

**INFLUENCE OF WITHHOLDING VALUE ADDED TAX KNOWLEDGE  
ON TAX COMPLIANCE IN KENYA: A CASE OF NAIROBI COUNTY**

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## DECLARATION

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

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**HBD-336-C016-6469/2016**

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Date

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

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Signature

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Date

## **ACKNOWLEDGEMENT**

I give thanks to God, the Almighty for giving me sufficient grace to complete this project. I thank my supervisor, Dr. Michael Muma for the support and encouragement that has enabled me to complete this project. I thank my family members for the support they gave me to clear this project.

## **DEDICATION**

I dedicate this project to my friends and class mates at KESRA.

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## **ACRONYMS AND ABBREVIATIONS**

<b>CMA</b>	Capital Market Authority
<b>KESRA</b>	Kenya School of Revenue Administration
<b>MNCs</b>	Multinational Corporations
<b>SPSS</b>	Statistical Package for Social Sciences
<b>VAT</b>	Value Added Tax

## OPERATIONAL DEFINATION OF TERMS

**Knowledge of refund of excess credit** It is possessing information as it regards the difference between Input VAT and output VAT (Olokooba, Awodun, Akintoye & Abubakar, 2018).

**Knowledge of submission of withholding VAT returns** It is having adequate information as it regards how the withheld taxes are remitted to respective Commissioners (Almunia, Gerard, Hjort, Knebelmann, Nakymbadde, Raisaro & Tian, 2017).

**Knowledge of supplies liable to withholding VAT** It refers to having clear information of goods and services that should be subjected to withholding VAT in an economic system (Walpole & Stiglingh, 2017).

**Knowledge of the offences under withholding VAT system** It is having information on outcomes of failing to abide by the established regulations and guidelines governing withholding tax system (Olokooba, 2019).

**Tax Compliance** It covers registration, filling and payment of taxes on time (Castro & Scartascini, 2015).

**Withholding Value Added Tax** It is tax enforcement measure where VAT is deducted at 6% by the appointed agents and remitted to the Commissioner within the prescribed time frame (Brockmeyer & Hernandez, 2016).

## **ABSTRACT**

Much of the literature has focused on withholding VAT and how it influences compliance but failed to establish the role played by VAT withholding knowledge on compliance. There is currently unresolved debate with two views on whether knowledge of withholding VAT would increase or decrease tax compliance among the tax payers. Kenya is rated among countries with low rate of tax compliance around the world. The low rate of compliance has largely been evidenced by failure of the Kenya Revenue Authority to meet revenue collection targets. The main objective of the study was to establish the influence of withholding value added tax knowledge on tax compliance in Nairobi City County. The study was guided by the following specific objectives; to explore the influence of knowledge of submission of withholding VAT returns on Tax Compliance in Nairobi County, to understand how knowledge of refund of excess credit influences Tax Compliance in Nairobi County and to underline the effect of knowledge of the penalties & interests under withholding VAT system on Tax Compliance in Nairobi County. The study adopted a descriptive research design. The population of the study comprised of 1850 VAT withholding tax agents. The study used stratified random sampling technique where 328 respondents formed the sample size. Primary data was gathered with the help of questionnaires. The collected data was entered into Statistical Package for Social Sciences for analysis. Descriptive statistics like means and standard deviations and inferential statistics like regression analysis were used in analysis. The findings were presented in form of tables and figures. The study established that knowledge of penalties and interest under withholding VAT, knowledge of refund of excess credit and knowledge of submission of withholding VAT all have positive and significant effect on tax compliance. The study concludes that withholding VAT knowledge has positive and significant effect on tax compliance. The study recommends that the Kenya Revenue Authority should put in place education programs that aim at increasing knowledge of submission of withholding VAT returns which may result into increased compliance. More SMEs should get registered for the purpose of VAT so that they gain from excess credit that is refunded by the Kenya Revenue Authority. KRA should create more awareness of the interests and penalties that may accrue to tax payers for failing to withhold VAT or pay the withheld amount.

# CHAPTER ONE

## INTRODUCTION

This chapter focuses on the background of the study with the statements of the problems, the objectives as well as the research questions. The significance, scope as well as limitations encountered in the field are also detailed.

### 1.1 Background of the Study

In its simplest form, withholding value added tax (VAT) is a system that merely shifts the responsibility of collection of VAT from the tax authority to the appointed VAT agents (Yesegat, 2016). However, it is unclear whether this shifting of the responsibility for collecting VAT tax by any chance increase compliance among the tax payers. According to Carrillo and Shahe-Emran (2018), much of the literature has focused on withholding VAT and how it influences compliance but failed to establish the role played by VAT withholding knowledge on compliance. Knowledge is an important factor as far as tax conformity is concerned since it is directly connected with the ability of the tax payers to clearly understand the tax rules in any jurisdiction. Under any withholding tax system, Mascagni, Monkam and Nell (2016) argue that tax knowledge is an important factor influencing voluntary compliance among the tax payers.

Withholding VAT knowledge has gained relevance among policy makers due a number of reasons. First, VAT is a unique form of tax since its remittance occurs at several stages within the production system where taxes that are paid on inputs (purchases) are credited against taxes that are withheld on output (sales) (Rios & Seetharam, 2017). This has an implication that the collection of tax revenues is continuously done by appointed tax agents throughout the production chains without having interference to the decisions of production (Faridy, Freudenberg, Sarker & Copp, 2016). The other feature is that VAT system calls for both parties (buyers and sellers) of any transaction to ensure that figures are separately reported. However, each party to the transaction may have different incentives as it regards declaration of VAT. It is against these features that withholding VAT has received attention among the policy makers hence the need for its clear understanding through knowledge (Buettner, Holzmann, Kreidl & Scholz, 2019).

There exists unresolved debate on whether withholding VAT knowledge is associated with increased tax compliance among the tax payers. This is because in theory, withholding tax may give rise to refunds under some specified circumstances (Inasius, 2019). In practice however, it is costly for a tax payer to reclaim the excess amount withheld as they incur an administrative cost for such a reclaim.

At the same time, the tax payers will only reclaim the excess VAT withheld if they are fully compliant. Based on this argument, it can be inferred that withholding of VAT may not necessarily bring about tax compliance (Miller & Oats, 2016). Thus, it is against this unresolved debate that informs the need for the current study that seeks to determine how withholding VAT knowledge may influence tax compliance in Kenya.

### **1.1.1 Global Perspective of Knowledge of Withholding Value Added Tax**

Withholding Value Added Tax has remained a contemporary issue around the world as more countries seek out for ways of increasing the amount of collected revenues. Most Latin American countries have implemented withholding VAT systems of collecting VAT. Some of these countries include Panama, Colombia, Ecuador, Argentina and Mexico. According to Matarirano, Chiloane-Tsoka and Makina (2019), the major challenge by this system is poor knowledge among the tax payers on how it operates. In New Zealand, most tax payers have enough knowledge as it regards withholding VAT and are highly complaint with the regulation guiding tax matters in the country (Ameyaw, Korang, Twum & Asante, 2016). In Malaysia, Ibrahim, Bidin, Saad and Mansor (2018) argues that public lectures are used as means of increasing tax payers' knowledge on withholding VAT.

Another related study in Malaysia by Kasippilai and Jabbar (2013) indicated that most small firms have knowledge on withholding VAT. Consistent findings were established by Bornman and Ramutumbu (2019) who opine that lack of withholding VAT knowledge may make tax payers not to comply with taxes either intentionally or unintentionally. Inasius (2019) obtained inconclusive results of whether most small firms in Indonesia and Hungary, Dubai and Spain have knowledge of withholding VAT. This is because the results showed unequal existance of firms with withholding tax knowledge and the firms with no such knowledge. In United Kingdom, Kirchler, Hartl and Gangl (2017) argues that withholding VAT knowledge can be

classified into two key categories; knowledge gained formally gained through classroom exposure or after attending a given course and the knowledge that is specifically directed towards evasion of taxes. Waiswa, Fekade and Lake (2019) argue that most firms in UK have knowledge of withholding VAT and they highly comply with taxes.

In Costa Rica, any amount of VAT withheld is entirely credited against the sales tax liability or income of a tax payer. Such an amount can result into a cash refund whenever the withheld amount is far beyond the liability of the tax payer (Fergusson, Molina & Riaño, 2019). In United States of America, a number of laws and policies have been passed to ensure that VAT compliance among the tax payers is improved. Some of these measures including the need drive for withholding of taxes at the income sources such that VAT is withheld by an organization responsible for payment of goods and services and latter forwarded to the government (Brockmann, Genschel, & Seelkopf, 2016).

### **1.1.2 Regional Perspective of Knowledge of Withholding Value Added Tax**

It is acknowledged that unlike any other form of tax, it is hard for tax payers not to comply with VAT payment. This is because both input sellers as well as intermediate purchasers ensure that the records of the transaction are well kept. This helps in providing an audit trail and is expected to deter any attempt not to comply with taxes (Saraçoğlu, Çaşkurlu & Pürsünlerli, 2018). At the same time, since buyers as well as sellers have opposing incentives, this is supposed to lower the scope and probability of collusion in reporting. Lastly, remittance of taxes occurs at every stage of production as opposed to only at the retail level. All these arguments have increased recognition of withholding VAT taxes among several countries in Africa (Beyene & Lakew, 2019).

A number of countries in Africa have implemented withholding VAT system including Rwanda, Nigeria and other countries in West Africa. The key driver for adoption and use of withholding VAT system in most African countries is to boost compliance among tax payers (Waseem, 2019). In Cameroon, the withholding tax system was abolished in 2010 because it did not achieve the intended outcomes (Cameroon Ministry of Finance, 2015). The withholding VAT system was also abolished in Senegal in 2013 owing to the same reason as that of Cameroon (IMF, 2014). A study was carried in Nigeria by Onwuchekwa and Aruwa (2014) to establish the importance as well as key challenges in VAT system. It was shown that Nigeria has low level of tax compliance because of inadequate knowledge as seen by unavailability of record as well as low education that would otherwise have increased compliance among the tax payers.

Another related study in Nigeria was conducted by Nwanyanwu (2015) and it was established that withholding VAT knowledge has a negative effect on tax compliance. Ethiopia is among African countries where VAT has contributed little percentage to the overall revenue. For instance, in 2013, VAT and other indirect taxes explained only 27% of the total revenues collected in the country. These challenges resulted into implementation of withholding VAT system in 2009 in Ethiopia as a way of increasing the amount of taxes collected and compliance with VAT (Dare, du-Plessis & Jansen, 2019).

### **1.1.3 Kenyan Perspective of Knowledge of Withholding Value Added Tax**

Withholding VAT is not new concept in Kenya, having been first introduced in the year 2003, then suspended in the year 2011 and later on reintroduced in the year 2014 (Gituru, 2017). It emerged as a result of amendment of the VAT Act 2013 by the Finance Act 2014 resulting into withholding VAT system at 6%. This however was only limited to government agencies, ministries as well as departments (Aondo, 2019). Through the Finance Act 2015, there was an amendment giving Commissioner the powers to appoint any other individual as a withholding agent. In the VAT context, a supplier is deemed as any individual as well as entity that make taxable supplies who must issue a valid invoice (Musau, 2015).

The withholding VAT system is premised on four key issues; supplies liable to withholding VAT, submission of withholding VAT returns, refund of excess credit and the offences under withholding VAT system. Not all the produced goods or services are subjected to withholding taxes but only taxable goods/services (KRA, 2014). This therefore excludes zero rated products. According to Gatheru and Gitonga (2018), withholding VAT is not a new system of taxation but rather, a reinforcement mechanism and measure of ensuring that all the charged taxes are remitted to the government.

