FACTORS INFLUENCING COLLECTION OF WITHHOLDING VALUE ADDED TAX IN NAIROBI EAST DISTRICT.

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A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF POST GRADUATE DIPLOMA IN TAX ADMINISRATION OF JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY.

SEPTEMBER, 2018

DECLARATION

I declare that this research project is my original work and has not been presented for any postgraduate degree in any other academic or non- institution to the best of my knowledge.

Signature. ………………………………………

Sarah Wanjiku Kinuthia Date……………………

HDB336-C016-2208/2016

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

Signature. ………………………………………

Dr. Marion Nekesa Date……………………………

DEDICATION

I dedicate this project to my parents Mr. and Mrs. Kinuthia for their moral and financial support and to my husband Alex and my adorable son Ryan for all the support in ensuring the completion of my work successfully.

ACKNOWLEDGEMENT

Firstly, I am grateful to the Almighty God for granting me a gift of life and for sustaining me to this far. Secondly, I thank my loving and dedicated family for working tirelessly to support me materially and financially.

Finally, yet importantly, let a strong word of thanks follow my supervisor Madam Marion Nabui for her guidance and wise counsel and Kenya Revenue Authority (KRA) staff for their contribution towards the preparation and production of this project.

TABLE OF CONTENTS

ABBREVIATIONS.

VAT	Value Added Tax.
KRA	Kenya Revenue Authority.
EACCMA	East Africa Community Customs Management.
TR	Tax Reform.
MP	Modernization Programs.
GDP	Gross Domestic Product.
EU	European Union.
SME	Small and Medium Enterprises.
ETR	Electronic Tax Register.
WHT	Withholding Tax.
IRS	Internal Revenue Service.

DEFINITION OF TERMS

Withholding tax: This is a retention tax according to government requirement for the taxpayer of an item of income to withhold or deduct tax from the payment and pay that tax to the government. (Jacobson, 2008).

Revenue: This is the income that a business has from its normal business activities, usually from sale of goods and services to customers; it's also referred to sales or turnover. (Yan, 2006).

Tax agents: This is a person who prepares the returns of income required to be filed for 10 or more taxpayers and should be either a practitioner carrying on a professional public practice, a person carrying on a business or occupation in which returns of income are prepared. (Miller, 2012).

Compliance: This is adherence to standard, regulations and other requirements. (Feder, B.J 2000).

Consumption tax: This is a tax on spending on goods and services, the tax base of such tax is the money spent on consumption, they are usually indirect taxes e.g. value added tax. (Robert,H. 2008).

Non-compliance: This is failure to adherence to standard, regulations and other requirements. (Edmund. L 2005)

ABSTRACT

This study aimed to investigate the factors influencing collection of withholding VAT: It assessed how taxpayers level of awareness on withholding value added tax influence revenue collection and the results established taxpayers knowledge, understanding and awareness level lead to increase in withholding VAT in East of Nairobi station Kenya Revenue Authority, established the extent that the taxpayers perception of the tax system influence Revenue collection and the findings indicated that decrease or increase in taxpayers perception of tax system have a significant relation to collection of withholding VAT in East of Nairobi station, Kenya Revenue Authority, determined how cost of compliance on withholding vat influence revenue collection and results showed that hiring of professionals to handle tax matters was most expensive resorting the to handle their tax issues even without proper understanding in East of Nairobi station, Kenya Revenue Authority, found out how enforcement measures influence revenue collection whereby increase in tax enforcement efforts results to increase in reported withholding VAT in East of Nairobi station, Kenya Revenue Authority .The research design used in this study is explanatory study design. A sample of 210 taxpayers and 20 tax officers was considered. Primary data was collected using questionnaire geared at Likert Scale, open and closed questions. The study used SPSS (V21) for data analysis to produce both descriptive and inferential statistics. The study also used a regression model for establishing the relationship between the study variables. The analysis of variance (Anova) wasusedon the average figures for all the measures of performance.

CHAPTER ONE

INTRODUCTION

This chapter discusses effects of VAT withholding tax on Revenue collection in respect to vat. It analyzes the global, regional and local perspectives of the knowledge study. It includes the statement of the problem, objectives of the study, research questions, and scope of the study and justification of the study.

1.1Background of the Study

The level of tax compliance in an economy is a function of many variables especially for Value Added Tax (VAT) since it is not easy for the Government to monitor transactions as they occur at the taxpayer's station (Hurst, Li &Pugsley, 2014). Many governments operate on a self-assessment basis when it comes to payment of VAT as the Companies determine on their own the VAT payable through computation of VAT on purchases and VAT on sales. However, one of the challenges noted from previous research indicates that voluntary compliance where the tax payers voluntarily determines their tax liabilities and pays gives room for some form of manipulation (Gangl, Hofmann &Kirchler, 2015). This means that all the taxes due in a particular periodmay be delayed or ignored all together leading to loss of revenue to the Government.

In the United States, the Government implemented a number of policies and laws tohelp improve the level of VAT compliance among taxpayers. These measures included requiring withholding of tax at the source of income, which means that the organization paying for services or goods withholds VAT there on and forwards it to the Government (Brockmann, Genschel, &Seelkopf, 2016). Another measure included application of deterrent mechanisms like giving the revenue collection agencies some powers to enforce the law by laying out clearpenalties to those found disobeying thelaw.

The Kenya Revenue Authority(KRA) is the only government revenue collecting agency accounting for over 96% of government revenue. KRA administers 17 revenue Acts,with the key ones(in terms of revenue importance)being Value Added Tax(VAT Cap 476),Income Tax Act(Cap470) East Africa Community Customs Management Act(EACCMA),Customs and Excise Act (Cap472)and the Traffic Act Cap403(Cherogony,2013).VAT was introduced in Kenya in 1990 to replace sales tax which had been in the existence since 1973.

Compared with other indirect taxes, VAT has more revenue potential, its more broad-based and entails a trail of invoices that helps improve tax compliance and enforcement((N.T, 2003).Tax modernization programs under Tax Reform and Modernization Programs (TR & MP) was initiated in Kenya back in 1986 with the main objective of broadening the government's revenue base and regulating the expenditure through strict fiscal controls. This brought about the adoption of VAT systems whose aim was to bring more revenue for the government.

These reforms have continuously been carried out to revamp the growth in revenue for the government to meet its huge budgetary needs. Despite these programs, VAT has not been responsive to the changes in reforms and has remained very rigid to changes in GDP.(Kotut&Menjo, 2012).VAT like any other tax, is vulnerable to evasion and fraud although it has some distinctive features that makes it less vulnerable than other forms of taxation((KEEN, 2007).This study will be grounded on the following theories to help explain Withholding Value Added Tax and its effects on Revenue collection: Ability to Pay Theory, Equal sacrifice Theory, Economic-based Theory, and Psychological Theory.

1.1.1 Global perspective

Fjeldstad and Iversen (2012) found that tax compliance behavior among South African citizens was influenced by perception about difficulty of evading taxes, satisfaction with public service provision, expenses to non-state participants, perception of an ethnic group being treated unfairly, and tax knowledge. The study did not assess a number of possible determinants of tax compliance and therefore there is need to expand the variables.

Atawodi and Ojeka (2012) conducted a study on issues that affect tax compliance among the small medium enterprises in the Northern part of Nigeria and established that a big tax rate as well as composite recording measures is the majority key factor contributing to lack of compliance of the small medium enterprises. The study also established other factors that significantly influenced tax compliance among SMEs in the region such as compound taxes and shortage of appropriate clarification. The study surveyed a few SMEs in the region that was among those that reported high cases of non-compliance. The study also importantly examined factors that explain non-compliance but not compliance as most other studies have.

Onwuchekwa&Aruwa (2014) conducted a study focusing on the relevance and the problems of Value Added Tax (VAT) in Nigeria. The respondents in the study were tax institutions, the revenue staff and the public. The study employed descriptive analysis techniques and the data used was primary in nature. The findings indicated that there was low tax compliance due to lack of proper records, unqualified FIRS staff and low level of education among the taxpayers and the opinion that the tax revenue was being misused. Nilsson (2015) used two approaches to evaluate tax conformity performance in Argentina. This was aimed at improving the mercantile taxpayers and far-reaching campaigns and as well as audits to enhance the chance of exposure amongst the taxpayers. The findings of the study revealed that as the number of audits and the chance of exposure increases, the taxpayers became positive in complying with tax regulations and precisely accounted their revenue, which positively influenced the tax proceeds. The initiative showed that unintended tax avoidance resulted relatively than deliberate tax noncompliance. Taxpayers were liable to integrate more intricate tax avoidance plans, which were challenging to detect through documentations so that they would remit small amount of tax if they become conscious that they will not be realized due to lack of scrutiny. Results of a study by Bergman agreed with the theoretical suggestion that the apprehension of recognition affects the degree of conformity activities, implying that those who avoid to adopt protective ways when the apparent danger of exposure is great.

VAT has become the most common consumption tax in the world. It was first introduced in France in 1954.Its essence was that it will be charged at all levels of production, but with the provision of some mechanism enabled firms to offset the tax they had paid on the purchases of goods and services against the tax they charged on the sales of goods and services. Although this characteristic feature is very clear cut, the VAT observed in practice showed considerable diversity as regards, among other things, the range of inputs for which tax was offsetting was available and the range of economic activities to which the tax applied i.e. the base of the tax((EBRILL, 2001).Over the last few years however there has been marked increase in losses of VAT revenue through evasion and fraud. For example, in European Union (EU), the abolition of internal EU frontiers at the end of 1992 opened up new areas of vulnerability. In March 2006 the first ever fall of in annual nominal VAT receipts in the United Kingdom was attributed by some to fraud (Ainsworth, 2006). In Kenya, the poor performance in VAT revenue has been led by VAT evasion, which has a major drawback on VAT revenue collection.

1.1.2 Kenya perspective

According to (AL, 1998)the problem of tax noncompliance is as old as taxes themselves. Naibei, Momanyi and Oginda (2012) conducted a study that sought to establish the association between inspection, VAT compliance and the size of income among personal firms in Kenya. The study sampled 233 registered firms and questionnaires was administered to the respondents for purposes of primary data collection. Data was then analyzed through correlation analysis. The results showed that there was a higher VAT compliance level on those firms, which had applied VAT withholding tax by KRA.

58% of the businessmen agreed that VAT withholding tax acted as deterrence on tax evasion. This in effect had a positive effect on the Revenue collection by KRA.Osebe (2013) conducted a study that sought to evaluate the issues that influence tax conformity by Real Estate developers in Nakuru town. Results of the study indicated that tax conformity expenditure was causative factor to tax conformity. From this finding therefore there was enough indication that tax conformity price was closely connected with elevated degree of tax conformity leading to an increase in tax revenues.

Taxpayers do a cost-benefit analysis of the cost of being caught through audits and the probability of being penalized, together with the possibility of criminal sanctions. If they find that the magnitude is very high, they end up following tax law and in effect comply. The study therefore provided some preliminary evidence that fines and penalties attached to tax compliance played a crucial role in enhancing revenue collection. Another study that was conducted by Nyaga (2014) on tax compliance, enforcement, and taxpayer service in Kenya explored the relationship between enforcement policies and taxpayer service on tax compliance in Kenya. The study adopted the use of simple regression analysis of aggregate variables representing enforcement measures against audit, penalties, criminal sanctions and taxpayer service. The study used a sample frame of self-will employ individual taxpayers for the period 2003-2012. The findings of the study indicated that audit, penalty had a positive relationship with tax compliance and hence enhanced tax revenue and taxpayer service and criminal sanctions had a negative influence on tax revenue.

Mararia (2014) examined the effect of Integrated Tax Management System (ITMS) on tax conformity by SMEs in Nairobi's CBD. Research study adopted a target population of 200taxpayers from which 100 taxpayers were picked as a representative sample. Data analysis was conducted by the use of SPSS version 20.0. The findings of her study showed that penalties and fines had a positive and significant association with tax conformity. This resulted to an overall rise in the collections as penalties and fined deterred tax evasion by taxpayers.

Akumu (2015) sought to establish the determinants of tax revenue in Kenya with data spanning 24 years from the year 1990 to the year 2014. The study specifically aimed to establish the relationship between interest rates, exchange rates and imports growth on revenue growth. The study used time series, data collected on a quarterly basis from the year 1990 to 2014. A descriptive research design was used. Data was collected from sources like Central bank of Kenya, Kenya National Bureau of statistics, International monetary fund and World Bank and was analyzed through regression modeling. The study findings revealed that the study variables investigated; interest rates, exchange rates and imports growth significantly affect revenue growth negatively.

