between respondents who reported that VAT legislations affect VAT refund and those who reported they do not understand provisions of the Act governing VAT collection. Among the 120 respondents who reported that they do not understand provisions of Act governing VAT collection, 112 reported that this legislation affects refund process negatively as Table 4.10 below shows. This result indicates that VAT legislation is a challenge that contributes to delays VAT refund processing and payment.

Table 4.10: Cross tabulation on VAT refund legislation

Responses		Do not understand the Act governing VAT collection		Total
		Yes	No	
VAT legislation affect VAT refund process	Positively	8	0	8
	Negatively	112	20	132
Total		120	20	140

Source: Author (2017)

4.3.5 Information Technology

The study sought to establish if Information Technology has reduced the challenges facing value added tax refunds payment process by KRA. Table 4.11 below indicates that a majority of the respondents (96%) reported that KRA has embraced information

technology in its operations; however, there is little use of IT in VAT refund process, as reported by 4% of respondents. They agreed that application of IT, especially computerization can hasten the VAT refund process.

Table 4.11: Role of Information Technology (IT) in VAT refund process

Statement	Yes	No	Total
Does KRA embrace IT its operations?	96%	4%	100%
There is use of ICT in VAT refund process?	26%	74%	100%

Source: Author (2017)

The respondents were asked to comment on the efficiency in VAT process before and after introduction of extensive IT by KRA. From Table 4.12 below, it is clear that investing in IT has increased efficiency on VAT refund process as 94% of the respondents asserted. Moreover, even before introduction of IT there was no efficiency in VAT refund processing as indicated by 67% of the respondents.

Table 4.12: Efficiency in VAT refund process before and after introduction of IT

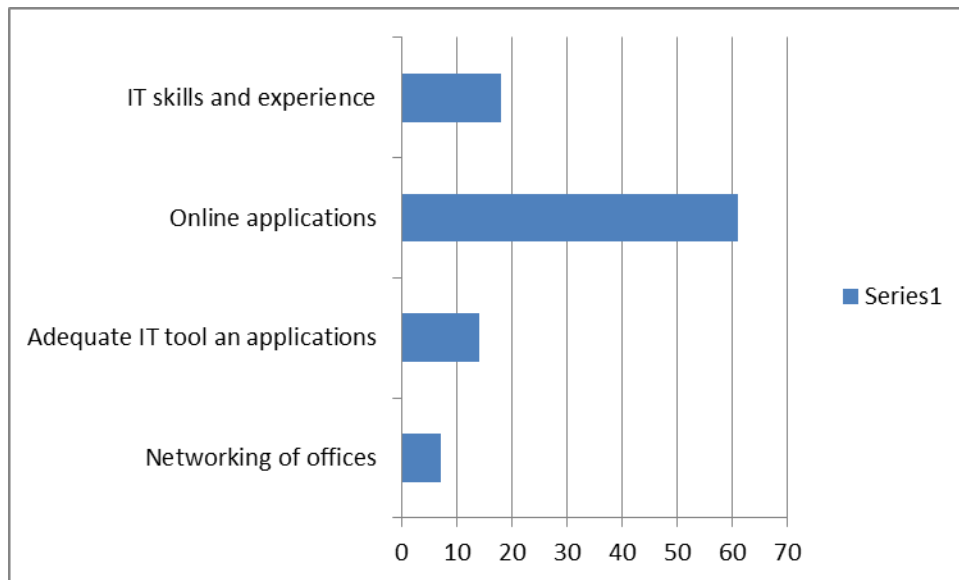
Efficiency in VAT refund process	Not efficiency	Efficient	Not aware	Total
Before introduction of IT	67%	18%	15%	100%
After introduction of IT	2	94%	4%	100%

Source: Author (2017)

Respondents made suggestions on how IT and computerization can improve VAT refund. These suggestions are tax payer's education; especially IT training and staff in-job IT training guided by well thought training need assessment is needed.