Before its implementation, suppliers were highly tempted to reduce the amount of VAT declared and due for payment. Withholding VAT plays an important role as far as compliance is concerned (Mbuguah, Mwambia & Baimwera, 2017). This is because it helps in tracking the tax payers who may be tempted to reduce their tax liabilities. According to Maina (2017), Kenya scrapped withholding VAT because not all the withheld amount of VAT got remitted at the Kenya Revenue Authority.

This resulted into a drop in overall performance of VAT in the country. The reintroduction of withholding VAT in Kenya has brought about a debate on whether the tax payers have knowledge about the system (Rotich, 2016).

#### **1.1.4 Tax Compliance**

According to the Economic Cooperation and Development (2015), tax compliance can be defined based on two perspectives; administrative as well as technical compliance. Administrative compliance has to do with ensuring that the administrative regulations and rules of payment as well as lodging on time are observed (Slemrod, 2016). On the other hand, technical compliance has to do with calculation of taxes on the basis of the technical requirements of the laws governing taxation (Muehlbacher, Hartl & Kirchler, 2017). In the context of VAT, the term compliance is used in reference to ability of the tax payers to comply with requirements as it regards registration, assessment, accounting as well as remittance of VAT to relevant tax authorities. Keegan (2017) argues that tax compliance can be enhanced by putting in place more controls for detecting those people fail to comply as well as institution of punishments.

In Kenya, the rate of tax compliance is generally very low among the tax payers. This is majorly attributed to a number of factors, the chief being lack of knowledge among the tax payers. In fact, tax compliance in Kenya for the fiscal years covering 2010 and 2013 stood at 65% and 66.9% respectively (Crowe Horwath International, 2016). In fact, around the world, Kenya is classified as one of the countries with low rates of compliance which has adversely affected the growth of the economy as a whole. Of this, VAT accounted for the highest percentage of non-compliance (KRA, 2015). This low rate of tax compliance among the tax payers in Kenya has resulted into massive borrowing by the government internally as well as externally. Nairobi is the capital city of Kenya where the key activities of the government are planned and executed. It also houses the headquarters of most companies in Kenya including the multinational corporations (MNCs). Nairobi will be ideal for the study because being the capital city; it has the largest number of registered tax agents who are charged with the responsibility of withholding VAT.

## 1.2 Statement of Problem

Although a relatively new concept in most developing countries, withholding VAT knowledge has received little attention by scholars. Most policy makers have shifted the focus on withholding VAT and how it influences compliance with little focus on the role played by such knowledge by the tax payers (Slemrod, 2018). There is currently unresolved debate with two views on whether knowledge of withholding VAT would increase or decrease tax compliance among the tax payers. One view holds that having knowledge of withholding VAT may result into creative accounting that may make the tax payer not to comply with taxes. The other view holds that a tax payer with more knowledge on withholding VAT will be better paced to understand the need for tax compliance (Keraro, Oloo & Ragama, 2017).

Kenya is rated among countries with low rate of tax compliance around the world. The low rate of compliance has largely been evidenced by failure of the Kenya Revenue Authority to meet revenue collection targets (Waiganjo, 2018). For instance, KRA missed revenue collection targets by Kshs. 85.9 billion, Kshs. 66 billion and Kshs. 60.46 billion shillings for 2013, 2016 and 2018 respectively. This consistent failure to meet the revenue collection targets have been attributed to failure of some tax payers to comply with taxes. This trend in failure to meet revenue targets has resulted into heavy reliance of internal and external sources of funds which may not be sustainable over time. In the effort to reverse this trend, withholding VAT system was reintroduced at the KRA in 2014. However, since its reintroduction, little has been attained as far as compliance with tax is concerned (Mbuguah et al., 2017). In order to increase compliance with this withholding tax system, the Domestic Tax Department should organize continuous training programs to among suppliers as well as the appointed agents as one way of increasing their knowledge (KRA, 2014).

There is a growing body of literature focusing on withholding VAT and tax compliance although in different contexts. For instance, Brockmeyer and Hernandez (2016) sought to establish the link between taxation and withholding using a case of Costa Rica and revealed that increasing the rate of withholding VAT results into an increase in the amount paid by the tax payers. Mittal and Mahajan (2017) looked at VAT in emerging economies with a focus on the role played by third parties in verification and found out that change in behavior towards VAT increases the amount of collected revenues.

Nura, Abdul-Jabbar and Ibrahim (2017) looked at VAT compliance and how this influences business environment with a focus Small and Medium Enterprises (SMEs) and established that most studies on determinants of compliance majorly focus on income tax at the expense of VAT. Nwanyanwu (2015) looked at the process involved in administering VAT in context of Nigeria and established that irrecoverable invoices and tax compliance have negative but significant relationship. King'oina (2016) used a case of construction firms to determine factors that influence compliance with VAT and indicated that knowledge as well as understanding of VAT increased compliance.

Thus, from the aforementioned studies, it is clear that most of them were carried out in different countries including Nigeria and Costa Rica and not in Kenya. Other studies failed to specifically focus on withholding VAT knowledge and its influence on compliance. This brings about knowledge gaps that the current study sought to fill by examining the influence of withholding value added tax knowledge on tax compliance in Nairobi City County.

### **1.3 Objectives of the Study**

The study was guided by general and specific objectives

#### **1.3.1 General Objective**

The general objective of the study was to establish the influence of withholding value added tax knowledge on tax compliance in Nairobi City County

#### **1.3.2 Specific Objectives**

The study was guided by the following specific objectives

- i. To explore the influence of knowledge of submission of withholding VAT returns on Tax Compliance in Nairobi County
- ii. To understand how knowledge of refund of excess credit influences Tax Compliance in Nairobi County
- iii. To underline the effect of knowledge of penalties & interests under withholding VAT system on Tax Compliance in Nairobi County

## **1.4 Research Questions**

The study was guided by the following research questions;

- i. What is the influence of knowledge of submission of withholding VAT returns on Tax Compliance in Nairobi County?
- ii. How does knowledge of refund of excess credit influences Tax Compliance in Nairobi County?
- iii. To what extent does knowledge of penalties & interests under withholding VAT system affect Tax Compliance in Nairobi County?

## **1.5 Significance of the Study**

The findings of the study would be important to the senior management team at the Kenya Revenue Authority (KRA), all approved VAT agents as well as future scholars and academicians.

### **1.5.1 Management of the Kenya Revenue Authority**

The Kenya Revenue Authority is a government agency charged with the responsibility of collection of taxes on behalf of the government. The findings of the study would be important to the management of KRA (particular the Domestic Tax Department) as it would point out the need to organize for more training on withholding VAT among the appointed agents and suppliers. This would increase the knowledge on withholding VAT and thus in some way enhance compliance among the tax payers.

### **1.5.2 Approved VAT Agents**

The approved VAT tax agents are responsible for withholding 6% of the value of VAT and remitting the same to the government. The findings would shade more light on supplies that are to be subjected to withholding taxes, circumstance for refund of excess credit as well as the penalties and interests that may accrue to them for failure to withhold VAT. Knowledge of these aspects of VAT is important because it is hoped that it would bring about increased compliance.

### **1.5.3 Scholars and Academicians**

The study would bring about a new body of literature on withholding VAT knowledge and would have a chance to review the literature of this study to advance the available knowledge. The study would also recommend areas that future scholars can focus on to advance the body of literature on withholding VAT knowledge and tax compliance.

### **1.5.4 Policy Makers**

Policy makers include the capital market Authority (CMA) that are charged with the responsibility of formulating effective policies for the overall growth of the economy. The findings would inform policy makers to come up with proper policies as it comes to tax compliance and withholding of VAT.

## **1.6 Scope of the Study**

The study sought to determine the influence of withholding value added tax knowledge on tax compliance. Specifically, the study looked at knowledge of submission of withholding VAT returns, knowledge of refund of excess credit and knowledge of penalties & interests under withholding VAT system and how they influence tax compliance. The study was conducted in Nairobi County and respondents would include suppliers and the appointed withholding tax agents. Nairobi County was used because it is the capital city of the Republic of Kenya hence geographically suitable for the study. The study was carried out in the month of September, 2019.

## **1.7 Limitations of the Study**

This study was limited to withholding VAT knowledge and its influence on compliance. Withholding VAT knowledge was operationalized into knowledge of submission of withholding VAT returns, knowledge of refund of excess credit and the penalties & interests under withholding VAT system. The study focused on withholding VAT agents. The study was limited to primary data which was collected with the use of questionnaires.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter reviews literature that is relevant to the study on withholding VAT knowledge and their influence on tax compliance. The review is centered on key theories as well as past empirical studies done. The conceptual framework is presented with key variables and the measurement of each of the variable. The reviewed literature will be summarized, criticized as well as analyzed to bring out gaps.

#### **2.2 Theoretical Review**

A theoretical review is a structure with theories that offer an explanation as to why a given problem under investigation of the study exists. Sekaran and Bougie (2016) consider a theoretical review as a framework that helps in defining key concepts, establish the link between the concepts and give a discussion of the relevant models and theories. A theoretical review looks at past theories that provide anchorage to the objectives of the study (Smith, 2015). The study will be guided by two theories namely; the ability to pay theory, equal sacrifice theory and the economic deterrence theory.

##### **2.2.1 Ability to Pay Theory**

The ability to pay theory was formulated by Smith and Pigou (1903) and it argues that people in any country have a responsibility of supporting the government in equal proportion of their abilities. The theory argues that the total burden of taxes should be equally distributed among people based on their capability to bear them. In other words, the income or ability of individuals to make payments is informed by how much taxation one should pay. This forms the basis of a progressive tax system in a country (Saez & Stantcheva, 2016). The ability to pay theory opines that people with a higher share of incomes or wealth have the ability to make tax payments and thus they should be taxed at a higher rate as compared to those people earning less income (Rose & Karran, 2018). This results into an equitable tax system in a country. The limitation of this theory however is from the fact that it does not offer an effective way of measuring equity of

sacrifice. This is because several measures can be used including the marginal, absolute as well as proportionate indicators (Payne & Raiborn, 2018).

This theory can be extended to the area of taxation and the tax system in increasing the revenue collection to the government (Zhang, Andrighetto, Ottone, Ponzano & Steinmo, 2016). The theory does not vividly focus on VAT withholding because people with high income and those with low income are both subjected to equal values of VAT. Jones and Rhoades (2011) note that VAT withholding systems are deemed to be regressive but not progressive.

### **2.2.2 Equal Sacrifice Theory**

The equal sacrifice theory was formulated by Mill (1848) and its essence was to ensure that the tax system is consistent with the theory of justice. The theory argues that in bringing justice in taxation, the sacrifices by different tax payers should be considered (Fleurbaey & Maniquet, 2018). The theory focuses on justice in the taxation arena where it argues that transactions, wealth as well as incomes should all be subjected to a fixed percentage of taxation in an economic system. This has an implication that people earning a higher income should be subjected to a higher amount of tax, but they should not be subjected to a higher rate of taxation (Musgrave & Musgrave, 1989). The equal sacrifice theory was formulated on the basis of people who have been exposed to taxes that conform to their levels of income. According to modern economists, the marginal utility of income keeps on reducing with an increase in the income levels of individuals (Weinzierl, 2018). Thus, for equal sacrifice to hold, it is evident that people whose level of income is relatively higher should be taxed at a relatively higher rate relative to those whose income is very low. The concept of VAT is well captured in the equal sacrifice theory since each person is subjected to an equal amount of VAT on any particular good irrespective of their income levels.

### **2.2.3 The Economic Deterrence Theory**

The economic deterrence theory was formulated by Becker (1968) and Allingham and Sandom (1972). The underlying assumption of the theory is that people will be deterred from failing to comply with tax (which is a crime) if the benefits associated with noncompliance is far beyond the consequences that may arise from not complying with taxes (Feld & Frey, 2018). The theory

assumes that people have full knowledge on the consequences linked with failure to comply with taxes (Oladipupo & Obazee, 2016).