1.1.3Withholding Value Added Tax

Lee (2015) in their study on Value added tax and consumption noted that numerous studies have looked at the several issues involved during execution of VAT in developing and developed countries. Some of the studies cited by them include, Gale and Harris (2011) who discussed the numerous concerns pertinent to the design of a VAT, together with its execution, administration, costs incurred in effecting compliance, its influence on savings as well as labor supply, its distributional impacts, and several transitional issues if implemented in the. U.S. Miller and Oats (2016) discussed issues related to VAT design and in the same way concluded, that the influence of a VAT on consumption is crucial but remains unresolved.

WHVAT is a design of VAT; it is a system that encompasses the statement of VAT by both the supplier and his customer (KRA). It is a tax deducted at source on acquisition of taxable goods and services by the withholding VAT Agent. Ability-to-pay theory supports the Withholding Value Added Tax since it reduces the burden on the taxpayer though no reduction of liability on him, the sharing in payment has a psychological effect of not feeling much pinch on payment of VAT due to the government.

Where a person makes a taxable supply and has issued a tax invoice, withholding vat is calculated based on a government's guidelines. For instance, in Kenya, WHVAT rate applicable is 6%. Assuming a taxable value of Ksh. 100,000 has been supplied, the agent with withhold Ksh. 6,000 that is (100,000*6%). The withholding of VAT by a withholding VAT Agent shall NOT relieve the supplier (Taxable person) of the obligation to charge VAT at 16% and file monthly returns in accordance with the relevant provisions of the VAT Act 2013 (KRA). The supplier is expected to pay the balance of 10% to account for the balance of vat charged at 16%. Withholding Tax is important for it is a tracking system for taxpayers who reduce their actual tax liability or evade on payment of tax due on taxable goods and services. When the income on which WHT is deducted at source the tax authorities are aware of the transaction between the withholding agent and the taxpayer therefore the tax withheld becomes a basis for the tax expected. The taxpayer has therefore an obligation to pay the balance after matching the actual tax liability against the tax withheld. For purposes of this study Withholding Value Added Tax will be measured by the amount of revenue collected as Value added tax withheld by agents (Adhikari, 2015).Ndumia, (2014) said that WHVAT was scrapped owing to among other reasons, the fact that not all VAT amount withheld was remitted to KRA's account at the Central Bank of Kenya (CBK) which adversely affected the overall VAT revenue performance. The law also entitled registered persons to a refund of credit arising from withholding VAT, however, this attracted a large number of refund claims, an implication which the government was keen to avoid. WHVAT was re-introduced in 2014 in Kenya and the authority argues that it has increased VAT performance attributing such performance on the WHVAT framework.

1.1.4Tax Compliance

Organization for Economic Cooperation and Development (2015) defines tax compliance in into two key categories that is Administrative compliance (complying with the administrative rules of lodging and paying on time, what some would include within their definitions of compliance with reporting requirements, procedural compliance or regulatory compliance); and Technical compliance (i.e., taxes calculated in accordance with the technical requirements of the tax laws or taxpayers pay their share of tax in accordance with the provisions of the tax laws). VAT on the other hand refers to an indirect tax levied on consumption of taxable goods as well as services.

Kosgei and Tenai (2016) used tax compliance as the degree to which taxpayers comply with the tax law.

Trandafir (2016) cited that tax compliance is affected by 14 main factors as discussed by various researchers which are age, gender, education, income, occupation or status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority

(IRS), income sources, perceived fairness of the tax system, possibility of being audited and tax rate. Non-Tax compliance is the difference between revenue collected and that ought to be collected. InTax, administration revenue collection procedures have to be efficient to minimize on the cost of collection. VAT compliance measures are vital in ensuring that costs are utilized in collection of revenue effectively.

1.2 Statement of the problem

This study sort to determine factors influencing the collection of withholding value added tax in East of Nairobi district in Kenya. The tax collection bodies across the world have advocated for withholding of taxes due to the benefits that come with it. Some of the benefits include: decreased collection costs, faster remittance to the Government hence it can use the money sooner in funding its programs steadily throughout the year, reduces the need to save a gigantic payment in June of every year.

The Institute of Certified Public Accountant of Kenya (ICPAK) defines withholding tax system as encompassing withholding taxes and other withholding systems of taxation that could take the form of pay as you earn (PAYE), Value added Tax (VAT), and the withholding tax (WHT). The institute further notes that VAT withholding has also been found to increase compliance and decreases evasion and underpayment because people don't notice how much tax they are paying in a withholding system hence there is less sense of anger (ICPAK, 2016).

Several studies have been conducted on tax compliance and withholding taxes. For instance, Chege(2014) examined the effects of employing electronic tax register by hotels in Nairobi on value added tax compliance in Kenya. The findings indicated an increase in Revenue collection with the use of Electronic Tax Registers. It was concluded that ETR machines enhance VAT collection resulting from more accurate VATreporting. In another study, Atawodi and Ojeka

(2012) focused on issues that affected tax compliance among the small and medium enterprises in the Northern part of Nigeria and established that a big tax rate as well as composite recording measures is the majority key factor contributing to lack of compliance of the small medium enterprises.

Mukabi (2014) examined factors influencing turnover tax compliance in the Kenya Revenue Authority domestic taxes department in Nairobi County. The Findings revealed that taxpayer's awareness, cost of compliance and complicated systems; perceptions of taxpayers towards the tax system greatly determined the level of compliance for turnover tax. King'oina (2016) studied factors influencing value added tax compliance among the construction firms in Kisumu County, Kenya. It was established that tax understanding and knowledge had a significant effect on tax compliance. Reduced tax compliance cost is associated with high levels of tax compliance. The above studies have concentrated on other factors affecting tax compliance. Limited research has been carried out on the effect of withholding value added tax on revenue collection, which is the focus of the current study. This study therefore seeks to establish the effect of Withholding Value Added Tax on Revenue collectionin Kenya.

1.3 Research Objectives

The generally objective of the study was to establish factors influencing collection of withholding value added tax in East of Nairobi district, Kenya.

1.3.1 Specific objectives

The specific research objectives of the study were:

i) To assess how taxpayer's level of tax awareness influences on withholding value added tax collection in East of Nairobi District.

ii) To establish howtaxpayers' perception of the tax system influence collectionof withholding value added tax in East of Nairobi District.

iii) To determine how the cost of compliance influences collection of withholding value added tax in East of Nairobi District.

iv) To find out how enforcement measures influence collection of withholding value added tax in East of Nairobi District.

1.4 Research questions.

The research questions were;

i) What is the influences of taxpayer's level of tax awareness on withholding value added tax collection in East of Nairobi District?

ii) What is the influences of taxpayers' perception of the tax system on withholding value added tax collection in East of Nairobi District?

iii) What is the influences of the compliance cost on collection of withholding value added tax in East of Nairobi District?

iv) What is the influences of enforcement measures on collection of withholding value added tax in East of Nairobi District?

1.5 Justification of the study

The result of this study is important to several stakeholders including the Government of Kenya, taxpayers, scholars, and academicians among other users.

1.5.1 Government of Kenya

For the Government of Kenya and specifically KRA, the findings will inform the future policy formulation and implementation in matters concerning Value Added Tax administration in the Country. The findings will also help avail the Government with statistics on the level of compliance and how it can be improved to increase revenue collection.

1.5.2 Public

To tax payers in Kenya, the study will inform them of several measures that the Government has put in place to ensure that optimal revenue is collected for better economic growth. The findings will help them learn on the importance of compliance hence reduce the rates of avoidance and evasion of taxes.

1.5.3 Scholars and Academicians.

To scholars and academicians, the study will add to the existing literature on withholding value added taxes and compliance. This will broaden their comprehension of the theories on the subject besides suggesting areas for further research.

1.6 Scope of the Study.

The study will be on effects of withholding tax on revenue collection(VAT) in East of Nairobi, along Mombasa road. Geographically it will be on taxpayers in industrial area since that region deals most on supplies. The secondary data will be from East of Nairobi station. To gather enough data, the research will take a period of 7 weeks including the report writing.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction.

This chapter presents a literature review on prior studies that have been done on withholding value added tax as one of the enforcement measures that are integral part of tax productivity. The chapter also reviews some empirical studies done globally and locally on the effect of withholding tax on VAT revenue. The chapter ends with a summary of the literature review.

2.2 Theoretical Framework.

This study borrows from the existing research of tax compliance measures. It was influenced by the following two theories put forward by researchers on withholding tax VAT compliance.

2.2.1 Economic based theory

The contemporary revival of the economic analysis of crime began in 1968 with Becker's classic article on crime and punishment. Becker mentioned tax evasion as an area of application for his general model, (ALLINGHAM, 1972), provided the analysis. Generally, this approach treats non-compliance as a rational individual decision based upon probabilities of detection, conviction and levels of punishment. According to Allingham and Sandro (1972), tax compliance is an expected utility (EU) maximizing decision where the taxpayer takes into account the tax rate, probability of audit and the penalty in determining the declared income.

The taxpayer's actual income is exogenously given and known by the taxpayer but not the Internal Revenue Service-IRS.A constant proportional tax will apply to report income, the amount of which is chosen by the taxpayer. With some exogenous and constant probability, the taxpayer is audited, if he or she is discovered under declaring income, a penalty proportional to the amount of under declared income, at a rate higher than the proportional tax rate, must be paid. Optimal tax evasion depends on the chance of being caught and penalized, the size of the penalty for evasion and the individual's degree of risk aversion. Yitzhaki (1974) pointed out that if the penalty (and any related non-pecuniary cost) for discovered evasion is proportion to the tax understated rather than (Allingham and Sandro assumed) the income understated, then the tax rate has no effect on the terms of tax evasion gamble.

As the rate rises, the cost of a detected understatement of taxes rises in the exact proportion to the reward from a successful understatement of taxes, so the reward –to-risk ratio is unchanged. In this situation, a higher tax rate will decrease tax evasion. Many years of subsequent analysis has extended this model in a number of dimensions, including allowing endogenous probability of detecting, analyzing evasion jointly with the labor supply decision (thus directly addressing the shadow economy), incorporating the source of certainty other than the chance of audit and addressing general equilibrium consideration (Slemrod,2007).

This economics-of-crime approach gives sensible result that compliance depends upon enforcement, as represented by the audit and penalty rates. Indeed, it is straight forward to show with comparative statics analysis that declared income increases with an increase either in the probability of detection or in the penalty rate (Alm,2013). This theory incorporates WHT as enforcement measures in determining tax compliance levels. This study borrows heavily from the A-S model in that it seeks to establish the relationship WHT have on Revenue collection. The theory observes a taxpayer weighs the cost of being caught evading tax versus the benefits of going unnoticed. If the cost of being caught is high, then it will be beneficial for the taxpayer to just comply with the tax law and this will have a positive effect on tax revenue.

2.2.2 Psychological Theory

The behavioral approach to tax compliance as an answer to criticized economic-based models has undergone significant development. Leviner (2008) argues that in order to comprehend tax compliance one needs to examine other factors apart from deterrence factor as well as economic determinants, which have been discussed in the economic model. In further enhancing and extending the economic model of tax compliance beyond its primary concepts, it is paramount that researchers explore other areas of significant importance such as psychology, moral and social factors that also affect tax compliance behavior and incorporate these factors in advancing their models.

Tax compliance can be construed as a psychological tax contract extending beyond the deterrence model that will be traditionally drafted and tax morale can be understood as an intricate connection between taxpayers and the government (Feld & Frey 2007). The behavioral approach can thus be viewed as a complementary extension of the mainstream economic analysis. It follows that behavioral theory including other psychological elements such as morale, incentives, and emotion between taxpayers and tax authorities can be explored to provide requisite material for comprehending tax compliance behavior and how to improve this area.

2.2.3 Ability to Pay Theory

This scientific theory of the sixteenth century was proposed by the Swiss philosopher Jean Jacques Rousseau (1712-1778), Jean-Baptiste Say (1767-1832) who was a French political economist and John Stuart Mill (1806-1873), an English economist. The argument that was put forward by the theory was that the income of an individual or their ability to make payment determines how much taxation should be levied on the individual.

This is therefore the basis upon which progressive tax is founded and accordingly, as taxable income increases, tax rate also increases (Jones & Rhoades,2011). Thus the theory provides that individuals who have greater income or wealth and can actually afford to make tax payments ought to be taxed at a higher rate of taxation than individuals who earn less income which results to the most equitable tax system. It has been adopted extensively in industrialized economies that have unequal income distributions. The theory however lacks a solid method of measuring equity of sacrifice, since it has been demonstrated that it can be measured through absolute, proportionate and to some extent also captured in marginal terms. The implication of the theory therefore extends to the taxes and tax systems therefore helping in increasing Government revenues.