In regard to role of IT on VAT refund process, 82% of respondents reported that fail to use IT in application process contributes to delays in payment of claims. Respondents were asked IT factors that are considered appropriate to improve the process. According to respondents' responses analysis, 7.0% networking of relevant offices, 61.0% on-line application, 14.0% supplier of adequate IT tool and applications while 18.0% reported relevant IT skills.

Graph 4.2 below summarizes the findings.



Source: Author (2017)

4.3.6 Staff training and adequacy

The study aimed to assess the extent to which training influences the challenges of VAT refunds payment process. When the respondents were asked of their opinion on the number of staff working for KRA, VAT refund section, 77% reported that staff was inadequate. However, 23% argued that they were adequate. This statistics are displayed in Table 4.13 below. One can conclude that inadequate staff number contributes to delays in VAT refund processing and payment, as the current staff are

overwhelmed, therefore more staff need be recruited. This is presented on table below:

Table 4.13: Number of staff working for KRA

	Frequency	Percent
Adequate	34	23
Inadequate	116	77
Total	140	100

Source: Author (2017)

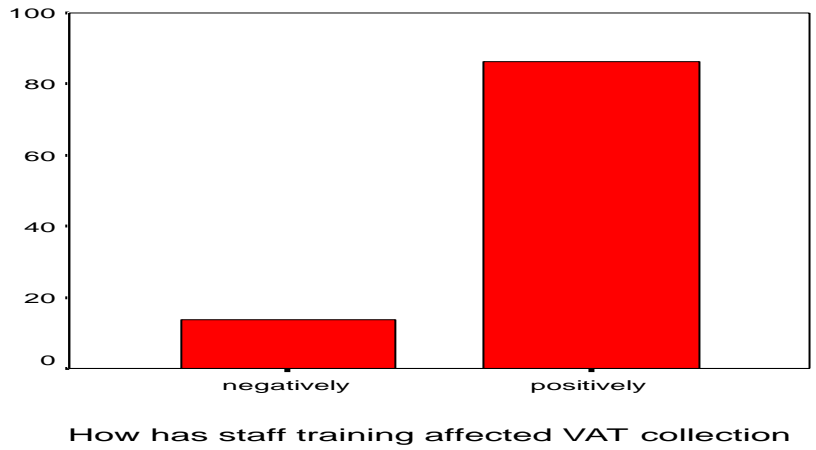
Further, Table 4.14 below shows that 80% of the respondent reported that officials working for the Domestic Tax Department- VAT section are well trained to handle all VAT transactions. However, 20% felt that the officials are not well trained to handle this process.

Table 4.14: Staff training and adequacy

Response	Frequency	Percent
Yes	112	80
No	28	20
Total	140	100

Source: Author (2017)

In addition, the findings in Graph 4.3 below show that 86% of the respondents reported that staff training has positive effects on VAT refund process, while 14% felt this affects are negatively.



CHAPTER FIVE:

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives the summary of the study findings, discussions of the research findings where the findings are compared with the findings of other relevant studies which were earlier carried, conclusions that were drawn by the researcher according to the findings of the study and the recommendations made by the researcher for the policy implication. The researcher had intended to determine perceived factors challenging facing the VAT refund payment process at Kenya Revenue Authority.

5.2 Summary of findings

The objective of the study was to determine the perceived challenges facing VAT refund payment process by Kenya Revenue Authority. The respondents were employees of Kenya Revenue Authority. On demographic characteristics of the respondent, the research revealed that majority of respondents were supervisors and senior managers implying that they were in a position of decision making and thus perceived to have influence on the perceived challenges facing the VAT refund payment process at Kenya Revenue Authority. The research also established that most of the respondents were young and middle aged people. Although female were more than male, the difference was not significant and therefore the study was not skewed towards any gender. Given the education levels of the respondents, majority possessed university degrees meaning they were competent and qualified employees. They had the requisite academic credentials to understand the area of VAT refund payment process. This also implies that the respondents had the capacity to give quality response for the purpose of this study. The majority of the respondents had

worked for KRA between 11years and above implying the respondents had worked for a period long enough to understand the systems and processes at KRA. Thereby understands the VAT refund payment process at Kenya Revenue Authority.