However, the tax payers will act in contravention of the law after a thorough evaluation of the unclear and risky benefits of failing to comply with taxes successfully against the risks and offences in the event that they are caught from noncompliance. Kendrick (1939) believes that two approaches can be used to act as deterrence mechanisms; persuasion or punishment. Under the punitive approach of deterrence, it is assumed that application of offences and penalties and a reduction in chances of non-detection will effectively deter taxpayers from conducting actions linked to non-compliance with taxes (Kiow, Salleh & Kassim, 2017). On the other hand, the persuasive approach leverages on activities related to improvement in the knowledge of the tax payers as it regards the laws and regulations to enhance their compliance. From this theory, it can be inferred that risk averse tax payers is likely to comply more with taxation as compared to risk takers (tax payers who are less risk averse).

At the same time, a clear knowledge of the tax systems in place is critical in assessing the relative probabilities of being caught for noncompliance as well as how severe the punishment and penalties are in the event that the tax payer is found to have failed to comply with taxes (MacDonald & Pyle, 2018). Thus, the theory is relevant in stipulating the criteria for making decisions among tax payers particularly in regard to the amount of taxes they report to the authority. The theory supports the variable of knowledge of the offences under withholding VAT system on Tax Compliance. Tax payers will assess the severity of the offences under withholding VAT system in deciding whether they comply with taxes.

#### **2.2.4 Theory of Planned Behavior**

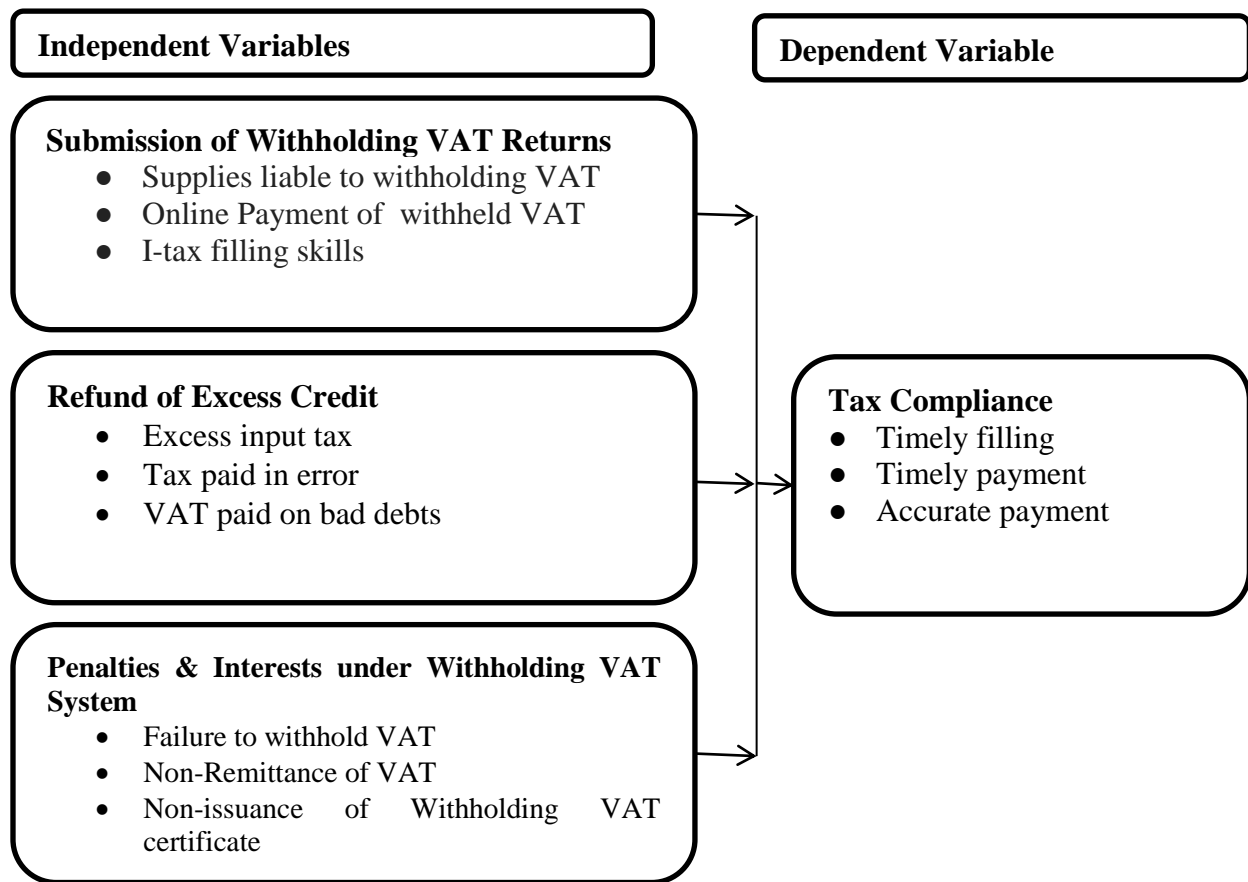
This is a psychological theory that links beliefs and behavior, tries to explain human behavior. The concept was proposed by Icek Ajzen to improve on the predictive power of the theory of reasoned action by including perceived behavioral control. According to this theory, the behavior of individuals within the society is under the influence of definite factors which originate from certain reasons and emerge in a planned way. The ability to perform a particular behavior depends on the fact that the individual has a purpose towards that behavior (behavioral

intention). Behavioral intention in turn depends on three factors that is Attitude towards the behavior, Subjective norms and Perceived behavioral control.

These three factors are also under the influence of behavioral beliefs, normative beliefs and control beliefs. The focus of this theory therefore is on the taxpayer’s morals and ethics. The theory suggests that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize on increased audits and penalties as solutions to compliance issues, psychological theories lay emphasis on changing individual attitudes towards tax systems.

### 2.3 Conceptual Framework

Figure 2.1 is the conceptual framework of the study.



**Figure 2.1: Conceptual Framework**

### 2.3 Review of Study Variables

The study has two key variables; the independent as well as the dependent variable. This section reviews literature on the variables of the study.

### **2.3.1 Knowledge of Submission of Withholding VAT Returns and Tax Compliance**

One common feature of VAT systems around the world is that some firms are exempted from taking part. In most developing economies, there exists large firms and the informal sector that do not take part in VAT withholding since some of them have not even been registered with the authority (Morini & Pellegrino, 2018). For example, some small firms earning revenues lower than the established threshold are typically exempt from participating in withholding VAT. Scheve and Stasavage (2016) argue that the complexity of the withholding VAT system require higher thresholds for registration of firms.

In Kenya, not every item is subjected to withholding VAT, but only the taxable supplies that are locally within the country. This theory implies that VAT is not withheld on exempt and zero rated goods. Any amount of VAT withheld on these goods will be considered as tax paid in error and suppliers are entitled to claim a refund (Aondo, 2019). Withholding VAT is levied at 6% on local taxable goods and services irrespective of whether a tax has been charged on them or not. Levying of withholding VAT on Vatable supplies is conducted by the appointed tax agents in Kenya. According to Roh (2019), exceptions in a withholding tax system are associated with adverse effect on supply chains as well as mobilization of revenue. In VAT systems where all firms need to register, costs would be too high especially as it regards enforcement and compliance. On the contrary, having exemptions in VAT systems may weaken compliance with VAT and distort the choice of firms in the supply chain (Chege, Kiragu, Lagat & Muthoni, 2015).

Yesegat and Joseph (2017) argue that advancement in technology has changed the landscape for submission of withheld VAT taxes by the appointed agents. With technology, tax payers are able to electronically file their VAT returns to the respective tax administration bodies. In Uganda, Gendron (2017) opine that business tax payers are supposed to ensure that their VAT returns are electronically filled while reporting the itemized business to business (B2B) transaction. Similarly, in Brazil, Gerard, Naritomi and Seibold (2018) argue that the electronic invoices from Business to Business transactions are encrypted by very unique keys and they are sent to tax authority in a real time basis.

A number of benefits accrue from submission of withheld VAT online, including reduction of compliance costs and availing huge information about the economy that is relevant to policy makers. In Kenyan system, all the amount of VAT withheld is remitted to KRA by the appointed tax agents on a weekly basis. The form, VAT 32 is used by these agents to make the payment of withheld amounts. A supplier that has had the VAT withheld at 6% is still required to submit VAT 3 return and pay the charged tax irrespective of whether the tax has been or will be withheld.

### **2.3.2 Knowledge of Refund of Excess Credit and Tax Compliance**

A refund is paid only if an amount of excess credit remains to be recovered by the taxpayer at the end of the carry-forward period. Some systems also allow a VAT credit in a given tax period to be offset against other current tax liabilities such as income tax. In Kenya, suppliers who are tax payers have the obligation to claim back all the VAT withheld using the sequent VAT 3 return(s). However, this can only occur when such a tax payer has a valid withheld VAT certificate in place (Carrillo & Emran, 2018). All these activities are conducted through the online portal of KRA and thus suppliers must first be registered with KRA first before claiming for excess credit refund. There are a number of conditions that may bring about Excess Credit that suppliers are liable to lodge for a claim for refund. These include when the VAT is withheld on zero rated on exempt supply or when the amount of withheld on bad debts of the supplier (Casey & Castro, 2015).

### **2.3.3 Knowledge of Penalties & Interests under Withholding VAT System and Tax Compliance**

Buettner, Holzmann, Kreidl and Scholz (2019) view an offence as a violation of legislation, laws or regulation and they may either be minor or major. Serious offences are usually liable to heavy punishment. In Nigeria, there are several categories of offences as far as taxation is concerned. These include failure to deduct or remit the taxes, counterfeiting of documents as well as false declaration and obstruction. In Kenya, there are various offences under the withholding VAT tax system (Faridy, Freudenberg, Sarker & Copp, 2016). These include inability of the appointed tax agents to withhold VAT, inability to remit the withheld amount or submit a return in the event that there is no payment to make. Other offences include inability to issue withholding VAT certificate and purporting to be appointed agents.

### **2.3.4 Tax Compliance**

Muturi and Kiarie (2015) view tax compliance abidance to tax laws and expectations and Dome (2013) identified four dimensions of compliance. These include registration of tax payers on time, timely submission of tax returns, and timely payment of taxes and accurate reporting of tax liability. Slemrod (2018) considers tax compliance as the ability of tax payers to timely file and report the required information of tax. The key measures of tax compliance from literature therefore include filing, reporting and payment (Khadijah, 2014).

### **2.4 Empirical Review**

This section reviews past studies on the variables of the study that include; knowledge of supplies liable to withholding VAT, knowledge of submission of withholding VAT returns, knowledge of refund of excess credit and knowledge of the offences under withholding VAT system and how they influence tax compliance.

#### **2.4.1 Knowledge of Submission of Withholding VAT Returns and Tax Compliance**

Submission and remittance of withheld or charged VAT in Malawi is done by 25th of any subsequent month. Chege, Kiragu, Lagat and Muthoni (2015) conducted a study to establish the influence of electronic devices on collection and submission of withheld VAT. The study was carried out in the context of Tanzania. Secondary data was analyzed from 391 firms in the revenue administration authority of Tanzania. Descriptive design was adopted and the analysis of the findings indicated that statistically significant relationship between electronic devices and VAT collection.

Lee (2016) studied the role played by electronic tax invoicing on compliance with reference to Korea as a republic. Specifically, the study looked at the role played by the electronic invoicing as implemented in Korea as far as tax compliance is concerned. The study established that adoption of e-invoicing increases collection of VAT and thus raising compliance among the tax payers. Muhammed and Tesafa (2015) looked at the role of electronic tax register machines on compliance with VAT. The study was conducted in the context of Ethiopia. In total, 176 VAT registered tax payers were sampled who were deemed to have been using ETRs in the area.