The theory also has social consequences that are intertwined with economic effects. The criteria guiding the choice of taxes that will be adopted as well as their rates of application will be lead to a situation where one set of economic effects are preferred to another set, which leads to different social implications as a result of divergent economic effects. However, it is worthwhile to note that this theory does not vividly capture VAT because despite the fact that individuals earn significantly different amounts of income and therefore have different abilities, they are all subjected to the same amount of VAT on a particular good that they buy. Jones and Rhoades

(2011) therefore argue that VAT is regressive since it only captures a smaller proportion of an individual’s income even as their income improves.

2.2.4 Equal sacrifice Theory

In an effort to make a tax system satisfy the theory of justice, the sacrifice entailed by the taxpayer should be taken into consideration according to this theory. The equal-distribution theory also known as Equal sacrifice or Proportionate theory was suggested by J. S. Mill ,as well as a number of classical economists in their quest to expound on the idea of justice in taxation posits that income, wealth, as well as transactions need to be subjected to a fixed percentage taxation implying individuals with high levels of income should be subjected to a higher tax, only that they should not be subjected to a higher rate of taxation (Musgrave & Musgrave, 1989).Equal sacrifice will be thus extracted from individuals who have been subjected to taxation that is in proportion to their income levels according to the opinions advanced by the classical economists. Thus, equal sacrifice was construed in three different dimensions.

The first measure captured what was submitted by the taxpayer representing a similar absolute degree of utility as that derived from the individual’s income. The second equal sacrifice measure entailed an individual taxpayer sacrificing a similar proportion of utility as that they derived from their income.The third and last measure of equal sacrifice in tax implied that each taxpayer surrendered a similar level of utility as that of their last unit of income. However, this is not the view generally held by modern economists who argue that marginal utility of income diminishes as individual’s income increases.

It is therefore clear that for the achievement of equality of sacrifice, individuals who earn significantly higher income ought to be taxed at higher rates as compared to their low-income counterparts who ought to be subjected to lower rates of taxation. According to Musgrave and Musgrave (1989), modern economists in all modern tax dispensations show preference for progressive system of taxation at the expense of regressive tax systems. VAT captured in this theory since every individual is subjected to the same amount of VAT on a particular good regardless of their income differences as has been mentioned that VAT represents a smaller proportion of a person's income as their income rises.

2.2.5 Prospect Theory of Tax Evasion

This theory describes the way people choose between probabilistic alternatives that involve risk. Under the prospect theory, carries of utility are gains and losses relative to some reference point (al-nowaaihi, 2006).An important application of prospect theory is to the equity-premium puzzle in finance which is similar in spirit the tax evasion puzzle in that both can be formulated in terms of a portfolio choice problem. (ALM, 1992)Suggests that one possible explanation for why people pay taxes might potentially be based on non-linear transformation of probabilities overweight the probability of a withholding tax, which provides for an obvious deterrent to tax evasion activity.

Restricted prospect theory has been used in "advance tax payment" in an attempt to deter tax evasion. Where advance tax payment exceeds actual tax liability, in which case the taxpayer correctly reports income, the taxpayer gets a refund, a gain. Therefore, the taxpayer's utility function is concave to gain. On the other hand, if the advance payment will be lower than the actual tax liabilities, the taxpayer's utility function would be convex for losses and might be willing to take a gamble of evading taxes (YANIV, 1999).

2.3 Conceptual Framework

Conceptual framework is defined as the result of when a researcher conceptualizes the relationship between variables in the study and shows the relationship graphically or diagrammatically (MUGENDA, 2003). The conceptual framework of the study consisted of independent variables; withholding Tax, dependent variable; Revenue collection.

This is diagrammatically illustrated in Figure 2.1

INDEPENDENT VARIABLE DEPENDENT VARIABLE

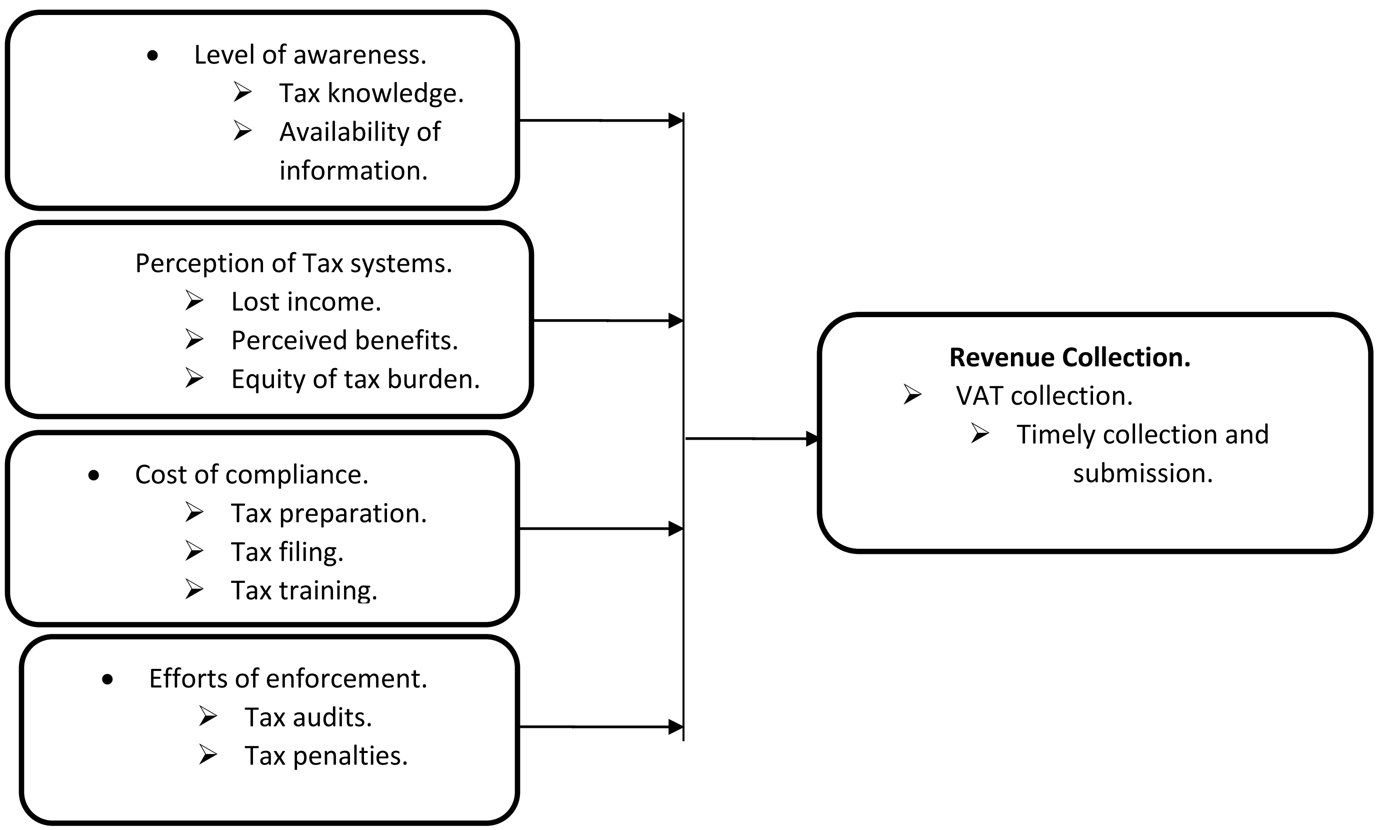


Figure 2.1

2.4 Empirical Review

In this section, the study will review existing studies both local and international on the independent variables that influence Revenue collection in Kenya. In order to meet their vast budgets, governments around the world have devised ways of employing various measures to reap more on taxes.

2.4.1 Enforcement efforts.

As it would be, some taxpayers are also way ahead to beat the systems so as to remain non-compliant. This has led the tax agencies to employ enforcement measures of audit rate, penalties, audit probabilities and criminal sanctions to net in non-compliant taxpayers. In an attempt to investigate the reasons for taxpayer non-compliance, (BECKER, 1981), used tax evasion game in which participants were given a monthly income and punishment parameters. Based on these, taxpayers were requested to make their tax declaration.

The major finding of their study was that tax evasion increased with tax rate and that keeping the net gain from evasion constant, evasion fell as the fine/penalty were increased. (WILDE, 1988)Conducted an empirical analysis of federal withholding taxing and compliance in USA. The study had an objective of establishing the relationship between withholding taxes and compliance from IRS tax returns made in 1969. Data was analyzed by Ordinary Least Square regression. Among other variables that contributed to increased tax compliance, which in turn enhanced tax revenues, Dublin and Wilde found that there was a strong deterrence effect on non-compliance. They concluded that IRS was effectively right to direct its resources to audit conductions to enhance tax revenue.

A study conducted by (FELD, 2002), evaluated deterrence and morale on taxation in Switzerland. In their empirical analysis, they used cross section time series data from 26 cantons over the period 1975-1995. Their enforcement technique was represented by the authoritarian procedure of the tax agency in which standard penalties and audit rates were increased. The results surprisingly showed that the 24 probability of detection through audit was statistically significant (at the 5% level) and had a theoretically unexpected positive sign. This suggested that a higher probability of being caught through audit raised (rather than lowered bed) tax evasion which affected tax revenue. However, an increase in standard penalty lowered bed tax evasion in a statistically significant way (1%) which corresponds to the theoretical expectations. They observed that enforcement measures were not the sole contributors to increased compliance and how taxpayers viewed treatment from tax agency also contributed to compliance.

2.4.2 Level of awareness

In a study titled 'Tax Knowledge and Tax Compliance determinants in Self-Assessment System in Malaysia", (MOHD, 2010), concluded that in the self-assessment system in Malaysia, tax knowledge has a significant impact on tax compliance and the level of tax knowledge varies among respondents. Males, Malaysian, residents of Eastern region, high-income earners and taxpayers who have attended tax courses appeared to be the most knowledgeable taxpayer groups. The results also indicated that tax compliance was influenced by probability of being audited, perception of government spending, penalties, personal financial constraints, and referent group. These results were validated through a multiple method of questionnaires (direct and hypothetical questions) and analysis (stepwise multiple regressions and multiple regressions).

(BERGMAN, 2003)Investigated tax compliance behavior in Argentina using two approaches; the measures to enhance commercial taxpayers and extensive campaigns and audits which increased the probability of detection among taxpayers. The results suggested that as the number of audits and the probability of detection increased, taxpayers were encouraged to comply with tax laws and accurately report their income which had a positive impact on tax revenue. This suggests that unintentional evasion may occur rather than intentional evasion. He also claimed that the lack of audits and investigations implemented by tax authorities in the 1980s in Argentina had driven taxpayers to behave ‘recklessly’. Moreover, as taxpayers were aware that they would not be detected due to lack of investigations, they incorporated more complex tax evasion strategies and less traceable documentations so that they could pay less tax. Findings by Bergman were consistent with the theoretical proposition that the fear of detection influenced the level of compliance behavior, suggesting that the evaders take precautionary measures when the perceived risk of detection is high. Findings from Bergman have also evidenced that probability of being detected plays a significant role in inducing compliance behavior.

(SLEMROD B. A., 2001), conducted a research on taxpayers’ response to an increased audit probability – evidence from controlled experiment in Minnesota. They selected a group of 1724 taxpayers and informed them through letters that the tax returns that they were about to file would be closely examined and compared to a control group that did not receive the letter. They observed that the low and middle-income taxpayers in the treatment group on average increased tax payments compared to the previous year. In an experiment study, (TYRAN, 2012) found that the tax compliance is higher on average in endogenous penalty treatment in which subjects are allowed to approve or reject the project of a penalty as compared to an exogenous penalty treatment where penalty is imposed by the experimenter.

The main explanation why people show higher tax morale if they are allowed to vote on a penalty is legitimacy. Compliance rates are higher if the penalty is accepted than in the case it is rejected. (NAIBEI, 2012), in their study on the relationship between income size, inspection and VAT compliance on private firms in Kenya sampled 233 registered firms where questionnaires were administered to the respondents. Data was analyzed through correlation analysis. The results showed that there was a higher VAT compliance level on those firms which had undergone an audit by KRA. 58% of the businessmen agreed that withholding tax acted as deterrence on tax evasion. This in effect had a positive effect on the VAT revenues collected by KRA.

