

**FACTORS AFFECTING TAX REVENUE COLLECTION IN
KENYA REVENUE AUTHORITY NYERI**

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DECLARATION

This project is my original work and has not been presented for a degree in any other University

Signature

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

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Kalundu Kimanzi

DEDICATION

This research study is dedicated to my parents Mr. and Mrs. Kavala, my sister Tabitha and my brother Dwight.

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The accomplishment of this work was successful through the continued technical assistance of my supervisor Kalundu Kimanzi. I wish to thank my employer for providing time and creating conducive environment for the study. The encouragement and resilient of my family through the tasking duration cannot go without acknowledgment. I am indebted to my colleagues for their moral support and encouragement. May God bless you all.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
DTD	Domestic Taxes Department
EPA	Economic Partnership Agreement
EPZA	Export Processing Zones Authority
ERPT	Effective Rate of Property Tax
ERS	Economic Recovery Strategy
ESD	Electronic Service Delivery
ETR	Electronic Tax Register
EU	European Union
FASB	Financial Accounting Standards Board (FASB)
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IEA	Institute of Economic Affairs
IFIs	International Financial Institutions
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
ITMS	Integrated Tax Management System
ITN	Individual Taxpayer Number
KESRA	Kenya School of Revenue Administration
KLGRP	Kenya Local Government Reform Programme
KRA	Kenya Revenue Authority
PAYE	Pay As You Earn

PIN	Personal Identification Number
SPSS	Statistical Package for Social Science
VAT	Value Added Tax

ABSTRACT

This study was conducted to analyze the status of tax revenue_collection in Kenya. The study was guided by the following objectives: To determine the influence of tax administration on tax revenue collection, how corruption affects tax revenue collection, assess the extent to which tax evasion influence tax revenue collection, to establish the influence of tax exemptions on tax revenue collection in KRA, Nyeri. The findings of this study will help the government to institute the necessary legislative and administrative measures to enhance tax compliance in cases of voluntary compliance and enforce compliance in cases of non-compliance. It will be of help to practitioners since it will help them understand the various challenges faced by taxpayers towards voluntary compliance and help them advise their clients accordingly. The study will also be of importance to the general public since it will highlight various challenges faced by the taxpayers towards compliance and the possible solutions to these challenges. To other researchers the survey will be a basis for further research, more so, when seeking to research on enhancing revenue collection through other systems that either supplement or substitute self-assessment system. The study adopted a descriptive survey design. The target population was managers, supervisors and officer's staffs of Kenya Revenue Authority. The target had the required information on Tax revenue collection. The total targeted population was 48 employees. The researcher used primary data obtained by the use of questionnaire. The data obtained was analyzed using statistical package for social science (SPSS) version 20. Descriptive statistics in form of frequency counts and percentages were used for analysis. The findings of the study showed that there was a significant relationship between the factors of Tax administration, corruption, tax evasion and tax revenue collection. Tax administration increases the tax revenue collection level of KRA, Nyeri and can be used to enhance tax collection. The findings reported in this study suggest that corruption has an impact on the tax revenue collection with regards to their jobs. The existing control system of officials' assets is bureaucratic and inefficient. Moreover, a relevant formal request for assets data could be answered after several months. So, there is need for a new system of officials' assets control. The need for changes to be done in the organizational structure of tax administration's services was strongly appeared in the survey. The current organizational structure and the way of working is rather outdated and does not meet the modern needs. The existing institutional control in KRA, under the name of Economic Inspection, reflects the attitude toward the phenomenon. But this service does not have sufficient

stuff, while also responsible for financial audits of Municipalities, Universities, Foundations, etc. which distract Economic Inspection from its main task, that the audit of the tax administration and the fight of existing corruption. In addition, the staff lacks the appropriate training in auditing and inspection methods, while there is a great shortage of the basic facilities. From the study findings, there is a high correlation between tax evasion and tax revenue collection. However, the punishment system for those who are found to have evaded tax is not effective. Disciplinary Committees, which are responsible for attributing categories, have been accused of being too lenient. Furthermore, the judges who will impose the penalties may themselves be accessible to corruption or may have political biases, so that may be bought by the accused or may put obstacles to the proceedings.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Awitta (2010) stated that revenue collection is the amount of money that a company receives during a specific period. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income. Revenue collection can be defined as income that a company receives from its normal business activities, usually from the sale of goods and services to customers. Revenue is referred to as turnover. Some companies receive revenue from interest, dividends or royalties paid to them by other companies. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time. The Financial Accounting Standard Board (FASB) Concept Statement 6, Elements of Financial Statements have defines revenue as inflows or other enhancements of assets of an entity or settlements of its liabilities (or combination of both) during a period from delivery or producing goods, rendering service or other activities that constitutes the entity's ongoing major or central operations. In addition, Hongreen (2012) described revenue as inflows of the asset (almost always cash or accounts receivables) received for products or services provided to customers. However, KRA has referred revenue to means taxes, duties, fees, levies, charges, penalties, fines or other monies collected or imposed under the written laws set out in the First Schedule.