To sample respondents, simple random sampling technique was used. Data collection was done with information sought from the field with the help of questionnaires hence it was primary in nature. The instruments for collection of data were designed on a Likert scale of 5-points, the indicated the extent of agreement among respondents on the items of the questionnaires. The findings indicated that submission of VAT through online systems increase compliance among tax payers.

Yilmaz and Coolidge (2013) looked at electronic filling and its influence compliance costs with reference to developing economies. It was established that adherence to e-filing where taxpayers are strictly required to report e-filing as well as paper filling of VAT go a long way to reduction of compliance costs. Electronic invoicing has turned out as a key measure of collection of VAT and thus increased compliance among tax payers in a number of countries. Invoices are crucial as far as compliance is concerned since they provide trail. In Austria, PDF documents are not regarded as genuine and valued electronic invoices but the only prescribed format for e-invoice is XML (Billentis, 2014). In Mexico, it is compulsory for firms with annual turnover of USD320, 000 to issue electronic invoices. In Kenya, the Finance Act 2017 has a provision that any withheld VAT should be remitted to the Commissioner on or before the 20<sup>th</sup> day following the one that the VAT has been withheld.

Gerard, Naritomi and Seibold (2018) sought to establish the influence of exempting some goods from withholding VAT on compliance. The study was conducted in Brazil. Empirical review indicated that in Brazil, there has been acquisition of electronic invoicing of B2B transactions among all firms. It was established that exempting some products from VAT does not necessarily offer an opportunity for increased compliance with taxes. In Chile, there is only a single VAT rate standing at 19% which is paid per month. The differences between total sales as well as input costs determine the amount of VAT payable in Chile. For Philippines, withholding VAT is applicable to only taxable supplies provided the value exceeds Three Million Pesos. A review by the Malawi Revenue Authority (2018) shows that any individual making taxable supplies of services or goods with a business turnover of Kshs K.10 million in a year should get registered for VAT withholding purpose. The proof for registration of withholding VAT in Malawi is possession of a registration certificate.

In Uganda, return of withholding VAT was suspended in 2018 but it has been reintroduced. As opposed to 18%, the amount of VAT to be withheld is at 6% and compliant tax payers are exempted from withholding of VAT in Uganda. The amount of VAT to be withheld does not apply for zero-rated supplies including drugs, medicines as well as the manufactured sundries. There are also exempt supplies including imported goods like drugs and medicine. The end users of products or services usually bear the VAT in China and the firm is liable to credit all paid VAT when acquiring goods and services (input VAT) relative to the amount of VAT collected when goods or services are sold (output VAT). Within a given period, the difference between input and out VAT is the total value of tax liability for the firm within the period. All member countries of European Union apply a standard VAT rate of approximately 15%. In Finland, the standard VAT rate by 21014 was at 24% which apply to all goods and services sold. However, there are two reduced rates; 14% which applies to restaurant as well as food services and 10% which is applicable to pharmaceuticals as well as books.

The standard rate of VAT at 12% is applicable for all taxable supplies that fail to qualify as either exempted or zero rated supplies in Botswana. Therefore, there exists no reduce of higher value of VAT (Zekarias, 2018). It is only authorized and registered individuals who can impose VAT in Botswana. There are exempt as well as zero rated products in Botswana for the purpose of accounting for VAT. Kettle (2015) conducted a study to establish the factors that may make tax payers to be more compliant with VAT payment using a case of Guatemala. The findings indicated that knowledge is an important factor as far compliance is concerned. In Kenya, not all supplies qualify for withholding of VAT. Withholding of VAT only apply to those supplies (goods and services) that attract a 16% VAT which are locally available. Withholding of VAT therefore does not apply to exempt supplies, local zero rated supplies, exports, imported services as well as imported goods.

#### **2.4.2 Knowledge of Refund of Excess Credit and Tax Compliance**

Prepaid tax systems are widely used in most tax structures of countries around the world including the VAT systems. Theoretically, tax prefers to avert risks when experiencing gains with preference for risk when experiencing losses.

Hence, when referring to a given level of income, the tax refund that the prepayment system generates will be deemed as a benefit (or loss). Morita (2014) established that prepaid systems have no influence on tax compliance. According to Bognetti and Santoni (2016), more experienced tax payers may have preference for tax refunds more than the less experienced ones. In Sweden, Engström (2015) conducted a study to establish the influence of prepayment systems on compliance. The study established that tax payers located in tax refund zones mostly prefer to declare low values of deductions as compared to the tax payers in deficit zone who were probable to declare higher amount of deductions. As compared to sales tax, VAT has higher chances for fraud due to mechanisms for input VAT. It has been widely acknowledged that VAT refund mechanisms and systems expose the invoice-credit VAT to fraud (Faridy, Freudenberg & Sarker, 2017). VAT fraud has been an issue among developed as well as developing countries. In most developing countries, there are higher backlogs of cases for VAT refunds due to much time required for analysis of returns to prevent VAT fraud (Brauner & Baez-Moreno, 2015). There are various forms of fraud that involve input VAT credit; filing of false claims for credit, inflation of credit amount through alteration of invoice amount, claim for zero rating for exports that do not exist, crediting purchases which are not creditable as much as coming up with bogus and fictitious firms for issuing fraudulent invoices (Hartley, 2019). In spite of these issues, tax authorities both in developed as well as less developed economies have the responsibility of ensuring that excess claims are refunded within the established time horizon. In developing economies, tax authorities have a responsibility of verifying all the tax claims refund before giving out payments in online with the established rules and regulations. For developed economies, there are established mechanisms for assessment of risks for administration of VAT refund claims without the need for physical verification (Casey & Castro, 2015).

A study was carried out in Kenya by KIPPRA (2018) on challenges of the VAT refund structure. It was established that the re-introduction of withholding VAT in 2013 in Kenya was meant to increase the revenue that the government collects through expanding the tax base of the country. The study argued that VAT refund happens when an individual or a business firm pays more on purchase of a taxable product than when they collect at the time it is being sold. In other words, VAT refund arises from the difference between VAT input and VAT output. This difference is reclaimed by the suppliers/tax payers from the tax authority.

The study noted that whenever there is a difference between input and output VAT, the firm or an individual should lodge a VAT return with KRA within an established time frame (less than a year). Previously, such a claim for refund was to be made for a period as far as 3 years, which brought about a built up of backlog cases for refunds. The study highlights some circumstances under which VAT refunds may arise; where there is excess in put tax which may be explained by zero rated goods and services, credit or overpayment that arise from withholding VAT system, VAT that is paid on bad debts and tax that is paid in error. The most common form of refund claim is one of zero rated supplies. The study established that compared to developed countries, most cases of VAT refund are more rampant in emerging and developed economies.

According to IMF (2017), unlike developed economies, most undeveloped and emerging economies are characterized by a backlog of VAT refunds. In countries like Canada and Slovakia, the VAT refund level stands at 50% of gross vat. On the other hand, in countries like South Africa, Hungary, United Kingdom, Russia, Netherlands as well as Sweden, the VAT refund average at 40%. Averagely, VAT refund among African countries except South Africa equals to about 6%. In Kenya, about 2% of revenue collected revenue is used up in refunding for VAT every year. Refunds are only payable to returns with excess VAT credit in Kenya. In most developed economies like UK, the processing or VAT refund take as less as 4 weeks. In less developed countries, VAT refund processing extent as more as in terms of years. A number of reasons have been advanced for delay in refund of VAT claims including the fact that money must first be remitted to the national exchequer before being released by the national treasury for payment to the individual entitled for refund. The increasing cases of fraud also call for the need to intensively verify the claims before the refund is made which takes time. In fact, KRA (2016) estimates that about 25% of the refund claims are rejected with the reasons being fraud.

Okara (2018) established that delay in payment of refund claims has adverse effect on operations of suppliers. This is because it constrains the working capital and cash flows of the suppliers resulting into liquidity issues. Delay in payment of refund has negative influence on operations of the business since it means that firms need to seek out fort alternative avenues of finances. Delay in payment of VAT refund also has negative influence on the perceptions held by the tax payers which may affect the level of compliance.

Fan, Li and Xi (2016) sought to determine the influence of VAT refund on compliance. The study was conducted in China. The study established that VAT refund is related with a reduction in tax compliance.

### **2.4.3 Knowledge of Penalties and Interests under Withholding VAT System and Tax Compliance**

Olokooba, Awodun, Akintoye and Adebowale (2018) looked at tax offences in the context of Nigeria. The paper critically looks at what covers an offence, their categories as well as penalties. It was established that tax offences constitute of both civil as well as criminal vices in an economy. In Nigeria, where some of the tax offences are more serious hence attracting severe punishment, other offences are mild while even others are mild requiring only fines. It is worthwhile to establish that the laws of taxation give authority to administrators to use both civil and criminal sanctions for enforcing compliance behavior.

Raihana, Khadijah and Salwa (2014) looked at the role played by threats of punishment on compliance among the tax payers. This study was conducted in Malaysia. The study adopted mixed-modes survey methodologies to realize the objectives. The findings showed that threat of punishment does not significantly influence compliance with taxes among tax payers. Not only do threats of punishment insignificantly influence compliance but they also bring about feelings of being non-compliant as far as tax matters are concerned. The willingness of tax payers to remain tax compliant diminishes with an increase in the number of threats. In Tanzania, there are generally interest, penalties and offences that govern matters of taxation. Some of the interests arise from underestimation of payable tax and failure to pay the tax. Penalties include failure to keep a record of documents, failure to file tax returns, making misleading or false statements, abetting and aiding.

In Vanuatu, withholding VAT is governed by offences as well as penalties. The VAT office in Vanuatu is taking up quality time to impart knowledge among the tax payers on offences governing VAT. Some of the offences include failing to register as it regards VAT, failure to submit returns or any information as may be required, submitting of false statement, return, declaration or information (Dusek & Bagchi, 2018). In Kenya, the Finance Act 2017 resulted into significant amendment of withholding VAT in Tax Procedure Act, 2015.

Accordingly, it is provided that a withholding VAT agent is liable to an offence whenever there failure to; withhold to full amount supposed to be withheld or remit the amount of VAT withheld to commission on the stated date. Such offences attract penalties of 10% of the involved amount (National Treasury, 2018).

## **2.5 Critique of the Existing Literature Relevant to the Study**

As it regards the knowledge of knowledge of supplies liable to withholding VAT most countries have clearly established categories of supplies that are zero rated, exempt as well as taxable. The difference comes in on treatment of exports and imports as it regards withholding of taxes. For instance, while most member's countries of European Union incorporate the in withholding of VAT, in other countries, exports are not subjected to withholding. When it comes to knowledge of submission of withholding vat returns, the study establish that in most countries, this is done using online tools and platforms. In Kenya for instance, the withheld amount must be remitted by agents on 20<sup>th</sup> day following the one that the VAT has been withheld (National Treasury, 2018). The study established mixed findings on the knowledge of refund of excess credit and its influence on tax compliance. While some studies noted that it enhances compliance, others established that it does not influence tax compliance. Similarly, the study established mixed results on knowledge of knowledge of the offences under withholding vat system and tax compliance. For instance, Raihana, Khadijah and Salwa (2014) argue that offences do not significantly influence tax compliance.

## **2.6 Summary of Literature Review**

The chapter has reviewed two theories that provide anchorage to the study; these are the ability to pay theory as well as equal sacrifice theory. The ability to pay theory does not implicitly focus on VAT while the equal sacrifice theory implies that subjecting people to the same amount of VAT is a way of bringing about equality irrespective of the level of incomes. The chapter has looked at the conceptual framework showing the study variables. The study will have the independent as well as the dependent variables. The three independent variables will be knowledge of submission of withholding VAT returns, knowledge of refund of excess credit and knowledge of penalties & interests under withholding VAT system while the dependent variable will be tax compliance. Each of these variables has been operationalized into measurable items. The empirical studies are provided on each of these independent variables.