2.4.3 Cost of compliance

In his study on the factors affecting tax compliance by Real Estate developers in Nakuru town, Osebe, (2013) reveals that tax compliance cost was a contributory factor to tax compliance. From the study findings, there was enough indication that tax compliance cost was associated with high levels of tax compliance thereby increasing tax revenues. Taxpayers did a cost-benefit analysis of the cost of being caught through audits and the probability of being penalized, together with the possibility of criminal sanctions and where the magnitude was high; they ended up following tax law and in effect complied.

The study also provided some preliminary evidence that fines and penalties played a vital role in improving tax revenue. (NYAGA, 2014)in her study on tax compliance, enforcement and taxpayer service in Kenya purposed to explore the relationship between enforcement policies and taxpayer service on tax compliance. The study used simple regression analysis of aggregate variables representing enforcement measures against audit, penalties, criminal sanctions and taxpayer service. A sample frame list of self-will employed individual taxpayers used for 2003 to 2012. Nyaga found that audit and penalty had a positive relationship with tax compliance and hence tax revenue and taxpayer service and criminal sanctions had a negative relationship. With the variability in 27 audit rate accounting for only 31% of the variability in tax compliance, she concluded that the reason why Kenyans pay taxes remains an interesting question that required further research.

2.4.4 Perception on tax system

(MARARIA, 2014)Evaluated the effect of Integrated Tax Management System (ITMS) on tax compliance by the small and medium enterprises in Nairobi central district. The target population for the study comprised of 200 taxpayers out of which 100 taxpayers were picked as a representative sample. Data was analyzed by use of Statistical Package for Social Sciences. Although the study was mainly on ITMS effect on tax compliance, Mararia found that penalties and fines had a significant positive relationship with tax compliance. This resulted to an overall increase in collections as penalties and fined deterred tax evasion by taxpayers.

2.5 Critiques of existing literature.

There has been a considerable amount of research, which has been carried out, on tax compliance (AL, 1998). Studies on the economic factors that affect tax compliance have been consistently inconclusive leaving researchers to state that the more important question is why people pay taxes and not why they evade them ((SLEMROD A. E., 1992).According to (WEBLEY, 2002)there are very minimal studies on VAT non-compliance. The main purpose for pushing for increased tax compliance through a reduction of tax evasion by issuing of WHT helping taxpayers through taxpayer service and other mechanisms is to increase tax collections. The effects of audits, penalties and criminal sanctions vary sometimes even within the same context (Witte & Woodbury, 1985; Dubin& Wilde, 1988).

2.6 Research Gaps.

From the empirical studies, it is clear that tax evasion has been a problem to many governments and that tax enforcement has been a tool used by many tax agencies to deter further non-compliance. However, most empirical studies have focused on personal income tax. There has not been much concentration on VAT which is an important tax. Taxpayers in different tax brackets behave differently on taxation matters. The few studies carried out on VAT have focused majorly on Small and Medium enterprises and the black market. It is therefore paramount to study how Withholding VAT contributes to the revenue collection on VAT for firms in the large taxpayers' category.

2.7Summary of literature review

There has been a considerable amount of research which has been carried out on tax compliance (AL, 1998). Studies on the economic factors that affect tax compliance have been consistently inconclusive leaving researchers to state that the more important question is why people pay taxes and not why they evade them ((SLEMROD A. E., 1992).The review of literature has indicated knowledge gaps ranging from the contextual, conceptual and methodological knowledge gaps. Studies for instance Batrancea, Nichita and Batracea (2012) focused on the factors that shape tax compliance behavior and withholdingvalueadded tax.

Fjeldstad and Iversen (2012) found that tax compliance behaviors among South African citizens was influenced by perception about difficulty of evading taxes, satisfaction with public service provision, expenses to non-state participants, perception of an ethnic group being treated unfairly, and tax knowledge. Thus, these studies were all conducted in different contexts with a different set of local economic conditions leading to a contextual gap. On the same note, studies by Atawodi and Ojeka (2012) focwill were on issues that affected tax compliance among the small medium enterprises in the Northern part of Nigeria and established that a big tax rate as well as composite recording measures were the majority key factor contributing to lack of compliance of the small medium enterprises.

On the other hand, the study by Nilsson (2015) used two approaches to evaluate tax conformity performance in Argentina. From the empirical studies, it is clear that tax evasion has been a problem to many governments and that tax enforcement has been a tool used by many tax agents to deter further noncompliance. However, most studies have focused on personal income tax, there has not been much concentration on VAT which is an important tax. The few studies carried out on Vat have focused majorly on small and medium enterprises and the black market. It is therefore paramount to study how Withholding VAT contribute to the revenue collection for firms in large taxpayers' category.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1Introduction.

This chapter describes the research methodology that was employed in the study. It outlines the research design, area of study, population of the study, sampling size and procedures, data sources, data collection instruments will use, data analysis and data presentation.

3.2 Research Design

According to cooper and Schindler (2006),research design is the process through which data is gathered and analyzed to achieve the purpose of the study. This study adopted an explanatory research design. This enabled the study to answer key "how" questions. Explanatory research designs help in explaining how a variable influences the other. Therefore, the adoption of explanatory design is regarded as suitable whenever there is a need for clarification of a supposed difficulty. Any time a difficulty arises, it is imperative to fully comprehend it prior to looking for its solution; therefore, it is advisable to employ an explanatory study to deal with it (Gill and Johnson, 2010). To fully determine the factors influencing the collection of withholding value added tax in East of Nairobi District, this study employed explanatory research design.

3.3 Target Population

Mugenda &Mugenda (2008) defines a population as an entire group of individuals, events or objects having a common observable characteristic (Mugenda & Mugenda, 2008). Thus in reference to Mugenda &Mugenda (2008) defination, the study employed a population of 230(210 active taxpayers and 20 tax officials in East of Nairobi District, Kenya as the target population.

3.4 Sampling procedures.

Sampling procedures is the process of selecting a given number of subjects from a defined population as a representative of the whole population (Mugenda & Mugenda, 2008). Procedure details the activities that helped the researcher in arriving at a representative sample that was employed in solving the research problem. The following sampling design was employed in this study;

3.4.1 Sample Size.

A sample size is the number of study elements or units selected from the population of interest for investigation (Chandan, Singh and Khanna, 2010). Sampling is advantageous in the sense that it saves on time and cost since it is easier to deal with the small group (sample) that represents an entire population than analysing the whole group of interest. Mugenda and Mugenda (2008) contend that a sample size of 10% is appropriate when the population is small and exhibits the same characteristics (Mugenda& Mugenda, 2008). Thus a minimum sample size of 23 respondents from the target population was selected randomly for the study.

3.4.2 Sampling frame.

Sampling frame for any probability sample is the whole list of entire cases in the population from which the sample is derived (Saunders*et al*, 2009). The sampling frame for this study clearly comprised of the registered activetaxpayers in East of Nairobi District and the tax official from Kenya Revenue Authority.

3.4.3 Sampling technique.

The study adopted a simple random sampling technique to select the respondents from the target population. A list of registered active taxpayers in East of Nairobi District and the tax official from Kenya Revenue Authority was provided. A respondent was randomly chosen from the list using a table of random numbers.

3.5 Data collection procedures.

The research relied on primary data.

3.5.1Primary data

The primary data was collected byuse of aLikert Scale type questionnaire with both open and closed ended questions. A research permit was obtained from KESRA registrar office, Nairobi Campus to give permission to the researcher to carry out data collection exercise.An introductory letter was sent to department and section heads two weeks prior to commencement of the exercise to enable the relevant Authorities to prepare for the exercise in advance to a void inconvenience. Data collected was checked for reliability and validity and to ensure that valid conclusions are drawn from the data (Saunders et al, 2009).

3.6 Pilot study.

McMillan (2013) says that pilot testing is a small scale try out of an instrument such as a questionnaire that is administered to direct the revision or fine tuning process, in order to reveal issues that may affect its administration, and their correction until it is satisfactory. The study employed sample size 33 taxpayers and tax officers who were not part of the actual sample for pilot study were given the questionnaire to fill. According to Mark (2015), pilot test is used to gauge any varying element, which may occur in an actual research, and to check whether research elements produced what was expected. He stated that pilot study not only checks on completeness and probable accuracy of a questionnaire, in terms of time, but also helps fine tune it to reflect and produce desirable output. Accordingly, it is used to correct ambiguities before the actual study, in order to produce the best results.

3.6.1 Reliability of research instrument

The reliability of an instrument is the extent to which results are consistent over time and accurately represent the characteristics of the total population under study after repeated trials (Winterstein,2008). Reliability estimates were measured by administering a set of questionnaires during the pilot study and the crude information from the instruments were subjected to Cronbach's co-efficient alpha was methodically, systematically and consistently computed using Cronbach's Alpha measures. A study is reliable if the results of a study can be reproduced under a similar methodology (Kozinets, 2002).

3.6.2 Validity of the Research Instruments.

According to Kothari (Kothari 2004), validity is the degree to which an instrument measures what it is supposed to measure. Therefore, the term refers to the extent to which an instrument asks the right questions in terms of accuracy. In addition, Crocker and Algina1986 have pointed to the importance of a theoretical foundation by noting that constructs cannot be defined only in terms of operational definitions but must also have demonstrated relationships to other constructs or observable phenomena. "Validity evidence is built over time, with validations occurring in variety of populations. Comprehensive literature reviews on measurement approaches are therefore critical including the selection of measures and measurement instruments. (Winterstein, 2008). The content validity of the research instrument for this study was determined through consultation with my supervisor and piloting, where the responses of the subjects were checked against the research objectives. For a research instrument to be considered valid, the content selected and included in the questionnaire must be relevant to the variable being investigated. The researcher performed the pilot test with a randomly selected sample of twenty-eight (28) withholding VAT taxpayers.

3.8 Data analysis and presentation.

The researcher conducted data cleaning after data collection, which involved identification of incomplete or inaccurate responses. This was corrected to improve the quality of the responses. Data was coded and entered in the computer system for analysis using the statistical package for social sciences (SPSS). Spearman correlation and regression analysis was done and Chi-square test of independence at 95% confidence level was established for quantitative data. Likert scale was used ranking factors in accordance to their weighted means. Tables, charts and graphs were used in presenting the analyzed data. Qualitative data was analyzed using content analysis. That is, the data was categorized into themes and analysis, thereof, based on the prevalence of the themes and subthemes in addition to their relevance to the topic (Gujarati, 2000). This enhanced the descriptive analysis.

3.8.1 Regression Models

This study employed regression models to determine the relationship between the independent and the dependent variables. In relation to the objectives of the study the researcher used SPSS to estimate the following multivariate regression analysis:

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$... (i)

Where Y- Withholding VAT collections.

$\beta 0$ - is the intercept; and reflects the constant of the equation.

Bi - is the sensitive coefficient of each independent variable (i=1,2,3,4).

X_1 –Tax awareness level- taxpayer understands of taxation with regard to existing laws and administration of such laws regardless of the correctness of such knowledge (Kirchiler, 2009).

X_2- Compliance cost- the costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of tax incurred by taxpayers in meeting the tax requirements.

X_3- Perceptions of the tax system- this is the willingness of the taxpayer to be tax complaint, which is homogeneous.

X_3-Enforcement measures- Strategies aimed at collecting tax revenue from non compliant taxpayers.

ε - is the error term.

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

3.8.2 Operationalization of Variables and Measurement.

The independent variables of this research were; Tax awareness and knowledge, cost of compliance, Perception oftax systems and enforcementefforts. These were perceived to play different roles in tax compliance and hence differently influence the dependent variable of the research as discussed and indicated on the conceptual framework (see figure 2.1). The dependent variable is the output that was expected to help taxpayers to produce output such as report their own income freely, calculate tax liability correctly, file tax return on time, comply with tax laws and claim correctly deductions, relief and rebates. To empirically measure the effect of the independent variables on the dependent variables, this research used various indicators to get both attributed and assimilated aspects. Table 3.1 summarizes the operational variables.

Table 3.1 Operationalization of Variables.

Variables Measured	**Elements/Indicators**	**Source**	**Type of Analysis**
Tax awareness and knowledge	• Availability of information • Knowledge on correct declaration • Knowledge tax computation • Self-assessment	Kirchiler (2009); Mohamad et al, (2007);	Descriptive statistics Inferential Statistics
Compliance cost	• Cost of Tax Preparation • Cost of Tax Training • Cost of record keeping • Cost of training tax experts • Cost of hiring tax experts • Cost of computer and internet connectivity	Kimungu and Kileva (2007);	Descriptive statistics Inferential Statistics
Perception of tax systems	• Opinion on detection • Opinion on wastage • Self-motivation • Perceived benefits • Perceived lost income • Perceived equity of tax • Perceived tax burden	Aruwa(2008); Wanjohi (2010)	Descriptive statistics Inferential Statistics
Enforcement efforts	• Weak enforcement • Affordable penalty • Low detection rates • Audits • Resources committed • Penalties enforcement	Kirchiler (2007);	Descriptive statistics Inferential Statistics

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTEPRETATION.