5.2.1 Compliance and Audit checks

All respondents reported that compliance and audit checks influence VAT refund process. Regarding compliance, 90% of the respondents reported that VAT payers comply with set VAT refund procedures. On the other hand, 70% of respondents reported that there delay in VAT refund audit checks. However, over 90% of the respondents reported that more needs to be done to enhance compliance and audit checks to make VAT refund efficient. These include increasing frequency of audit and compliance checks, taxpayer education on VAT refund payment procedures, recruiting and training more staff to reinforce compliance and audit checks, aimed at improving VAT refund.

5.2.2 VAT Refund Legislation

According to the findings, most of the respondents (87%) do not understand the provisions of the Act governing VAT refund. 55% of them reported that there are sections of the VAT legislation that inhibit VAT collection and 37% reported that some parts of the VAT legislation are complicated. On cross tabulation, among the 120 respondents who reported that they do not understand provisions of Act governing VAT collection, 112 reported that this legislation affects refund process negatively. All respondents reported that taxpayer education enhances the understanding of the legal provisions governing VAT refund. Thus, it suggests that there is need to improve on taxpayer education in order to help in understanding and

interpreting VAT refund law. The respondents agreed that this will enhance voluntary compliance which will improve on VAT refund process.

5.2.3 Role of Information Technology (IT) in tax collection

When respondents were asked to comment on how ICT has affected VAT refund process, 94 % of them reported that it has no effect. 74% of respondents reported that there is little use of ICT in VAT refund process. 82% of respondents reported that fail to use ICT in application process contributes to delays in payment of claims. Respondents were asked ICT factors that are considered appropriate to improve the process.

5.2.4 Training and Staff adequacy

The staff are the most critical component of human resource in VAT department tasked with the responsibility of ensuring tax compliance. Therefore staff and other stakeholders need to be equipped with the updated skills in order to enhance VAT compliance via social media. The study findings on staff training have proved training influence on the adoption of VAT. Without training of both the staff and the public users of social platform on the importance of VAT compliance then the whole process could be on the halt. According to the findings KRA carry out annual training to the public on sensitization on compliance of VAT. Regarding opinion on the number of staff working for KRA, 73% of the respondents reported that they are inadequate. In addition, 57% of them reported that staff working for domestic tax department of KRA are not well trained to handle all VAT refund transactions. Over 86% of the respondents reported that staff training and their adequacy has led to inefficiency in

VAT refund process. However, they asserted that there is need to recruit more staff and embark on training of newly engaged staff.

All the KRA staff should be regularly trained on VAT matters; employees who are more conversant with VAT in social activities are supposed to engage with the social platform users to share the knowledge on how and when to pay their VAT online. This will ensure improved compliance rate.

5.3 Conclusion

The Pearson's Product Moment Correlation Coefficient was used for the purposes of determining the relationships between VAT refund process and role of ICT, compliance and audit checks, VAT legislation and staff training and adequacy. The mean of these factors were correlated with mean of VAT refund process. In order to delineate the relationship between the factors and their influence on VAT refund process their mean were correlated. The results indicate that for the intercorrelation matrix exploring the relationship between VAT refund process and role of ICT, compliance and audit checks, VAT legislation and staff training and adequacy all the Pearson correlation coefficients were positive. The results indicate that there is a significant statistical relationships and one can conclude that lack of use ICT, compliance and audit checks, VAT refund legislation and staff training and adequacy are some of factors that influences VAT refund application, processing and payment.