## 2.7 Research Gaps

A number of studies have been reviewed in this chapter as far as withholding VAT knowledge and tax compliance is concerned. For instance, Gerard, Naritomi and Seibold (2018) sought to establish the influence of exempting some goods from withholding VAT on compliance. The study was conducted in Brazil and not in Kenya. Chege, Kiragu, Lagat and Muthoni (2015) conducted a study to establish the influence of electronic devices on collection and submission of withheld VAT. The study was carried out in the context of Tanzania and not in Kenya. Lee (2016) studied the role played by electronic tax invoicing on compliance with reference to Korea as a republic. The study was not carried out in Kenya.

Muhammed and Tesafa (2015) looked at the role of electronic tax register machines on compliance with VAT. The study was conducted in the context of Ethiopia and not in Kenya. Yilmaz and Coolidge (2013) looked at electronic filing and its influence compliance costs with reference to developing economies. The study focused on developing economies and not specifically on Kenya. In Sweden, Engström (2015) conducted a study to establish the influence of prepayment systems on compliance. The study was carried out in Sweden and not in Kenya. A study was carried out in Kenya by KIPPRA (2018) on challenges of the VAT refund structure. The study failed to link how the identified challenges of VAT refund in Kenya affects compliance. Fan, Li and Xi (2016) sought to determine the influence of VAT refund on compliance. The study was conducted in China and not in Kenya. Olokooba, Awodun, Akintoye and Adebowale (2018) looked at tax offences in the context of Nigeria and not in Kenya. Raihana, Khadijah and Salwa (2014) looked at the role played by threats of punishment on compliance among the tax payers. The study looked at threats and punishments which differ from offences.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The chapter looks at the research design, study population, sample, sampling frame, sample and sampling technique, and data collection instruments. The chapter further focuses on data collection procedure, pilot testing as well as data analysis.

#### **3.2 Research Design**

Research design is a detailed arrangement and analysis of data to concur with the study object. Bell, Bryman and Harley (2018) noted that the research design helps in organizing ideas of the project and how the key activities including data collection as well as analysis would be realized. A research design helps in answering the research questions of the study (Lindlof & Taylor, 2017). The study adopted a descriptive research design. This design entails estimation of the study population as well as identifying the pattern and interrelationship between the variables. A descriptive design helps in answering questions of How? What? Why? When? These questions are in respect to a given phenomenon (Sekaran & Bougie, 2016). The design reports things as they exist in their original state.

The descriptive design was adopted because it helped the study to describe the influence of withholding VAT knowledge on tax compliance. By analyzing the collected data, the study was able to establish these determinants of competitive advantage. This way, the study was able to answer the formulated research questions.

#### **3.3 Population**

According to Zhao, Tian, Cai, Claggett and Wei (2013), population is the total of all elements which given predetermined features which are of greater interest to the study. It is a set of elements with common features that can be observed. The respondents of the study were 1850 appointed VAT withholding agents IN Nairobi City as shown in Table 3.1.

**Table 3.1: Target Population**

<b>Organization</b>	<b>Population</b>	<b>Sample Proportion</b>
Government Institutions	430	23.2%
Financial Institutions	570	30.8%
Health Institutions	380	20.5%
Firms under Large Taxpayers Office	240	13.0%
Firms under Medium Taxpayers Office	230	12.4%
<b>Total</b>	<b>1850</b>	<b>100.0</b>

**Source; KRA (2019)**

### **3.4 Sampling Frame**

Sampling frame simply refers to a list of the elements that form the basis of drawing the actual sample to be included in the study. It could cover a list of units, institutions or functions and individuals in an organization (Quinlan, Babin, Carr & Griffin, 2019). The sampling frame of the study comprised of a list of appointed VAT withholding agents by the Commissioner at the KRA.

### **3.6 Sample and Sampling Technique**

The term sample refers to a group or elements that are drawn from the entire population of the study (Bryman & Bell, 2015). The determination of the sample is done through one process called sampling. Yin (2013) indicates that sampling is a process where smaller number of individuals is selected for inclusion in the study. For plausible results of the study, the sample selected should be representative to the accessible population (Yin, 2017).

To sample is to select representative elements from the population for inclusion in the study. Sampling is important because it ensures that manageable size of respondents is included in the study (Walliman, 2017). The study adopted stratified random sampling technique to select respondents. First, the respondents were stratified based on their organizations; Government Institutions, financial institutions, health institutions, firms under Large Taxpayers Office as well as Medium Taxpayers Office at the KRA.

Sample size is a representation of the entire population of the study. Sampling is usually conducted because it is not economical to conduct a study using a large population. The following formula by Yamane (1967) was used to determine the sample the sample size;

$$n = N / (1 + Ne^2)$$

n = is the desired sample size (when population is less than 10,000)

N = is the target population

e = is the acceptable margin of error estimated at 0.05 (at 95% confidence interval)

Therefore, Sample size (n) =  $1850 / (1+1850(0.0025))$

=  $1850 / 5.625$

n=328 respondents

The sample size is shown in Table 3.2.

**Table 3.2: Sample Size**

<b>Organization</b>	<b>Population</b>	<b>Sample Proportion</b>	<b>Sample Size</b>
Government Institutions	430	23.2%	76
Financial Institutions	570	30.8%	101
Health Institutions	380	20.5%	67
Firms under Large Taxpayers Office	240	13.0%	43
Firms under Medium Taxpayers Office	230	12.4%	41
<b>Total</b>	<b>1850</b>	<b>100.0</b>	<b>328</b>

**Source; KRA (2019)**

### **3.7 Data Collection Procedure**

Before carrying out the actual study, the study conducted a pilot study among 10 respondents who were not included in the final population and sample size of the study. The aim of the pilot study was to test for reliability and validity of the instruments of the study. Once the research instruments have been found to be valid and reliable, the study sought for an introduction letter from the University which stated the purpose of the study as being for academic reason.

The management team of the appointed withholding VAT agents was notified in advance in written on the study. An authorization letter from the National Commission for Science, Technology and Innovation (NACOSTI) was also sought for the purpose of collecting data in the field from respondents. The researcher administered questionnaires in self to increase on the response rate.

### **3.8 Data Collection Instruments**

The study collected primary data with the use of questionnaires. Primary data was used because it represents the first hand source of information for the study. Questionnaires contained close ended questions. The questionnaires were divided into sections based on the objectives of the study. The questions on the questionnaire were structured on 1-5 Likert scale where 1=strongly disagree and 5=strongly agree.

### **3.9 Pilot Testing**

Instruments are deemed to be reliable when they consistently measure what they are designed to measure (Bryman & Bell, 2015). Validity on the other hand is the degree to which instituted determined validity and reliability of the instruments through a pilot test. This helped to avoid biasness. Cronbach Alpha coefficients were computed for the purpose of reliability analysis. An Alpha coefficient of 0.7 and indicates that the researcher instrument is reliable.

### **3.10 Data Analysis and Presentation**

The analysis began by coding data into the Statistical Package for Social Sciences. Descriptive statistics were computed whereby frequencies, percentages, means and standard deviations were clearly shown in form of both tables and figures. Descriptive statistics were chosen because it makes it possible to show the distribution or the count of individual scores in the population for a specific variable. A regression model was used to establish the influence of withholding VAT knowledge on tax compliance. The regression mode that was adopted is:

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

Where:

**Y** = Tax compliance

**X<sub>1</sub>** = Submission of Withholding VAT Returns

**X<sub>2</sub>** = Refund of Excess Credit

**X<sub>3</sub>** = Penalties & Interests under Withholding VAT System

$\beta$  = constant,

$\beta_1$ ,  $\beta_2$ , and  $\beta_3$  = Regression Coefficients and  $e$  = Error Term

## CHAPTER FOUR

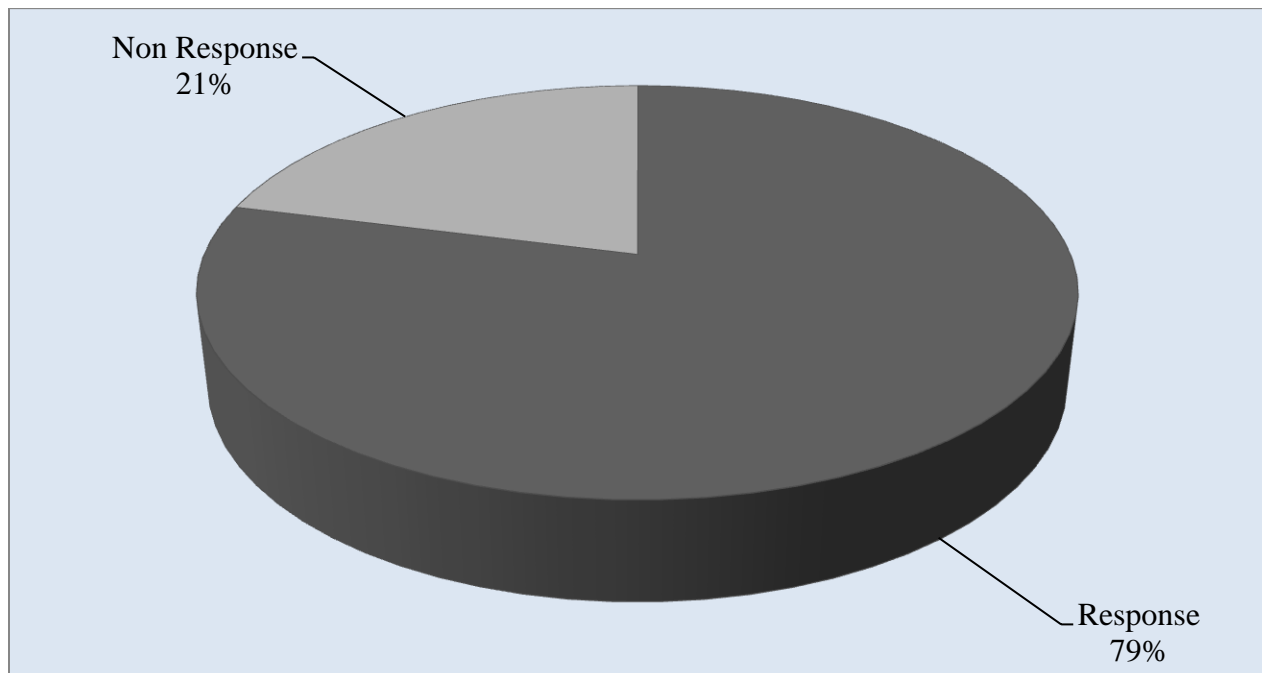
### RESEARCH FINDINGS AND DISCUSSION

#### 4.1 Introduction

This study will present the analysis on the primary data that was gathered from the field using the questionnaire. Once data from the field had been collected, it was coded into Statistical Package for Social Sciences (SPSS). The analysis was conducted systematically using means as well as standard deviations, correlation and regression analysis. The presentation of the findings was done using Tables and Figures.

##### 4.1.1 Response Rate

The response rate of the study was determined by taking the number of fully filled and returned questionnaires as a percentage of the total questionnaires that were issued to respondents of the study. In this regard, a total of 328 questionnaires were issued to respondents. From these questionnaires, 259 of them were completely filled and returned to the researcher. This was equal to a response rate of 79% as shown in Figure 4.1.



**Figure 4.1: Response Rate**

The findings in Figure 4.1 are in line with Mugenda and Mugenda (2003) who noted that response rates of over 70% is sufficient for the study.

#### 4.4.2 Reliability Results

A pilot study was carried out among 10 respondents who were not included in the final sample size. The piloted instruments of the study were then to determine reliability where the values of Cronbach Alpha were computed. The findings are shown in Table 4.1.