4.1 Introduction

This chapter presents data analysis, presentation and interpretation of the research findings. The main objective of the study was to evaluate the factors that influencing collection of withholding value added tax in East of Nairobi district in relation to taxpayer level of tax awareness, understanding & taxpayer education, Cost of compliance, taxpayer perception of the tax system and enforcement efforts. The study sampled 230respondents' mainly active taxpayers within East of Nairobi District and the data analyzed and interpreted as the objective of the study.

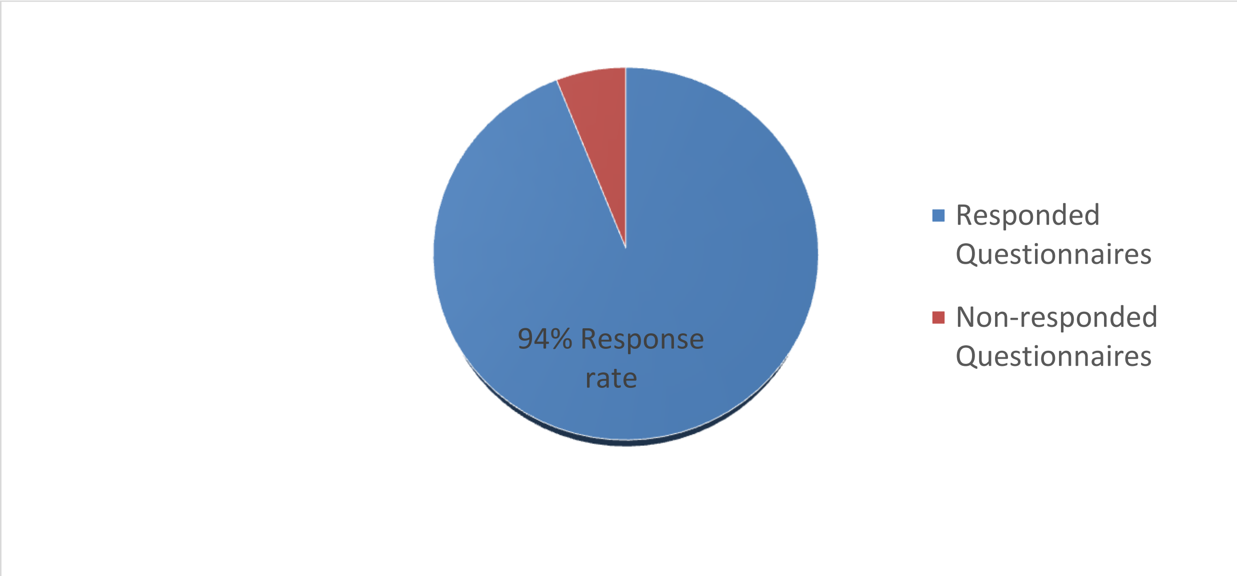
4.2 Response rate.

The study targeted 230 respondents on the factors influencing collection of Withholding VAT in East of Nairobi District, Nairobi County. Out of the 230 questionnaires issued, 216 were returned giving a 94% response rate as shown in Table 4.1.

Table 4.1: Response rate

RESPONSE	Questionnaires administered	Questionnaires filled and returned	Percentage rate
TOTAL	230	216	94%

Figure 4.1 Response rate



According to Mugenda and Mugenda (2008) a 50% response rate is adequate, 60% is rated good, 70% is rated very good and above 80% is rated excellent. This implies that based on these assertions; the response rate for this study, 94% is excellent for drawing valid conclusions.

4.3 Demographic factors.

The study found it important to establish the demographic information in order to evaluate the factors that influence collection of withholding VAT in Kenya revenue Authority East of Nairobi station. The demographic information of the respondents included gender, age and level of education.

4.3.1 Gender.

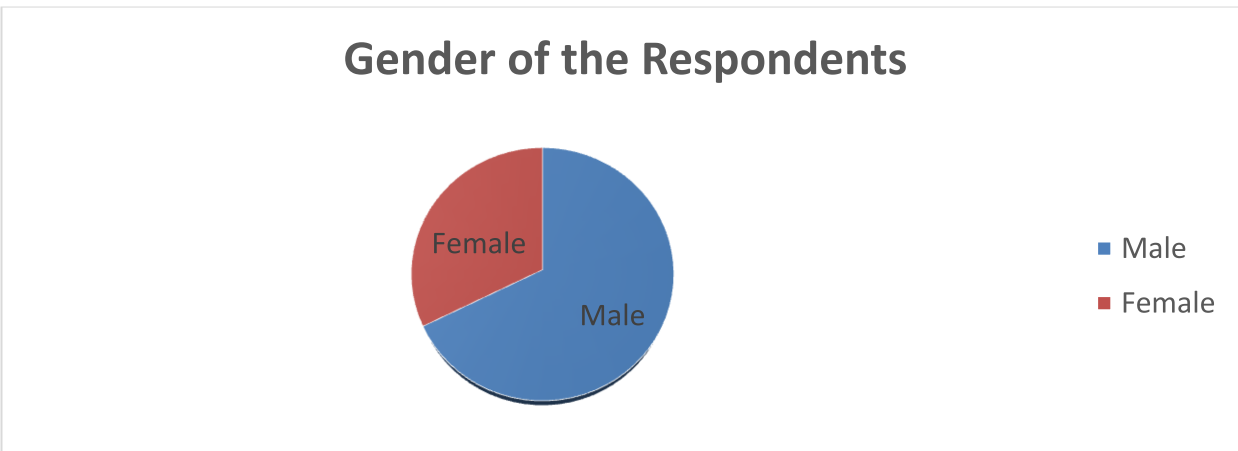
The researcher sought to find out the gender of the persons filling the questionnaire. The findings indicate that majority of the respondents 146 who filled the questionnaires were male while 70 respondents were female. Figure 4.1 below best illustrates these findings.

Table 4.2: Gender of respondents

Gender	Frequency	Percentage
Male	146	67.6%
Female	70	32.4%
Total	216	100%

The findings of the study indicated that the dominant group, the majority of the respondents who participated in the study, were male who accounted for 67.6% while their female counterparts accounted for 32.4%. This indicates that majority of the people who either charge/or are charged withholding VAT are males as they accounted for a higher percentage than females.

Figure 4.2 Gender distribution.



4.3.2 Age Category.

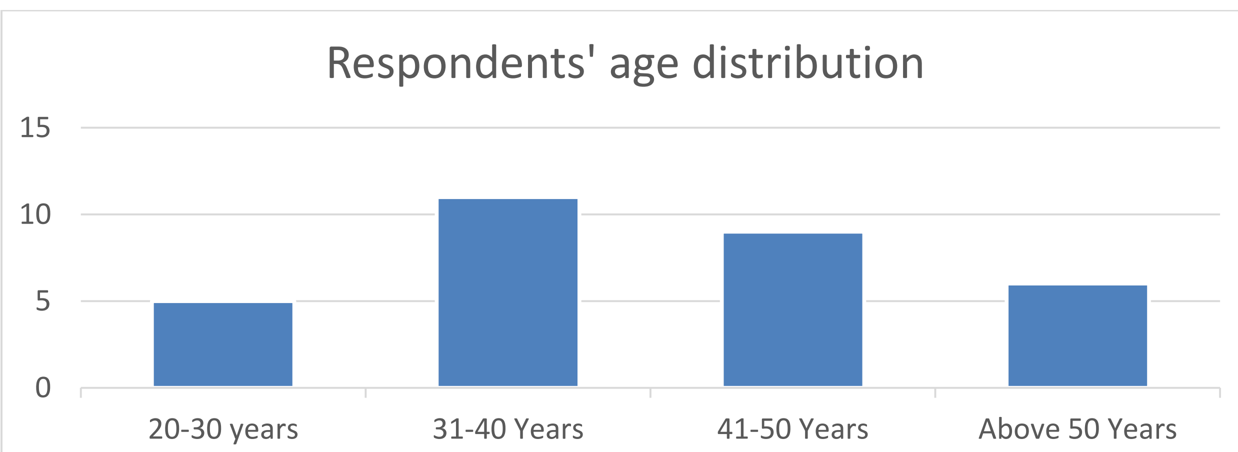
The researcher sought to determine the age category under which the (taxpayers)respondents fall and the findings are shown in Table 4.3.

Table 4.3: Age of respondent

Age of respondent	Frequency	Percentage
20-30	34	15.9%
31-40	79	36.4%
41-50	61	28.4%
Above 50	42	19.3%
TOTAL	216	100%

The findings reveal that most participants are in the age bracket of between 31-40 representing 36.4 % followed by 28.4% who are aged between 41-50 years. The study further reveals that 19.3% of the respondents were aged above 50years and 15.9% were between 20-30 years. It can therefore be observed from the findings of the study that most of respondents were aged between 31-40 making a total of 36.4%.

Figure 4.2 Age distribution.



4.3.3 Level of Education

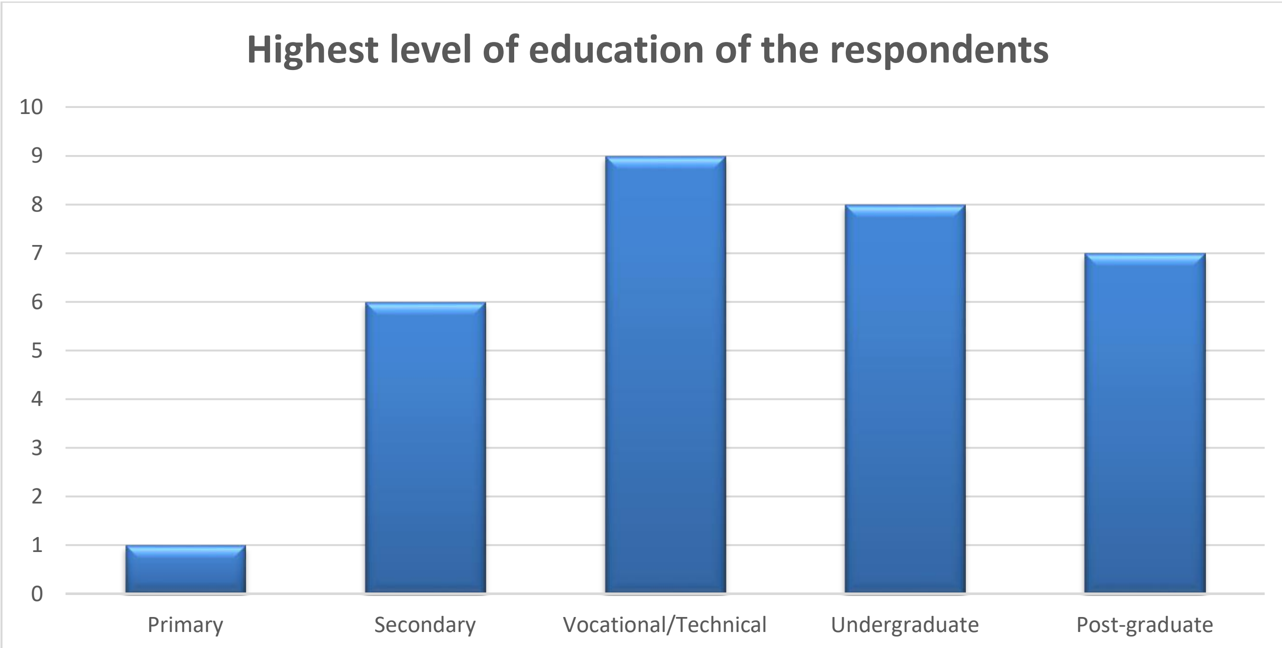
The study also found it of importance to determine the participants' level of education, which was crucial for this study as the respondents' level of education, eliminates the bias of uneducated respondents. The findings are presented in Table 4.4.

Table 4.4: Level of education

Level of Education	Frequency	Percentage
Primary	10	4.6%
Secondary	38	17.9%
Vocation/Technical	62	28.6%
Undergraduate	55	25.5%
Post graduate	51	23.5%
TOTAL	216	100%

The results of the findings reveal that most respondents are educated up to vocational level accounting for 28.6% while 25.5% are undergraduates. 17.9% of the respondents were educated up to secondary level, 23.5% are postgraduates and 4.6% up to primary level. The findings of the study show that the respondents had reasonable education to execute the roles assigned to them as taxpayers and tax officers effectively and efficiently and make prudent decisions especially because above those with at least secondary were above 90%.