5.4 Recommendations

Although, the study found that VAT collection is at its best, further improvements are required in the area of increasing VAT refund administration capacity with an aim of

increasing timely refund application, processing and payment. KRA had committed in the Taxpayers Charter to pay refund claims within 60 days. Current backlog status stands at 120 days and there is no sign that the period will reduce. As a result, a huge amount (approximately \$25 million) of funds is tied up affecting operation of the businesses and thus causing a lot of concern in both the government and business sector. More over, the Kenyan VAT system has no provision for interest delayed refunds. Refunds backlog as well provide opportunities for corruption.

The tax authority needs to pay attention to taxpayer education, VAT refund compliance and timely audits. Tax audits ensure that individuals and corporations maintain proper books of accounts for tax purposes this can enhance VAT refund assessment improving it's processing and payment. The respondents reported that tax authority is still reluctant to use ICT in VAT refund process. Therefore much is needed to educate staff on the importance of this ICT tool and application in VAT refund process. The study found that staff training and their adequacy has led to inefficiency in VAT refund process. Therefore, there is need to recruit more staff and embark on training of newly engaged staff.

5.5 Areas for further study

This research looked on perceived challenges facing VAT refund payment process, there is need to carry out an extensive study to investigate how delays in VAT refund affect businesses. While there has been research on the productivity of Kenyan tax system, very little has been done on impact of tax system on social welfare of Kenyans. Hence this analysis ought to be extended to incorporate the effects of VAT refund on social welfare of Kenyans.

5.6 Limitations of the Study

This study faced a number of challenges as it only focused on KRA employees based in Nairobi. The views of all the employees in the Authority should have been gathered. The time available was limited. Most respondents were engaged in their work and with targets attached, the respondents were very busy. This required frequent follow ups which compelled the researcher to extend the allocated time for questionnaire. The other limitation is scope. The various aspects of VAT were not covered in depth given the general nature of the study. The study was on VAT which is one of the many taxes levied in Kenya, one unique feature of Kenyan VAT is large number of items and services exempted from VAT.

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APPENDICES

Annex I: Research Instrument

Part I: Introduction letter

Dear Respondent,

I am a Post Graduate student at the Kenya School of Revenue Administration. I'm currently undertaking my research project entitled "Perceived challenges facing Value Added Tax (VAT) refunds payment processing by Kenya Revenue Authority. The attached questionnaire is for gathering data, which will be useful in the mentioned research.

You have been selected as one of the respondents in this study. I therefore request you to kindly facilitate the collection of the required data by answering the questions herein.

Please note that the information sought is purely for academic purposes and will be treated with utmost confidentiality.

I look forward to your co-operation.

Yours faithfully,

Fatuma M. Mohamed

Part II: Questionnaire

Questionnaire

Number.....

Date.....

This questionnaire is designed to gather information on the Perceived challenges facing Value Added Tax (VAT) refunds payment process by KRA. This information is purely for academic purposes and will be treated with great confidence. You are therefore requested not to write your name anywhere on this paper. Your cooperation will be highly appreciated.

Section A: Respondent's bio-data

1. What is your current designation/Job Position?
A. Senior Managers B. Supervisors C. Officers D. Support Staff

2. What is your Age bracket?
A. 18 -30 B. 31- 40 C. 41-50 D. 51-60

3. What is your Gender?

A. Male B. Female

4. Highest Education level attained
A. Secondary B. College C. University graduate D. Post graduate E. Other
specify

5. For how long have you worked for KRA?
A. Less than 1 Year
B. 1-5 Years
C. 5-10 Years
D. 10-15 Years
E. Over 15 Years.

Section B: VAT refund

- a) Do you understand the VAT refund process and its procedures?
- b) Please can you list the process and the time it takes to complete each process

No.	Procedure	Time taken
1		
2		
3		
4		
5		

- c) In your opinion are the procedures and process of VAT refund process at KRA efficient?
 A. Very efficient. B. Fairly efficient .C. Inefficient D. Very inefficient E. Do not know
- d) Has there been a delay in payment of VAT refunds in the recent past? A Yes. B. No

5. Please list procedures in VAT refund process that delay prompt VAT refund payment

.....