**Table 4.1: Reliability Results**

<b>Variable</b>	<b>Number of Items</b>	<b>Cronbach Alpha Coefficient</b>
Knowledge Of Submission of Withholding VAT Returns	12	0.874
Knowledge of Refund of Excess Credit	5	0.774
Knowledge of Offences Under Withholding VAT System	5	0.859
Tax Compliance	3	0.733

As indicated in Table 4.1, all the variables have Cronbach Alpha Coefficients above 0.7; this means that the instruments of the study were reliable.

#### 4.2 General Information

The study sought for general information about the respondents and the firms. The findings are presented in subsequent sections.

##### 4.2.1 General Information about Respondents

The study sought to establish the gender distribution of the respondents who took part in the study. The findings are as shown in Table 4.2.

**Table 4.2: Gender Distribution**

	<b>Frequency</b>	<b>Percent</b>
Male	191	73.7
Female	68	26.3
<b>Total</b>	<b>259</b>	<b>100.0</b>

The findings in Table 4.2 indicate that most of the respondents (73.7%) were male while 26.3% were female. This shows that there was a balance in gender distribution of the respondents of the study. The study sought to find out the higher level of education attained by respondents as shown in Table 4.3.

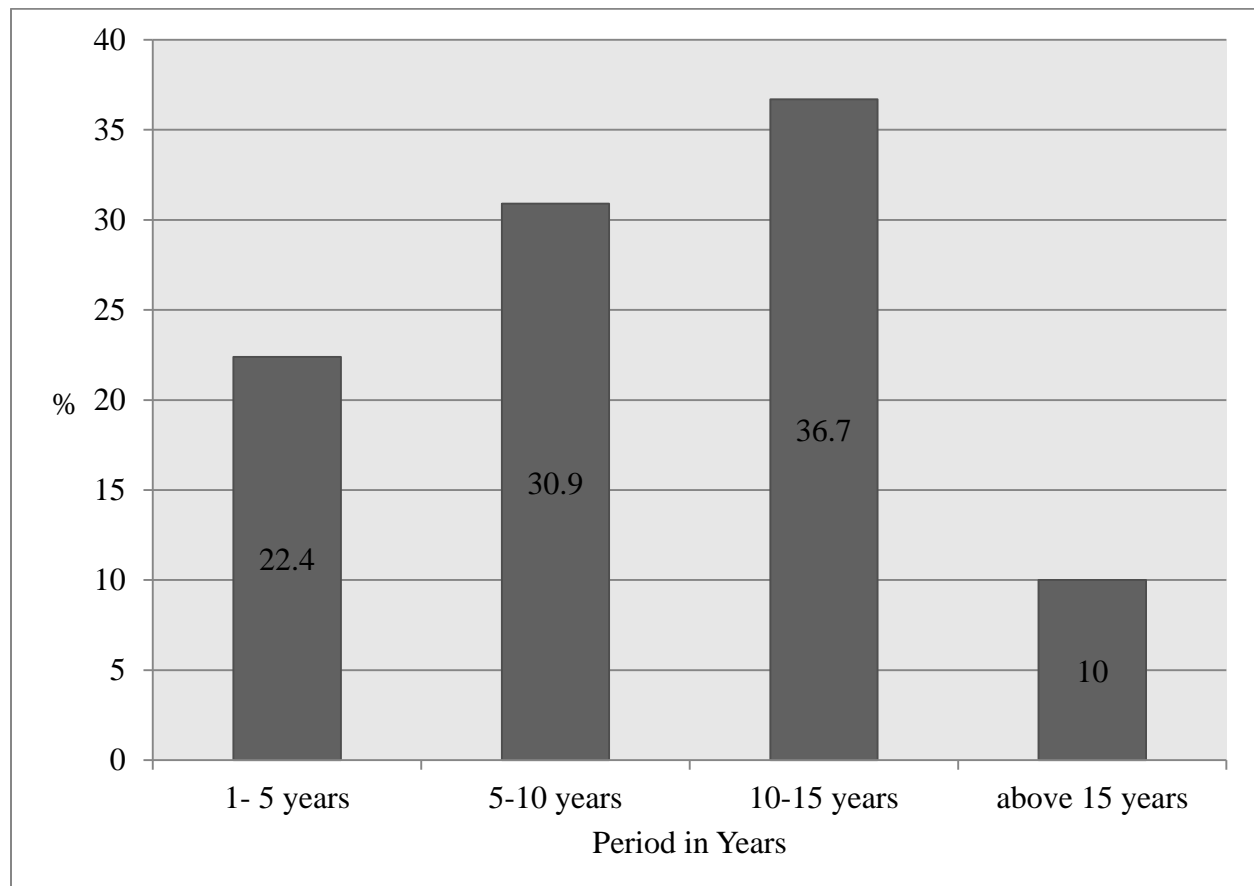
**Table 4.3: Highest Level of Education Attained**

	<b>Frequency</b>	<b>Percent</b>
Certificate	68	26.3
Diploma	110	42.5
Degree	68	26.3
Masters	13	5.0
<b>Total</b>	<b>259</b>	<b>100.0</b>

The findings in Table 4.3 indicate that most of the respondents (42.5%) had diplomas, with a balance between those with degrees and certificates at 26.3% respectively and only 5.0% had masters. This means that respondents of the study were generally learnt and thus able to respond to research questions as sought by the study.

#### **4.2.2 Organizational Information**

The study sought to determine the length of organizational existence and the findings are indicated in Figure 4.2.



**Figure 4.2: Organizational Information**

The findings in Figure 4.2 indicate that most of the firms (36.7%) had been operations for 10-15 years, 30.9% for 5-10 years, 22.4% for 1-5 years and 10% for over 15 years. Thus, most of the firms had been in operation for a longer period of time and thus they were suitable to be used for case study. Table 4.4 gives the findings on the average number of employees in the studied organizations.

**Table 4.4: Average Number of Employees**

	<b>Frequency</b>	<b>Percent</b>
1- 5 employees	55	21.2
5-10 employees	82	31.7
10-15 employees	67	25.9
above 15 employees	55	21.2
<b>Total</b>	<b>259</b>	<b>100.0</b>

As shown in Table 4.4, most of the respondents (31.7%) had 5-10 employees, 25.9% had 10-15 staff and there was a tie at 21.2% for organizations with 1-5 employees and above 15 staff respectively. This shows that the studied organizations were relatively larger in sizes in terms of employee base.

### **4.3 Withholding Value Added Tax Knowledge**

The independent variable of the study was withholding VAT knowledge and it was operationalized into three specific objective variables. This section will detail the findings of the descriptive statistics on each of these specific independent variables of withholding VAT knowledge.

#### **4.3.1 Knowledge of Submission of Withholding VAT Returns**

Knowledge of submission of withholding VAT returns was the first independent study variable and the findings of descriptive statistics are shown in Table 4.5.

**Table 4.5: Knowledge of Submission of Withholding VAT Returns**

	<b>Mean</b>	<b>Std. Dev</b>
I know that VAT is withheld on taxable goods	3.71	0.780
I know that the firm withholds VAT on taxable services	3.51	0.974
I know that VAT withheld on exempt services is treated as tax paid in error	3.75	0.943
I know that VAT is not withheld on zero rated services	4.02	0.780
I know that VAT is withheld on local taxable supplies	3.70	1.156
I know that the withheld VAT should be submitted regularly to the Commissioner	3.76	0.865
I know the consequences of failing to remit regularly remit the withheld VAT on time to the Commissioner	3.80	0.951
I know that all the withheld VAT must be submitted online through i-tax system	3.88	1.048
I know that online submission of the withheld VAT is less time consuming	3.79	1.010
I am aware that online submission of the withheld VAT is reliable	3.80	1.032
I know that online submission of the withheld VAT require i-tax filling skills	3.83	0.975
I know that I have all skills to submit the withheld VAT online	3.80	0.951
<b>Overall Score</b>	<b>3.78</b>	<b>0.955</b>

The overall implication of the findings in Table 4.5 (M=3.78, SD=0.955) is that majority of the respondents agreed on having knowledge of submission of withholding VAT returns. This knowledge helped respondents not to withhold VAT on zero rated services (M=4.02), to submit the entire withheld VAT amount online through the i-tax platform (M=3.88) and to have knowledge that online submission of the withheld VAT require i-tax filling skills (3.83).

Through knowledge of submission of withholding VAT, respondents were aware of the consequences of failing to remit regularly remit the withheld VAT on time to the Commissioner (M=3.80), knew that online submission of the withheld VAT was less time consuming (M=3.80), were aware that online submission of the withheld VAT was reliable (M=3.80) and knew that they had all skills to submit the withheld VAT online (M=3.80).

Respondents further agreed that they knew that the withheld VAT should be submitted regularly to the Commissioner (M=3.76), knew that know that VAT withheld on exempt services was treated as tax paid in error (M=3.75), knew that VAT WAS withheld on taxable goods (M=3.71) and knew that VAT was withheld on local taxable supplies (M=3.70). Furthermore, respondents agreed that they were knowledgeable on the fact that their firm withheld VAT on taxable

services (M=3.51). Aondo (2019) indicates that any amount of VAT withheld on these goods will be considered as tax paid in error and suppliers are entitled to claim a refund.

#### 4.3.2 Knowledge of Refund of Excess Credit

The second specific objective variable of the study was knowledge of refund of excess credit and the findings of descriptive statistics are presented in Table 4.6.

**Table 4.6: Knowledge of Refund of Excess Credit**

	<b>Mean</b>	<b>Std. Dev</b>
I have knowledge that excess input VAT results into excess credit	3.66	1.137
I know that suppliers need to claim for excess credit by lodging a claim with the Commissioner	3.51	1.017
I have knowledge that tax paid in error amounts to excess credit to the supplier	3.54	0.985
I know that VAT withheld on bad debts results into excess credit to suppliers	4.02	0.696
I know that excess input VAT may arise from withholding Zero rated supplies	4.00	0.915
<b>Overall Score</b>	<b>3.75</b>	<b>0.950</b>

The findings in Table 4.6 indicate that on overall, majority of the respondents agreed (M=3.75, SD=0.950) on the having knowledge of refund of excess credit in the withholding VAT transaction. Morita (2014) established that prepaid systems have no influence on tax compliance. According to Bognetti and Santoni (2016) more experienced tax payers may have preference for tax refunds more than the less experienced ones. Through this, respondents were aware that VAT withheld on bad debts resulted into excess credit to suppliers (M=4.02) and that excess input VAT may arise from withholding Zero rated supplies (M=4.00, SD=0.915). Respondents also knew that excess input VAT resulted into excess credit (M=3.66), that tax paid in error amounted to excess credit to the supplier (M=3.54) and that suppliers needed to claim for excess credit by lodging a claim with the Commissioner (M=3.51).

#### 4.3.3 Knowledge of Penalties & Interests under Withholding VAT System

The descriptive statistics on knowledge of penalties & interests under withholding VAT system are shown in Table 4.7.

**Table 4.7: Knowledge of Penalties & Interests under Withholding VAT System**

	Mean	Std. Dev
I am aware that it is an offence if I fail to withhold VAT on taxable goods	3.93	0.809
I know that failure to withhold VAT on taxable service amounts to an offence	3.57	0.966
I know that failure to remit the withheld VAT on taxable goods amounts to an offence	3.73	0.795
I know that failure to remit the withheld VAT on taxable suppliers leads to an offence	4.15	0.713
I know that it is an offence if I do not issue a withholding VAT certificate to suppliers after withholding the tax	3.77	1.141
<b>Overall Score</b>	<b>3.83</b>	<b>0.885</b>

The findings in Table 4.7 indicate that majority of the respondents agreed (M=3.83, SD=0.885) on having knowledge of penalties & interests under withholding VAT system. Buettner, Holzmann, Kreidl and Scholz (2019) argue that in Nigeria, there are several categories of offences as far as taxation is concerned. These include failure to deduct or remit the taxes, counterfeiting of documents as well as false declaration and obstruction. This was supported by the fact that failure to remit the withheld VAT on taxable suppliers led to an offence (M=4.15) and respondents were aware that it was an offence if I fail to withhold VAT on taxable goods (M=3.93). Respondents further knew that it was an offence if they did not issue a withholding VAT certificate to suppliers after withholding the tax (M=3.77). Respondents were also aware that failure to remit the withheld VAT on taxable goods amounted to an offence (M=3.73). Furthermore, respondents were aware that failure to withhold VAT on taxable service amounted to an offence (M=3.57).