Figure 4.3 Respondents' level of education.



4.4. Study of variables.

The objective of the study was to establish factors influencing collection of withholding value added tax in East of Nairobi District.

4.4.1 The level of tax awareness.

It is believed that if all taxpayers are knowledgeable on tax matters, then tax compliance rates will go up. The researcher sought to establish the level of tax understanding and knowledge of the respondents about withholding VAT. Tax understanding and knowledge entail operations of VAT withholding schemes, VAT self-assessment system and the challenges faced in the process of raising tax awareness level and understanding. Under the VAT self-assessment system, taxpayers assess their personal tax liabilities or credits, declare in their respective tax returns, submit the tax return and make payments where applicable online. Under the VAT withholding scheme, the supplies who appointed withholding agents withhold 6% of the VAT on their purchases and remit the amount to tax authorities within 20 days from the end of the month in which the VAT was withheld. Taxpayers are allowed to offset VAT withholding against VAT payable in a period.

The researcher sought to know whether the respondents understood the VAT withholding scheme, the VAT self-assessment tax system, the VAT mechanism of input output and obligations and duties of a VAT registered business. Tax knowledge and understanding is significant in enhancing revenue collection by the tax officials. The findings of the study are presented in table 4.5 below;

Table 4.5 Understanding and knowledge of the Mechanisms of Withholding VAT.

Tax understanding and knowledge	**Frequency**	**Percentage**
Knowledgeable about Withholding VAT schemes	132	61.3%
Little knowledge about Withholding VAT schemes	49	22.6%
No knowledge about Withholding VAT schemes	35	16.1%
Total	**216**	**100**%

Source: Research findings2016

132 of the sampled respondents representing61.3%areknowledgeableandhaveagood understanding of the VAT withholding scheme in a self-assessment system& their duties and obligations as registered VAT taxpayers.49ofthe respondents representing 22.6% have little knowledge of the VAT withholding scheme and 35oftherespondentsrepresenting16.1%havenoknowledgeorunderstandingofthe VAT withholding scheme. Thus, majority of the respondents are knowledgeable about the VAT withholding scheme ,hence in better position in making prudent VAT decisions.

The researcher further sought to establish challenges the taxpayers face while trying to access information concerning VAT mechanism of input- output and VAT withholding scheme.The study findings areas indicated in Table 4.6 below.

Table 4.6Ratings on challenges faced while accessing information.

Challenge	1		2		3		Mean	Std Deviation
	No.	%	No.	%	No.	%		
Conflicting information from different sources	63	29	30	14	123	57	2.09	0.786
Tax system complexity (iTax is not easy to understand)	56	26	50	23	110	51	2.34	0.755
Long queues in gaining access to KRA offices	13	6	106	49	97	45	1.79	0.789
Technical details on brochures and tax Acts that I don't understand	28	13	48	22	140	65	2.09	0.590
Delay in receiving feed back on queries raised	30	14	86	40	99	46	2.15	0.788
High fees charged bytax consultants and other professionals on services/advise	9	4	43	20	164	76	2.73	0.521

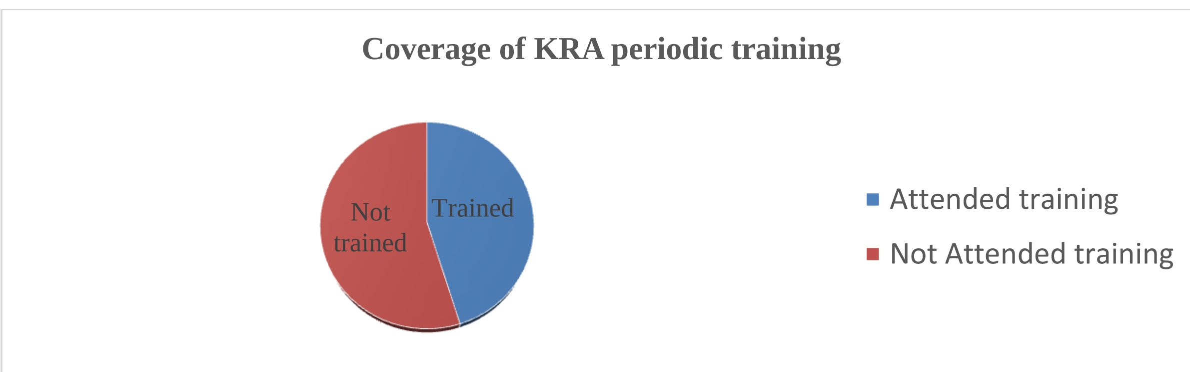
Fromtheresponses,76%oftherespondentssaidthatthehighfeeschargedby tax consultants in raisingtheirtaxunderstandingisaveryseriouschallengewhile57%whocitednonavailability ofinformationsoughtasaveryseriousobstacleand51%saidthatthecomplexity of the tax system is a also a very serious challenge. It can be observed that tax understanding is a contributing factor in raising VAT revenue collection. 65%oftherespondentssaidthatthe complexityofthetechnicaldetailsinthetaxactsposesaseriouschallengeinraisingthelevelof knowledgeandunderstanding.IfKRAcansimplifythetaxsystem,makereadilyavailablethe taxinformationgiveappropriatefeedbacktoquestionsraisedingoodtimeandsimplify the technical language used in the tax Acts, then this will positively contribute in raising the Vat understandingandknowledge.Thiswillmakeitpossibleforthetaxpayerstocomply with VAT laws.Theresearchersoughttoknowfromtherespondentstheextentthelevetoftaxunderstanding and education influences withholding value added tax revenue collection.Theresponsesareasindicatedintable4.7 below.

Table 4.7. How tax understanding and knowledge influences WHVAT collection.

Tax understanding	**Frequency**	**Percentage**
Less extent	14	6.7
Some Extent	38	17.1
Great Extent	164	76.2
TOTALS	**216**	**100**

The study findings reveal that the level of tax understanding and knowledge greatly(76.2%)and to some extent(17.1%)influences the collection of withholding VAT among taxpayers in East of Nairobi District. Although there have been monthly periodic trainings of taxpayers by KRA on various tax issues, the study established 45.2% admitted to have attended a tax training of some kind while 54.8% stated that they have never undergone through any training about taxes.

Figure 4.4 KRA periodic tax training.



This implies that the coverage of tax information is low signifying low level of awareness. The information in these study findings is very much important for KRA in devising ways of raising the level of knowledge among registered VAT taxpayer order to improve the VAT collection.

4.4.2. Tax Compliance Costs

Hiring of professionals to handle tax matters is a cost to businesses and in most instances taxpayers resort to handling their own tax issues even though they may not have proper understandingoftheVATlegislation.Thecostofbookk e e p i n g andrecordkeepingisalsoa major expense. In this regard the researcher sought to find out how compliance costs incurred by withholding VAT agents affect VAT revenue collection.Theresearchersoughttoestablishwhattherespondentsfeltwasthemostexpensivecomplian ce cost. The research findings areas shown in the table below;

Table 4.8. Feeling on the most expensive compliance cost

Most expensive cost	Frequency	Percentage
Book keeping	26	12.2
Hiring professionals	161	74.4
Training	24	11.0
Internet connections	5	2.4

From the study findings,74.4%oftherespondentssaid that the cost of hiring tax professionals was the most expensive compliance cost while only 2.4%oftherespondentssaidthatinternet expenseswasthehighestcomplianceexpense.11%and12.2%feltthatthecostoftraining and bookkeeping werethemostexpensivecompliancecostsrespectively.IfKRAcaneffectively train the taxpayers on how to deal with their VAT obligations, then reliance on professionals will reduce hence lowering compliance expenses and this will lead to increased revenue collection.

TheresearchersoughttoknowhowthemonthlyVATcompliancecostsincurreddetermines their compliance level and revenue collection. The results are as shown in the below;

Table 4.9. How compliance costs influences withholding VAT collections

Compliance costs	Frequency	Percentage
Less extent	40	18.3

Some Extent	60	28.0
Great Extent	116	53.7
TOTALS	**216**	**100**

From the above observations it can be notedthat53.7% of the construction firms say that costs incurred greatly affects theirVATcompliancelevelfollowedby28.0%who agrees that costs affectstheircompliancelevelto someextent.Only18.3%oftherespondentssaythecosts affects compliance level to a less extent .From the study findings, it can be concluded that the costs of VAT compliance influences collection of withholding VAT.

The study also sought to understand the views of the tax officers on the compliance costs that subsequently affect the withholding of the VAT. The results are shown in the table below;

The research findings areas shown in the table below;

Table 5.0 Effects of compliance cost by officers

Compliance cost	**Frequency**	**Percentage**
Accounting	8	37.3
Economic	5	23
Training	6	26
Low Revenue	1	13.7
TOTAL	20	100

From the above observations it can be notedthat37.3% of the cost has effects against accounting cost of the companies and this affects VAT compliance and which withholding on the same is affected;followedby26% of the tax officers agrees that costs affects their compliance level to some extent and 23% has a direct effect on the overall economic cost.13.7%oftherespondentssaythecosts has direct affects resulting to low revenue collection.

From the study findings, it can be concluded that the costs of VAT compliance influences collection of withholding VAT.

4.4.3 Taxpayer perception towards the tax systems.

Payment of taxes as everyone's duty. Each and every citicen has an obligation to support the government by paying VAT. The study sort to find out the perception of the taxpayers in East of Nairobi district with regards to theease of application of VAT laws, motivation of the tax system, the belief proper use of VAT collection and if KRA has put in place adequate tax measures to encourage VAT compliance.

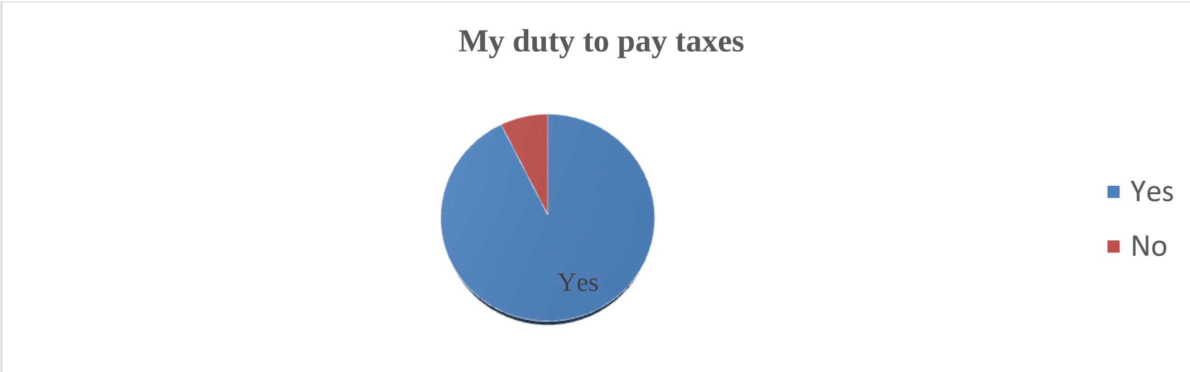
There searcher sought to know how the respondents thought about thepayment of taxes as everyones'duty. The results are as shown in table 4.10 below.

Table 4.10: paying taxes as a duty

Paying tax is a duty?	**Frequency**	**Percentage**
Yes	175	81%
No	41	19%
Total	**216**	**100%**

The findings reveal that 81% of the respondents' believed that payment of taxes is everyone's duty while 19% percent said that they don't think the payment of taxes is everyone's duty.

Figure 4.4 Duty to pay taxes.



KRA needs to educate 19 % thought otherwise. This is believed to be a small percentage that can be eliminated through tax education and training.