6. Please list challenges facing VAT refund processing and payment

.....

Section C: VAT refund compliance and audit checks

- 1. Do the VAT taxpayers comply with laid VAT claim requirement?
 A. Yes B. No C. Do not know

2. In your opinion does the compliance affect the VAT refund?

A. Yes B. No C. Do not know

3. How long does it take to carry audit checks for VAT refunds?

4. Do you think audit affect the refund repayment A. Yes B. No

5. Do you think compliance and audit checks delays VAT refund process?

A. Yes B. No

6. What can you say about VAT refund audit?

A. Very Effective B. Effective C. Ineffective D. Very ineffective E. Do not know

7. What makes VAT refund audit and compliance effective? Please state.

.....
.....

8. Do you have any suggestion on compliance and audit checks to improve VAT refund process?

.....
.....

9. In your opinion how can you rate the following statements? (Use the five likert scale provided where strongly agree =1, fairly agree=2, neither agree nor disagree=3, disagree=4, and strongly disagree=5):

Statements	1	2	3	4	5
Tax payers comply with VAT refund requirements					
The VAT refund audit checks are efficient					
The audit checks delay VAT refund					
VAT refund payment procedures are not complicated					
The VAT refund compliance is at its best, approaching 100%					

Section D: VAT legislation

1. Do you understand the provisions of the Act governing VAT refund?

A. Yes B. No

2. (a) Are there certain sections that inhibit VAT refund in the Act?

A. Yes B. No

(b) If yes explain your answer

.....
.....

3. Do you think taxpayer education may assist the legal provision to promote quick compliance with VAT claim requirements and VAT refund payment?

A. Yes No.

If yes explain.

.....
.....

4. In your opinion does legislation affect VAT refund process?

A. Negatively B. Positively

5. Is VAT refund legislation complicated?

A. Yes B. No C. Don't know

6. Suggest what needs to be done on the legislation to improve VAT refund process

.....
.....
.....
.....

Section E: Role of information Technology in VAT refund process

1. Has KRA embrace IT in its VAT refund operations? A. Yes B. No

2. How has IT affected the VAT refund?
A. Negatively B. Positively

3. What can you say about the level of VAT refund payment?
 - a) Before introduction of IT?
A. Increased B. Decreased C. Not aware

 - b) After introduction of IT?
A. Increased B. Decreased C. Not aware

4. What is your opinion about IT in VAT refund process?
.....
.....

5. Do you think IT and other computer transactions could help to hasten VAT refund
A. Yes B. No

6. What are your suggestions on IT and computerization to improve VAT refund
process?
.....
.....

Section F: Staff training and adequacy

1. In your opinion how can you rate the following statements? (Use the five likert scale provided where strongly agree=1, fairly agree=2, neither agree nor disagree=3, disagree=4, and strongly disagree=5):

	1	2	3	4	5
--	---	---	---	---	---

Statements					
Taxpayers understands the VAT refund procedures					
The VAT refund legislation are easily understood					
The VAT legal framework for refunds is efficient					
Staff at VAT refund section are motivated to perform their duties					
Staff at VAT refund section are well trained to perform their duties.					
Staff at VAT refund section are adequate to perform expected operations					
Compliance and audit checks have improves VAT refund process					
Introduction of iTax has positively influenced VAT refund process					

2. Do the staff in DTD, VAT refund section appear well trained in the handling of VAT refund transactions? A. Yes B. No

3a. How has the staff training affected the VAT refund?

A. Negatively B. Positively

3b. In which way? Please explain.

.....

4. Suggest what you want done on number of staff and their training to improve VAT refund.

.....

.....

Thank you for participating