#### 4.4 Tax Compliance

The findings on the dependent variable of the study which was tax compliance are indicated in Table 4.8.

**Table 4.8: Tax Compliance**

	Mean	Std. Dev
I am aware that the firm files VAT return on time	4.03	0.908
The firm pays the withheld VAT on time	3.85	0.877
I know that accurate amount of VAT is paid by the firm	3.52	0.941
<b>Overall Score</b>	<b>3.80</b>	<b>0.909</b>

The findings in Table 4.8 show that on average, most of the studied organizations were tax compliant (M=3.80, SD=0.909). This was attributed to by filling of VAT returns on time

(M=4.03), payment of the withheld VAT on time (M=3.85) and accurate payment of the amount of VAT withheld (M=3.52).

#### 4.5 Withholding Value Added Tax Knowledge and Tax Compliance

In order to establish the effect of withholding value added tax knowledge and tax compliance, both correlation and regression analysis were used. The findings are indicated in subsequent sections.

##### 4.5.1 Correlation Results

Correlation analysis was carried out to determine the relationship between withholding value added tax knowledge and tax compliance. The findings are shown in Table 4.9.

**Table 4.9: Correlation Results**

		Tax Compliance	Submission of Withholding VAT	Refund of Excess Credit	Penalties & Interest
Tax Compliance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	259			
Submission of Withholding VAT	Pearson Correlation	.762**	1		
	Sig. (2-tailed)	.000			
	N	259	259		
Refund of Excess Credit	Pearson Correlation	.640**	.553**	1	
	Sig. (2-tailed)	.000	.000		
	N	259	259	259	
Penalties and Interest	Pearson Correlation	.628**	.791**	.595**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	259	259	259	259

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

From Table 4.9, knowledge of submission of withholding VAT ( $r=0.762$ ,  $p<0.05$ ) has strong and positive relationship with tax compliance. Gerard, Naritomi and Seibold (2018) established that exempting some products from VAT does not necessarily offer an opportunity for increased compliance with taxes.

Knowledge of refund of excess credit ( $r=0.640$ ,  $p<0.05$ ) also has a strong and positive relationship with tax compliance. The finding contradicts Faridy, Freudenberg and Sarker (2017) who revealed that VAT refund mechanisms and systems expose the invoice-credit VAT to fraud. Knowledge of interests and penalties ( $r=0.628$ ,  $p<0.05$ ) has positive and significant relationship with tax compliance. It can therefore be inferred from the findings in Table 4.9 that knowledge of withholding VAT has positive and significant relationship with tax compliance. Nura, Abdul-Jabbar and Ibrahim (2017) established that most studies on determinants of compliance majorly focus on income tax at the expense of VAT. Nwanyanwu (2015) established that irrecoverable invoices and tax compliance have negative but significant relationship. King’oina (2016) indicated that knowledge as well as understanding of VAT increased compliance.

#### 4.5.2 Regression Results

The study regressed knowledge of withholding VAT against tax compliance. The findings in Table 4.10 indicate the Model Summary.

**Table 4.10: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.807 <sup>a</sup>	.652	.647	1.65525

a. Predictors: (Constant), Penalties and Interest under Withholding VAT, Refund of Excess Credit, Knowledge of Submission of Withholding VAT

As indicated in Table 4.10, the value of R is 0.807; this shows that there exists strong positive relationship between withholding VAT knowledge and tax compliance. The coefficient of determination R square is 0.652; this shows that the model of the study was fit. The adjusted R square is 0.647; this can be inferred to mean that 64.7% change in tax compliance is explained by withholding VAT knowledge.

The study conducted Analysis of Variance at 5% level of significance. The findings are shown in Table 4.11.

**Table 4.11: Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	1306.493	3	435.498	158.949	.000 <sup>b</sup>
Residual	698.665	255	2.740		
<b>Total</b>	<b>2005.158</b>	<b>258</b>			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), Penalties and Interest under Withholding VAT, Refund of Excess Credit, Knowledge of Submission of Withholding VAT

The findings of the Analysis of Variance are shown in Table 4.11. From the results, the value of F calculated is 158.949 while F critical (obtained from F-Table at d.f 3 & 255) is 2.640. Since the value of  $F_{\text{calculated}}$  is greater than  $F_{\text{critical}}$ , it can be summed up that the overall regression model of the study was significant.

The value of regression beta coefficients together with the p-values is shown in Table 4.12.

**Table 4.12: Regression coefficients and the Beta**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.097	1.027		1.068	.287
Knowledge of Submission of Withholding VAT	.588	.057	.637	10.387	.000
Refund of Excess Credit	.325	.046	.331	7.105	.000
Penalties and Interest under Withholding VAT	.259	.101	.073	2.564	.000

a. Dependent Variable: Tax Compliance

Based on the findings in Table 4.12, the following equation is formulated;

$$Y = 1.097 + 0.588X_1 + 0.325X_2 + 0.259X_3 \dots\dots\dots(i)$$

Where:

$Y$  = Tax compliance

$X_1$  = Submission of Withholding VAT Returns

$X_2$  = Refund of Excess Credit

$X_3$  = Penalties & Interests under Withholding VAT System

Table 4.12 indicates that when all the variables are held constant, tax compliance would be at 1.097 units. A unit change in knowledge of submission of withholding VAT all other factors kept constant would lead to 58.8% change in tax compliance. A unit change in knowledge of refund of excess credit other factors kept constant would result into 32.5% change in tax compliance. A unit change in knowledge of penalties & interests under withholding VAT system other factors kept constant would result into 25.9% change in tax compliance.

At 5% level of significance, the study established that knowledge of submission of withholding VAT returns ( $p=0.000<0.05$ ) has significant effect on tax compliance. Knowledge of refund of excess credit ( $p=0.000<0.05$ ) has significant effect on tax compliance. According to IMF (2017), unlike developed economies, most undeveloped and emerging economies are characterized by a backlog of VAT refunds. Okara (2018) established that delay in payment of refund claims has adverse effect on operations of suppliers.

Knowledge of penalties & interests under withholding VAT system ( $p=0.000<0.05$ ) has significant effect on tax compliance. Olokooba, Awodun, Akintoye and Adebowale (2018) established that tax offences constitute of both civil as well as criminal vices in an economy. Raihana, Khadijah and Salwa (2014) showed that threat of punishment does not significantly influence compliance with taxes among tax payers. In Vanuatu, some of the offences include failing to register as it regards VAT, failure to submit returns or any information as may be required, submitting of false statement, return, declaration or information (Dusek & Bagchi, 2018). In Kenya, the Finance Act 2017 resulted into significant amendment of withholding VAT in Tax Procedure Act, 2015. Thus, withholding VAT knowledge has significant effect on tax compliance.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The chapter presents a summary of the analyzed findings on each of the formulated specific objectives. The conclusions are drawn from the summarized findings as informed by the study specific objectives. The chapter also has recommendations for policy and practice and areas for further studies.

#### **5.2 Summary of the Findings**

The general objective of the study was to determine the influence of withholding value added tax knowledge on tax compliance. The study had three specific objectives as follows; to explore the influence of knowledge of submission of withholding VAT returns on tax compliance, to understand how knowledge of refund of excess credit influences tax compliance and to underline the effect of knowledge of penalties & interests under withholding VAT system on Tax compliance. This section will summarize the findings of the analysis.

##### **5.2.1 Knowledge of Submission of Withholding VAT Returns and Tax Compliance**

This was the first objective of the study and both descriptive and inferential statistics were used for analysis. From the findings of descriptive analysis, the study established that majority of the respondents agreed on having knowledge of submission of withholding VAT returns. This knowledge helped respondents not to withhold VAT on zero rated services, to submit the entire withheld VAT amount online through the i-tax platform and to have knowledge that online submission of the withheld VAT requires i-tax filling skills. Through knowledge of submission of withholding VAT, respondents were aware of the consequences of failing to remit regularly remit the withheld VAT on time to the Commissioner, knew that online submission of the withheld VAT was less time consuming, were aware that online submission of the withheld VAT was reliable and knew that they had all skills to submit the withheld VAT online. It was shown that knowledge of submission of withholding VAT returns has strong positive correlation with tax compliance. Regression results indicated that knowledge of submission of withholding VAT returns has a significant effect on tax compliance.

### **5.2.2 Knowledge of Refund of Excess Credit and Tax Compliance**

It was shown that majority of the respondents agreed on the having knowledge of refund of excess credit in the withholding VAT transaction. Through this, respondents were aware that VAT withheld on bad debts resulted into excess credit to suppliers and that excess input VAT may arise from withholding Zero rated supplies. Respondents also knew that excess input VAT resulted into excess credit, that tax paid in error amounted to excess credit to the supplier. Correlation analysis indicated that there exists a strong positive relationship between knowledge of refund of excess credit and tax compliance. From regression analysis, knowledge of refund of excess credit has significant effect on tax compliance.

### **5.2.3 Knowledge of Penalties & Interests under Withholding VAT System and Tax Compliance**

Majority of the respondents agreed on having knowledge of penalties & interests under withholding VAT system. This was supported by the fact that failure to remit the withheld VAT on taxable suppliers led to an offence and respondents were aware that it was an offence if I fail to withhold VAT on taxable goods. Respondents further knew that it was an offence if they did not issue a withholding VAT certificate to suppliers after withholding the tax. Respondents were also aware that failure to remit the withheld VAT on taxable goods amounted to an offence. Correlation results indicated that knowledge of penalties & interests under withholding VAT system has positive relationship with tax compliance. Regression results showed that knowledge of penalties & interests under withholding VAT system has significant effect on tax compliance.

## **5.3 Conclusion**

### **5.3.1 Knowledge of Submission of Withholding VAT Returns and Tax Compliance**

Knowledge of submission of withholding VAT returns has strong positive correlation with tax compliance. Knowledge of submission of withholding VAT returns has a significant effect on tax compliance.

### **5.3.2 Knowledge of Refund of Excess Credit and Tax Compliance**

There exists a strong positive relationship between knowledge of refund of excess credit and tax compliance. From regression analysis, knowledge of refund of excess credit has significant effect on tax compliance.

### **5.3.3 Knowledge of Penalties & Interests under Withholding VAT System and Tax Compliance**

Knowledge of penalties & interests under withholding VAT system has positive relationship with tax compliance. Regression results showed that knowledge of penalties & interests under withholding VAT system has significant effect on tax compliance.

### **5.4 Recommendations of the Study**

The study established that knowledge of submission of withholding VAT returns has strong positive correlation with tax compliance. Based on this finding, the study recommends that the Kenya Revenue Authority should put in place education programs that aim at increasing knowledge of submission of withholding VAT returns which may result into increased compliance. KRA should leverage on both electronic and print media including radios, televisions and newspapers to increase the knowledge of tax payers as it regards submission of withholding VAT returns.

Since knowledge of refund of excess credit, the study recommends that more SMEs should get registered for the purpose of VAT so that they gain from excess credit that is refunded by the Kenya Revenue Authority. The study recommends that firms in Kenya that have not registered for withholding VAT purposes should do so for them to be able to claim refunds.