The researcher sought to establish the perception of respondents concerning tax payments. The respondents were expected to rate their perception using a four likert scale ranging from strongly agree to strongly disagree. The findings are shown in Table 4.1:

Table 4.11 Perception and tax payments

	1		**2**		**3**		**4**		**Mean**	**Std Deviation**
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**		
Ibelieveit'smyobligationasacitizentosupportthegovernmentbypaying taxes	11	5	32	15	130	60	43	20	2.96	0.738
I feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment.	13	6	112	52	41	19	50	23	3.30	0.778
I see no point of paying tax when it is being misused by individuals in government	28	13	1	9	95	44	84	39	3.09	0.981
I feel that I can pay my taxes in all obligations without being followed	15	7	19	9	130	60	52	24	3.01	0.791

I value the payment of taxes to the government	15	7	26	12	130	60	45	21	2.95	0.777
Other businesses value the payment of taxes to the government	26	12	37	17	106	49	48	22	2.80	0.919
I do gain access to the public utilities and services funded by the taxes collected.	50	23	93	43	71	33	2	1	2.12	0.774

The study findings reveal that 80% (20% strongly agrees and 60% agrees) of the respondentsbelief that it's their duty to support the government by paying taxes while 20% (5% strongly disagrees and 15% disagrees) do not believe that supporting the government through payment of taxes is everyone's obligation.83% of the respondents (49% strongly agrees and 34% agrees) agrees that tax systems can be simplified to ease work on tax returns and payments. Another83% (39% strongly agrees and 44% agrees) agrees that the government misuses taxes collected and see no point of paying taxes. The remaining 17% (4% disagrees and 13% strongly disagrees) said that they do not believe that the government misuses the taxes collected hence they will continue paying taxes.

From the study findings it can be concluded that the respondents value the importance of supporting the government through the payment of taxes if the revenue collected is put to proper use and taxpayers can access services funded by taxes collected. This is clearly shown by the mean of 3.3 (and standard deviation 0.778) of the respondents that believed there is a lot that can be done on tax systems to ease the work of preparation of tax returns and payment. However, respondents with a mean 3.09 and standard deviation of 0.981 strongly disagreed paying taxes when it is being misused by individuals in government officers. Respondents with a mean of 2.12 disagreed with the opinion that they gain access to the public utilities and services funded by the taxes collected. This is an indication that majority of the tax payers do not understand how their taxes are spent.

4.4.4 Tax enforcement efforts

Tax enforcement measures are a very important component of VAT revenue collection because they directly affect the amount of revenue a country collects within a certain period of time. The study sought to look at the enforcement procedures put in place to make sure that compliance with the withholding tax system is being achieved and the results revealed that only 7.8% of the respondents have been audited on tax issues while 92.2% have never been audited. The study at least revealed that the 7.8% have been audited within the last financial year.When asked how regular the respondents wanted KRA to visit their business their response was tabulated in the table 4.12.

Periodic compliance visit by KRA	**Frequency**	**Percent**
Monthly	14	7.3%
Annually	93	47.2%
Never	90	41.5%
Other	8	4%
Total	**196**	**100%**

Table 4.12. Periodic compliance visits

The study revealed that 47.2% of the respondents were willing to have KRA visit them once a year, 41.5% said that they would love it if KRA never visited them at any appointed time while 7.3% stated they would like KRA to be doing monthly visits to their businesses. Others said that bi annual visits would be appropriate. The high number of taxpayers who did not want to be visited is a clear indication that they had something to hide or they were not compliant.

4.5 Discussion of key findings.

4.5.1 Level of awareness

The results established that taxpayers knowledge, understanding and awareness level on tax plays a crucia role in enhanceing revenue collection especially withholding VAT in a sel-assessment system. It is believed that if all taxpayers are knowledgeable on tax matters, then tax collection will go up. Tax understanding and knowledge entail operations of VAT withholding schemes, VAT self-assessment system where taxpayers assess their personal tax liabilities or credits, declare in their respective tax returns, submit the tax return and make payments where applicable online. The research established 61.3% of the respondent are knowledgeable and have a good understanding of the VAT withholding scheme. 76.2% of the respondent beliefs that tax understanding and knowledge greatly influence the collection of withholding VAT among taxpayers in East of Nairobi District. However, 38.7% of the respondent have little or no knowledge and understanding of the VAT withholding scheme. This is because the coverage of tax information is low signifying low level of awareness as only 45.2% admitted to have attended a tax training by KRA.

4.5.2 Cost of tax compliance.

Hiring of professionals to handle tax matters is a cost to businesses and in most instances taxpayers resort to handling their own tax issues even though they may not have proper understanding of the VAT legislation. Taxpayers in East of Nairobi find the cost of hiring tax professionals very expensive with 74.4% of the respondents citing the cost as the highest expenditure in terms of compliance costs and these affects their level of Vat compliance largely. Other established compliance expenses include;

bookkeeping, trainings and expenses related with internet connectivity for online VAT return filing and payments. 54%ofthe respondents said that compliance costs influence VAT compliance largely. Other costs cannotbequantifiede.gthepsychologicalcosts(mentalstresswhiletrying to comply).

4.5.3 Perception towards tax systems.

Study findings indicatesthat80% (20% strongly agrees and 60% agrees) of the respondents belief that it's their duty to support the government by paying taxes and this attitude influences their VAT compliance. Thus can be concluded from the studyfindingsthattaxpayerperceptionandattitudestowardsthetaxsystemhasgreaterinfluence on the VAT compliance level.

Furthermore,92.2% of the respondents have never been audited value the payment of taxes and pays their taxes without being followed. However, a greater percentage says that there is no point of paying taxes when it is being misused, the feeling of the majorityoftherespondentsisthatthereexistsanopportunityforimprovementofthetaxsystem to ease the burden and costs of compliance. Correlation analysis shows a low negative correlation between the perception of tax system by the taxpayers and the collection of WHVAT revenue with Pearson coefficientvalueof0.041. The correlation was significance with a P-value of 0.045 (sig.0.045)which is low than 0.05.That is to say, decrease or increase in taxpayers' perception of tax system will have significant relation to collection of withholding VAT revenue.

4.5.4 Tax enforcement efforts.

Further, the results show that low positive correlation between the tax enforcement efforts and increased collection of withholding VAT revenue, Pearson valueof0.187. The relation has significant influence to the increased Withholding VAT revenue, sig. 0.025. This is to say the increase or decrease of tax enforcement efforts has significant effect to the WHVAT revenue collection. Thus, an increase in tax enforcement efforts results to increase in reported HVAT revenue collection.

Regrssion analysis established an adjusted R squared that shows that 62.3% of the variation in withholding VAT collection in the model was due to changes in the level of taxpayers tax awareness knowledge and understanding, compliance cost, perception of the tax system and tax enforcement efforts.

The research estimated a multiple regression equation;

WHVAT collections= 0.433+0.246TK - 0.038CC -0.174P +0.25EE

Revealing holding level of taxpayers tax awareness knowledge and understanding of the tax laws, compliance cost, perception of the tax system and tax enforcement efforts to a constant zero, 43.3% of WHVAT revenue would be collected.

A unit increase in thelevel of taxpayers tax awareness knowledge and understanding of the tax laws would lead to an increase in WHVAT tax revenue collection by a factor of 0.246 or 24.6% while unit increase in the cost of compliance would lead to a decrease in the collection of WHVAT tax revenue by factors of 0.038. A unit positive change in the perception of the tax system by the taxpayers lead to increase in collection of WHVAT tax revenue by a factor of 0.174 or 17.4%. The study established that, those who engage in tax evasion often justify such behavior by suggesting that the government wastes tax revenue and spends unwisely; such arguments can decrease voluntary compliance in the long run (Braithwaite et. al. 2009). It is expected that if the government spends taxpayers' money wisely, for example on basic facilities like education, health and safety and public transportation, it is assumed that voluntary compliance will increase. In contrast, if taxpayers perceive that the government spends too much on something else, taxpayers might feel betrayed and attempt to evade. In judging their own behaviour, people tend to believe the cause is due to external attributes and can not be tax compliant. Therefore, the government should spend taxpayers' money wisely so that tax compliance will increase, thus the tax collection will also increase. Thus individual taxpayers' perceptions on tax fairness and tax service quality have the power to influence their tax compliance decisions.

4.6 ANALYSIS MODELS

4.6.1 Correlation Analysis

In order to express the influence of various factors on collection of withholding value added tax, the researcher conducted the correlation analysis between the variables. The influence of independent variables is to increase the collection of withholding VAT revenues. The increase or decrease in reported revenue by taxpayer can be influenced a number of factors therefore, the researcher created a new variable called increase in reported withholding taxes. That is to say, the tax awareness level by the taxpayer's enables accurate assessment of the tax liability thus increase revenue collection. The level of understanding was expected to encourage taxpayer to report the correct sales and on its due dates which may cause to increase in tax collection. The cost of compliance, perception of the tax system and tax enforcement efforts may also lead to increase in withholding value added revenue collection. In making the interpretation of the correlation analysis, Pearson's R-value were used given that $+1\leq r\geq-1$.Inmaking thedecisionofwhethertheinfluenceissignificancethesignificancevalue producedbytheanalysistableusednormallyare0.05and0.01. The findings are reported under table4.13 below.

Correlationscoefficients						
		Increase in WHVAT collection	Awareness level	Compliance cost	Perception of tax system	Enforcement efforts
Increase in WHVAT collection	Pearson Correlation	1				
	Sig. (2-tailed)					
Awareness level	Pearson Correlation	.677**	1			
	Sig. (2-tailed)	.039				
Compliance cost	Pearson Correlation	-.266**	-.180**	1		
	Sig. (2-tailed)	.482	.055			
Perception of tax system	Pearson Correlation	-.041**	-.417**	-.346**	1	
	Sig. (2-tailed)	.045	.000	. 089		
Enforcement efforts	Pearson Correlation	.187**	.258**	.332**	.471**	1
	Sig. (2-tailed)	.025	.005	.000	.000	
*. Correlation is significant at the 0.01 level (2-tailed).						
**. Correlation is significant at the 0.05 level (2-tailed).						

Table 4.12. Correlation analysis.

From the findings above presented in table 4.12correlationresultsshowsthattaxpayers awareness level with regards to VAT are positively related to increase in collection of withholding VAT with a coefficient of 0.677.It also express that the correlation have a significance influence to the collection of WHVAT as the significance value shows to be 0.039 which is less than the standard of value of 0.05.Thisistosaythatincreasein taxpayer's tax awareness level has significant positive relation to the collection of withholding value added tax. In addition, the findings show that the compliance cost incurred by the taxpayers is low negatively correlated to collection of withholding value added tax revenue as the results shows the Pearson value of 0.266.However, the correlation does not have significance influence to the collection of WHVAT revenue as results show a significance value of 0.482 which is greater than 0.05 the standard. That is to say, the decrease or increase in the cost of compliance will not have significance influence on the collection of WHVAT revenue.

The results further show a low negative correlation between the perception of tax system by the taxpayers and the collection of WHVAT revenue with Pearson coefficientvalueof0.041. The correlation is significance with a P-value of 0.045 (sig.0.045)which is low than 0.05.Thatistosay,decreaseorincreaseintaxpayers' perception of tax system will have significant relation to collection of withholding VAT revenue.

Furthermore, the results show that low positive correlation between the tax enforcement efforts and increased collection of withholding VAT revenue, Pearson valueof0.187. The relation has significant influence to the increased Withholding VAT revenue, sig. 0.025.Thisistosay the increase or decrease of tax enforcement efforts has significant effect to the WHVAT revenue collection. Thus an increase in tax enforcement efforts results to increase in reported HVAT revenue collection.

4.6.2 Regression Analysis.

4.6.2.1 Regression Coefficients

A multivariate regression analysis was estimated to link the independent variuables with the dependent variables and the coefficient of regression (βi)was established as shown in table 4.13 below.

Table 4.12 Regression Coefficient.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.433	1.247		.347	.03251
Tax awareness level	.002	.001	.246	-2.797	.011584
Compliance cost	.009	.055	-.038	-.170	.025605
Perception	.050	.105	-.174	.475	.030541
Enforcement efforts.	.241	.021	.251	1.891	.0188

a. Dependent Variable: WHVAT collection

b. Independent variables: Level of tax awareness, Compliance cost, Perception of the tax system and Enforcement efforts.

From the above table the beta (βi) are replaced by the actual coefficient established from regression analysis to form the actual equation as Withholding VAT collection = 0.433+0.246 level of tax awareness - 0.038Cost of Compliance - 0.174 Perception of the tax system +0.251enforcement efforts.

(WHVAT collections= 0.433+0.246TK - 0.038CC -0.174P +0.25EE)

All the explanatory variables are statistically significant at 5% level of significance in explaining the variation in model. All together the influences of explanatory variables captured in the model are significant, and these findings are informative, as they intrigue significant questions regarding determinants of withholding tax collection in East of Nairobi districts.

4.6.2.2 Model Summary.

R-square values present the strength of the relationship between WHVAT collection and independent variables. From the adjusted determination coefficients, generally moderately strong linear relationships were established between dependent and independent variables. Adjusted R-squared value of 0.623 was established and this implies that 62.3 % of the variation in dependent variable is attributed to the changes in the independent variables. Being that the DW statistics were close to the prescribed value of 2.0 for residual independence, it can be concluded that there was no autocorrelation.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.686	0.599	0.623	0.12928	1.859

Table 4.13: Model Summary

4.6.2.3 Analysis of Variance

Analysis of Variance's (ANOVA) F-test was used to make simultaneous comparisons between two or more means; thus, testing whether a significant relation exists between variables (dependent and independent variables); thus, helping in bringing out the significance of the regression model.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	0.290	1	0.048	2.770	.026
Residual	0.419	5	0.021		
Total	0.708	6			

Table 4.14 ANOVA table

Since the value (p=0.026) were below 0.05, it can be concluded that the regression models were significant.

CHAPTER FIVE.

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction.

In this chapter the research findings are summarized, conclusion and recommendations to the study are drawn and research gaps are identified for future studies as the study aimed at determining factors influencing collection of withholding VAT in the Kenya Revenue Authority East of Nairobi Station.

5.2 Summary of findings

The study sort to examine factors influencing the collection of withholding value added tax revenue in East of Nairobi district, Kenya. The contribution of withholding value added tax plays a critical role in economy and plays vital a big role in enhancing VAT compliance. The researcher adopted explanatory research designs to aid in in explaining how a variable influences the other. The study targeted a population of 230 (210 active taxpayers and 20 tax officials in in East of Nairobi District with a minimum sample size of 33 respondents selected using simple random sampling technique. The research relied on primary data that was collected through administration of Likert Scale type questionnaires with both open and closed ended questions. Correlation analysis and multiple regression model were employed for data analysis.

5.2.1 level of awareness

The results established that taxpayers knowledge, understanding and awareness level on tax plays a crucia role in enhanceing revenue collection especially withholding VAT in a sel-assessment system. It is believed that if all taxpayers are knowledgeable on tax matters, then tax collection will go up. Tax understanding and knowledge entail operations of VAT withholding schemes, VAT self-assessment system where taxpayers assess their personal tax liabilities or credits, declare in their respective tax returns, submit the tax return and make payments where applicable online.

5.2.2 Cost of tax compliance.

Hiring of professionals to handle tax matters is a cost to businesses and in most instances taxpayers resort to handling their own tax issues even though they may not have proper understanding of the VAT legislation. Taxpayers in East of Nairobi find the cost of hiring tax professionals very expensive with 74.4% of the respondents citing the cost as the highest expenditure in-terms of compliance costs and these affects their level of Vat compliance largely. Other established compliance expenses include; bookkeeping, trainings and expenses related with internet connectivity for online VAT return filing and payments. 54%ofthe respondents said that compliance costs influence VAT compliance largely. Other costs cannot be quantified e.g the psychological costs(mental stress while trying to comply).

5.2.3 Perception towards tax systems.

It can be concluded from the findings that taxpayer perception and attitudes towards the tax system has greater influence on the VAT compliance level. Study findings that taxpayer perception and attitudes towards the tax system has greater influence on the VAT compliance level. Correlation analysis shows a low negative correlation between the perceptions of tax system by the taxpayers and the collection of WHVAT revenue with Pearson coefficientvalueof0.041. The correlation was significance with a P-value of 0.045 (sig.0.045) which is low than 0.05.Thatisto say, decrease or increase in taxpayers' perception of tax system will have significant relation to collection of withholding VAT revenue.

5.2.4 Tax enforcement efforts.

Further, the results show that low positive correlation between the tax enforcement efforts and increased collection of withholding VAT revenue, Pearson value of 0.187. The relation has significant influence to the increased Withholding VAT revenue, sig. 0.025. This is to say the increase or decrease of tax enforcement efforts has significant effect to the WHVAT revenue collection. Thus, an increase in tax enforcement efforts results to increase in reported WHVAT revenue collection.

5.3 Conclusions.

Findings from the study reveal that all the identified factors have a direct influence on the collection of the withholding VAT revenue. The statistical findings of this study confirm the existence of a causal relationship between tax understanding and awareness level, perceived fairness of the tax system, costs of compliance, tax enforcement efforts and the collection of Withholding VAT revenue in East of Nairobi districts. The individual taxpayers' perceptions on tax fairness and tax service quality have the power to influence their tax compliance decisions. The level of tax training and education received by taxpayers is an important factor that contributes to their understanding of tax responsibilities, especially regarding registration and filing requirements. Compliance costs, in form of fees charged by tax consultants, are positively correlated with noncompliance behavior and thus negatively correlated with tax compliance behavior. Thus the government need to expand the scope of period tax training to enhance coverage and provision of tax knowledge.

5.4 Assumptions of study.

The main assumption of the study was that there is a relationship between WHVAT revenue collection tax understanding and awareness level, perceived fairness of the tax system, costs of compliance and tax enforcement efforts. The study also assumed that all the respondents' participants gave truthful and honest answers.

Data collected were assumed independent and normal distributed. Statistically, the autocorrelation between awareness level, perceived fairness of the tax system, costs of compliance and tax enforcement efforts was assumed not to exist but were assumed to be independent.

5.5 Limitations of the Study.

Time was a limiting factor for the researcher since he is in full time employment and therefore did not have adequate time especially in the collection of data, thus the researcher was faced with the challenge of insufficient data. Limited resources on the part of the researcher were another limitation. The researcher lacked adequate funding for conducting the research owing to the fact that he is a self-sponsored student. Further, the measurement of taxpayer's attitude and perception is more complex hence, the study was limited to a few aspect of perceptions.

5.6 Recommendations of the study

Since, the contribution of withholding value added tax is very important in tax revenue mobilization, the establishment of factors influencing collection of withholding VAT revenue is of great concern the revenue authority.

5.6.1 Managerial recommendation.

From the research findings, it is recommended that proper tax understanding and Knowledge of the tax systems should be initiated to aid the taxpayer raise the awareness level and to encourage voluntary compliance. Better understanding of the tax systems and consequences for non-compliance, will influence taxpayers to comply since they will keep proper records in order to avoid fines and penalties. They will reduce reliance on external professional.

5.6.2 Policy Recommendation.

Tax understanding, knowledge and education have a significant effect on tax compliance. Thus KRA should empower the taxpayer education service section to enable it educate taxpayerssothattheycanunderstandtheirrightsandobligationsastaxpayers.Thisway the collection of withholding value added will increase.

5.6.3 Suggestions for further research.

This study proposes the following areas for further study:

1. An investigation to examine withholding vat awareness creation as the responsibility of the tax authority.
2. An assessment of the impact of motivational factors; such as rewards and punishments; such as penalties have on withholding vat compliance.
3. An investigation into how peer pressure influence withholding vat compliance.
4. An assessment of the impact of demographic factors; such as sex, age, education and size of income have on withholding vat compliance.

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APPENDICES

APPENDIX I: LETTER TO THE RESPONDENTS

Sarah Kinuthia

P.O. Box 280- 00200

Nakuru, Kenya**.**

1st JUNE, 2018.

Dear Respondent,

RE: <u>DATA COLLECTION</u>

I am a student at the Kenya School of Revenue Administration, currently doing a research study on the “effects of withholding tax on VAT compliance in Kenya Revenue Administration, East of Nairobi Station” to fulfill the requirements for the award of the post graduate diplomain Tax Administration**.**You have been selected to participate in this study and I would highly appreciate if you assisted me by responding to all questions in the attached questionnaire as completely, correctly and honestly as possible. Your response will be treated with utmost confidentiality and will be used only for research purposes of this study. Thank you in advance for your co-operation.

Yours faithfully,

Sarah Kinuthia

HDB336-C016-2208/2016

APPENDIX II: QUESTIONNAIRE

My name is Sarah Kinuthia and I am a final year student at Kenya School of Revenue Administration pursuing post graduate diploma in Tax administration, and undertaking a research entitled "Effects of VAT withholding tax on Revenue collection in Kenya Revenue Administration, East of Nairobi Station". It is in this regard that I humbly request for your participation in filing this questionnaire. Any information collected will be treated with confidentiality and only used for academic purposes. Thank you in advance.

Instructions

This questionnaire consists of two parts; kindly answer all the questions by ticking in the appropriate box or filling in the spaces provided.

GENERAL INFORMATION

1. Respondent's position in the company? ____

2. Gender of the respondents

Female [ ] Male[ ]

3. Age of the respondent

21-30 years **[ ]**

31-40 years **[ ]**

41-50 years **[ ]**

Above 50**[ ]**

4. Educational Qualification

Primary **[ ]** Secondary**[ ]** Vocational/technical **[ ]**

Undergraduate**[ ]** Post Graduate **[ ]**

5. Does your company have a pin?

Yes [ ] No [ ]

6. What is your business turnover?

5M-500M **[ ]** 50M-100M **[ ]** 100M-200M **[ ]**

200M-350M **[ ]**

SECTION A: LEVEL OF AWARENESS

1. Do you understand what withholding vat means (WHVAT)?

Yes [ ]

No [ ]

2. Where would you go for tax information?

Cyber café attendant [ ] KRA Website [ ]

Relative/Friend [ ] KRA office [ ]

3. Have you ever attended any tax training?

Yes [ ]

No [ ]

If yes, how would you rate the challenges experienced /information received?

Use the following Likert scale; Not sure=3Serious=2Very serious=1

No	**Statement**	**3**	**2**	**1**
a)	You receive conflicting information from different			

b)	KRA website lack enough information on various tax procedures.			
c)	System failure/slow (itax system) was an issue of concern			
d)	Long queues in gaining access to KRA offices.			
c)	Technical details on bronchures and Tax laws on WHVAT were technical for one to understand			
d)	Delay in receiving response on query raised.			
e)	Lack of internet to download the forms of filling return.			
f)	High fee charged by tax consultants and other professionals.			

Please list any challenge you experienced in dealing with tax matters not listed above

....

SECTION B: PERCEPTION TOWARDS TAX SYSTEMS.

1. Do you think paying taxes is everyone's obligation?.

   Yes [ ]

   No [ ]

Use the following Likert scale; strongly disagree=5 disagree=4 Not sure= 3 Agree=2 strongly agree=1

Please tick in the box which best describes your agreement or disagreement.

No	Statement	Strongly disagree	Disagree	Not sure	Agree	Strongly agree
a)	I believe it's my obligation as a citizen to support the government by paying taxes.					
b)	The tax system in place motivates me to voluntarily comply with my tax obligation.					
c)	I find it hard to comply with the tax laws as they are complicated.					
d)	I see no point of paying taxes when it is being misused by individuals in government.					
e)	I feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment.					
f)	I feel that I can pay my taxes in all obligations without being followed.					
g)	K.R.A has put in place enough measures to ensure that taxpayers know of their obligations and reparations of noncompliance.					

SECTION C: COST OF COMPLIANCE

1.What do you consider as the most expensive tax compliance issue?

Accounting cost [ ]　　Economic cost [ ]

Training cost [ ]　　Low Revenue [ ]

Use the following Likert scale; Yes=4 No=3 Not sure= 2

Please tick in the box which best describes your agreement or disagreement.

STATEMENT	YES	%	NO	%	NOT SURE	%
Do you know how much time you spent on checking withholding vat compliance?.						
Do you have enough information on how to monitor compliance of VAT withholding?.						
Is it very complicated to compute withholding vaton taxpayers account?						
Have you ever conducted a training on withholding vat?						

SECTION C:

INFLUENCE OF ENFORCEMENT EFFORTS ON REVENUE COLLECTION.

1. How regularly do you think KRA should visit your business?

Monthly	[ ]
Annually	[ ]
Never	[ ]
Other	[ ]

2. The benefits of tax avoidance and evasion outweigh the cost of paying taxes.

Strongly Agree	[ ]
Agree	[ ]
Not sure	[ ]
Disagree	[ ]
Strongly Disagree	[ ]

APPENDIX III: RESEARCH BUDGET

The following is a budget project of the total amount of money to be spent:

Item/Activity	**Estimated Cost (Kshs)**
Stationery	8,000
Printing/Photocopying	8,000
Transport	14,000
Binding	5,000
Data analysis	20,000
Miscellaneous	15,000
Total cost	**60,000**

APPENDIX IV: WORK PLAN

This research is proposed to take approximately 7 weeks including the report writing.

Phase	**Description**	**Timeline(weeks)**						
		1	**2**	**3**	**4**	**5**	**6**	**7**
1	Project writing							
2	Project presentation							
3	Data collection							
4	Data Analysis							
5	Result writing							
6	Report writing							
7	Compilation and Presentation							