As knowledge of penalties & interests under withholding VAT system enhances tax compliance, this study recommends that KRA should create more awareness of the interests and penalties that may accrue to tax payers for failing to withhold VAT or pay the withheld amount. Knowledge of the interests and penalties under the withholding VAT system can be created through use of media and other platforms.

### **5.5 Suggestions for Further Studies**

The current study focused on withholding value added tax knowledge and tax compliance. Withholding Value added tax knowledge was operationalized into three specific study variables; penalties and interest under withholding VAT, refund of excess credit and knowledge of submission of withholding VAT. From regression results, the study established that only 64.7% change in tax compliance is explained by withholding VAT knowledge. Thus, there are other

factors with an influence on tax compliance apart from withholding VAT knowledge which future studies should focus on.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

#### SECTION A: GENERAL INFORMATION

1) What is your gender

Male  Female

2) What is your highest level of education?

Certificate  Diploma  Degree

Masters  PhD

Other (Please explain) -----

3) How long has the organization been in existence?

1- 5 years  5-10 years

10-15 years  above 15 years

4) What is the average number of employees in the firm?

1- 5  5-10

10-15  above 15

#### SECTION B: KNOWLEDGE OF SUBMISSION OF WITHHOLDING VAT RETURNS AND TAX COMPLIANCE

6. These are statements on knowledge of submission of withholding VAT returns and how it influences tax compliance. Please indicate the extent to which you agree or disagree with each of these statements. Use the scale of 1-5 where: 1=Strongly Disagree (SD), 2= Tend to Disagree (TD), 3 Tend to Agree (TA) 4=Agree (A) and 5=Strongly Agree (SA)

<b>Item</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
I know that VAT is withheld on taxable goods					
I know that the firm withholds VAT on taxable services					
I know that VAT withheld on exempt services is treated as tax paid in error					
I know that VAT is not withheld on zero rated services					
I know that VAT is withheld on local taxable supplies					
I know that the withheld VAT should be submitted regularly to the Commissioner					
I know the consequences of failing to remit regularly remit the withheld VAT on time to the Commissioner					
I know that all the withheld VAT must be submitted online through i-tax system					
I know that online submission of the withheld VAT is less time consuming					
I am aware that online submission of the withheld VAT is reliable					
I know that online submission of the withheld VAT require i-tax filling skills					
I know that I have all skills to submit the withheld VAT online					

### **SECTION C: KNOWLEDGE OF REFUND OF EXCESS CREDIT AND TAX COMPLIANCE**

7. These are statements on knowledge of refund of excess credit and its influence on tax compliance. Please indicate the extent to which you agree or disagree with each of these statements. Use the scale of 1-5 where: 1=Strongly Disagree (SD), 2= Tend to Disagree (TD), 3 Tend to Agree (TA) 4=Agree (A) and 5=Strongly Agree (SA)

<b>Item</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
I have knowledge that excess input VAT results into excess credit					
I know that suppliers need to claim for excess credit by lodging a claim with the Commissioner					
I have knowledge that tax paid in error amounts to excess credit to the supplier					
I know that VAT withheld on bad debts results into excess credit to suppliers					
I know that excess input VAT may arise from withholding Zero rated supplies					

### **SECTION D: KNOWLEDGE OF THE OFFENCES UNDER WITHHOLDING VAT SYSTEM AND TAX COMPLIANCE**

8. These are statements on the aspects of knowledge of the offences under withholding VAT system and its influence on tax compliance. Please indicate the extent to which you agree or disagree with each of these statements. Use the scale of 1-5 where: 1=Strongly Disagree (SD), 2= Tend to Disagree (TD), 3 Tend to Agree (TA) 4=Agree (A) and 5=Strongly Agree (SA)

<b>Item</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
I am aware that it is an offence if I fail to withhold VAT on taxable goods					
I know that failure to withhold VAT on taxable service amounts to an offence					
I know that failure to remit the withheld VAT on taxable goods amounts to an offence					
I know that failure to remit the withheld VAT on taxable suppliers leads to an offence					
I know that it is an offence if I do not issue a withholding VAT certificate to suppliers after withholding the tax					

### **SECTION E: TAX COMPLIANCE**

9. These are statements on tax compliance. Please indicate the extent to which you agree or disagree with each of these statements. Use the scale of 1-5 where: 1=Strongly Disagree (SD), 2= Tend to Disagree (TD), 3 Tend to Agree (TA) 4=Agree (A) and 5=Strongly Agree (SA)

<b>Item</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
I am aware that the firm files VAT return on time					
The firm pays the withheld VAT on time					
I know that accurate amount of VAT is paid by the firm					

**THANK YOU**

## **APPENDIX II: LIST OF APPOINTED AGENTS IN NAIROBI CITY COUNTY**

### **A. Government Institutions**

1. State Department for Planning
2. State Department of Agricultural Research
3. State Department of Arid and Semi-Arid Lands (ASALs)
4. State Department of Correctional and Rehabilitation Services
5. State Department of Crop Development
6. State Department of Defence
7. State Department of Devolution
8. State Department of Early Learning and Basic Education
9. State Department of East African Community and Northern Corridor Development
10. State Department of Energy
11. State Department of Enterprise Development
12. State Department of Environment and Forestry
13. State Department of Fisheries
14. State Department of Foreign Affairs
15. State Department of Gender Affairs
16. State Department of Health
17. State Department of Heritage
18. State Department of Housing and Urban Development
19. State Department of Immigration, Border Control and Registration of Persons
20. State Department of Industrialization
21. State Department of Information, Communication and Technology
22. State Department of Infrastructure
23. State Department of Interior
24. State Department of International Trade
25. State Department of Irrigation
26. State Department of Labor
27. State Department of Lands
28. State Department of Livestock

29. State Department of mining
30. State Department of Petroleum
31. State Department of Post Training and Skills Development
32. State Department of Public Service and Youth
33. State Department of Public Works
34. State Department of Renewable Energy
35. State Department of Shipping and Maritime Affairs
36. State Department of Social Protection, Pensions and Senior Citizens Affairs
37. State Department of Sports
38. State Department of Tourism and Wildlife
39. State Department of Transport
40. State Department of University Education and Research
41. State Department of Water and Sanitation

**B. Financial Institutions (Commercial Banks)**

1. African Banking Corporation Ltd
2. Bank of Africa Kenya Ltd
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. Charterhouse Bank Ltd
7. Chase Bank Kenya Ltd
8. Citibank N.A Ltd
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Co-operative Bank
12. Credit Bank
13. Development Bank
14. Diamond Trust Bank
15. DIB Bank
16. Eco Bank

17. Spire Bank
18. Equity Bank
19. Family Bank
20. Fidelity Bank
21. First Community Bank
22. Guaranty Bank
23. Guardian Bank
24. Gulf Africa Bank
25. Habib Bank A.G. Zurich
26. Habib Bank
27. Imperial Bank
28. I & M Bank
29. Jamii Bora Bank
30. KCB Bank
31. Middle East Bank
32. National Bank
33. NIC Bank
34. M-Oriental Commercial Bank
35. Paramount Universal Bank
36. Prime Bank
37. Sidian Bank Ltd
38. Stanbic Bank(K) Ltd
39. Standard Chartered Bank
40. Trans-National Bank
41. UBA Bank
42. Victoria Commercial Bank

### **C. Health Institutions**

1. Kenyatta National Hospital
2. Mbagathi District Hospital
3. Mama Lucy Kibaki Hospital

4. Pumwani Maternity Hospital
5. Mathari National & Teaching Hospital
6. National Spinal Injury Referral Hospital
7. Kenya Defense Forces Memorial Hospital
8. Eastleigh Health Centre
9. Biafra clinic
10. Shauri Moyo Clinic
11. Muthurwa Health Centre
12. Jerusalem Health Centre
13. Bahati Health centre
14. Ngaira Health Center
15. Rhodes Avenue Dispensary Chest & T B Clinic
16. Ngara Health Centre
17. Kariokor Clinic
18. Pangani Clinic
19. STC Casino Health Centre
20. Huruma Lions H/C
21. Lagos Rd. Disp.
22. Mathare Police Depot
23. Mathare North H/C
24. Kariobangi North H/C
25. Kasarani H/C
26. Kahawa West H/C
27. Babadogo H/C
28. NYS H/C
29. GSU Hq H/C
30. Kamiti Prison H/C
31. Ruiru PSTC
32. CID Hq's Disp.
33. GSU Ruiru Disp.
34. Westlands Health Centre

35. Kangemi Health Centre
36. Karura Health Centre
37. Lady Northey Health Center
38. State House. Clinic
39. Kabete Approved Sch. H/C
40. State Hse. Dispensary
41. Lower Kabete
42. MjiwaHuruma Disp.
43. KARI 9Muguga) h/C
44. Waithaka Health Centre
45. Riruta H/C
46. Ngong Rd H/C
47. Woodley Clinic
48. Dagoreti Approved Sch. h/C
49. Langata H/C
50. Jinnah Clinic
51. Karen H/C
52. Kibera DO Health Centre
53. Langata Women Prison Health Center
54. Nairobi West Prison Health Center
55. Uhuru camp Health Center
56. Kibera DO Health center
57. Kibera Amref Health centre
58. GSU Kibera Health Centre
59. Kayole 1 Health Centre
60. Kayole II H/C
61. Umoja H/C
62. Embakasi H/C
63. GSU Embakasi Health Centre
64. APTC Embakasi H/C
65. Dandora 1 Health Center

66. Dandora 11 H/C
67. Njiru Health center
68. Kariobangi South Disp.
69. Makadara Health Centre
70. Mbotela
71. Jericho Health Centre
72. Hono Clinic
73. Ofafa 1 Clinic
74. Maringo Clinic
75. Loco Health Centre
76. MOW Dispensary
77. Kaloleni Dispensary
78. Railway training Institute (South B) Dispensary
79. South B Clinic
80. Police Band Dispensary
81. Lunga Lunga Health Centre
82. Nairobi remand Home Health Centre
83. Mukuru-kwa -Njenga Health Center
84. Nairobi South Hospital
85. Bristol Park Hospital
86. Ladnan Hospital
87. Acacia Medical Center
88. Aga Khan University Hospital Nairobi
89. Meridian Medical Center
90. Meridian Equator Hospital Limited
91. Savannah Healthcare Services
92. Avenue Healthcare
93. Getrude Gardens Children Hospital
94. Nairobi Women's Hospital
95. The Mater Hospital
96. Nairobi Hospital

97. Guru Nanak Ramgarhia Sikh Hospital
98. Karen Hospital
99. Mariakani Cottage Hospital
100. Coptic Mission Hospital
101. Nairobi West Hospital
102. St. Mary's Hospital Langata
103. Mp Shah Hospital
104. Masaba Hospital
105. Nairobi East Hospital
106. Langata Hospital
107. Ruaraka Uhai Neema Hospital
108. Medanta Africare
109. Jamaa Mission Hospital
110. St. Francis Community Hospital
111. Jacaranda Healthcare
112. The German Medical Center
113. Mediheal Hospital
114. Care Hospital
115. Kasarani Maternity and Nursing Home
116. Menelik Hospital
117. St. Scholastica Uzima Hospital
118. Marura Nursing Home
119. Maria Immaculata Hospital
120. Radiant Hospital
121. Family Health Options kenya
122. Garden Specialist Hospital
123. Apples + Sense
124. Penda Health
125. The Lifeline Group of Hospitals – Wendani
126. Westlands Medical Centre
127. Oasis Healthcare Group

128. Livewell Health Clinic
129. Komarock Modern Healthcare
130. St Patrick Healthcare Centre
131. Reinha Rosary Hospital
132. Ruai Family Hospital
133. Midhill Hospital
134. Wema Hospital
135. AAR Healthcare
136. Jamia MedClinics
137. Scion Hospital