Taxpayers' mobilization around common interests has potentially positive outcomes for governance. This idea of bargaining and negotiation over taxes is central to the concept of a social fiscal contract: a pattern of regular and routine accountability based on the principle of reciprocity and mutual obligations. This is essentially about stimulating good governance at the interface between state and society, in response to the demands of citizens. There is a strong argument that a substantial governance 'dividend' can be gained from mobilizing domestic financial resources through the tax system. A 'virtuous circle' may be generated whereby the generation of government tax revenues leads to improved service provision, which in turn increases citizens' willingness to pay their taxes. Seen in this light, taxation is not just an administrative task for governments and citizens. It is also about politics and power - the way that authority is exercised in a country through its formal and informal institutions. Common

interest processes which ensure that 3 governments have stronger incentives to promote economic growth since they are dependent on taxes and therefore on the prosperity of taxpayers. State capacity processes which require states to develop a bureaucratic apparatus for tax collection because of their dependence on taxes, particularly, direct ones.

This is likely also to lead to broader improvements in public administration. Taxation may engage taxpayer-citizens collectively in politics and lead them to make claims on the government for reciprocity and accountability, either through short-term conflicts or long-term increases in political engagement. Governments are therefore compelled to respond to these citizen demands in order to enhance tax compliance and sustain state revenues. In Kenya there are a lot of factors which indicate the potentiality of tax revenue in medium and small sectors, especially on taxes like rental, capital-gain, royalties, directors and other employees, interest, income, management fees, very small sectors like water sales, bites, commercial farming, and employment taxes on small industries. Although there are a lot of bases for tax collection in Kenya, there still big problems in revenue collection in Kenya, a lot of revenue is still not collected in Kenya.

Studies done on taxation in Kenya have not focused on the factors causing inefficiency in tax administration and collection. Most studies have dealt with tax reforms, revenue productivity and revenue mobilization and performance (Gituku, 2013; Okech and Mburu 2011; Torome, 2009). Gachanja (2012) studied how Kenyan growth is affected by taxes. There is no study that has isolated the factors causing inefficiency in collection of tax in Kenya. There is, therefore need to carry out a study on factors affecting the efficiency of tax collection in Nyeri.

1.2 Statement of the Problem

A high tax burden is not necessarily due to high tax rates. Tax compliance costs can add substantially to the overall costs of formalizing a small business. While some costs arise in all areas of complying with laws and regulations, these costs tend to be particularly high in the tax area. This is the case even in countries with a modern tax system and a highly efficient tax administration. A 2006 complexity tax collection survey in Kenya revealed that businesses allocated over 41% of total compliance costs to tax-related issues many survey respondents felt that tax compliance is too complicated and is stifling growth in small businesses and that there is no relief offered to small businesses that would lead to increased investment and growth. The remarkable revenue collection is not spared by the shortcomings derived from the tax

administration complexities in the country. First, the authority is semi-autonomous rendering interference of decision making from government particularly in exemptions matters. Second, the nature of tax administration imposes duly discretion power to revenue collection agency and its officials on matters such as the provision of tax exemptions, determination of tax liabilities, and selection of audits (Fjeldstad and Rakner, 2012).

Despite the internal controls that exist in Kenya Revenue Authority, the collection remains below target and resources are poorly managed. This may be because the internal controls that are in the organization are weak or are undermined by the employees. It is in this backdrop that Kenya Revenue Authority in 2011 formally entered into a Memorandum of Understanding with the Kenya Anti-Corruption Commission in the fight against corruption. The Authority recognized corruption as a major threat to revenue collection and led to the development of the KRA Integrity Action Plan, which laid emphasis on leadership, transparency and business reform and modernization with the aim of reducing and ultimately eliminating corruption in revenue collection. Moreover, the level of inefficiency in tax administration and collection in Nyeri has increased significantly over the years as depicted in appendix IV (station revenue performance as at ...30th April 2018). Thus, the purpose of this study is to examine and evaluate the factors affecting tax revenue collection in Nyeri, Kenya.

1.3 Objectives of the Study

This study was based on a set of two objectives; general objective and specific objectives.

1.3.1 General Objective

The general objective of the study was to find out factors affecting tax revenue collection in Kenya.

1.3.2 Specific Objectives

This study was guided by the following objectives;

- i.** To determine the influence of tax administration on tax revenue collection in KRA, Nyeri.
- ii.** To find out how corruption affects tax revenue collection in KRA, Nyeri.
- iii.** To assess the extent to which tax evasion influence tax revenue collection in KRA, Nyeri.
- iv.** To establish the influence of tax exemptions on tax revenue collection in KRA, Nyeri.

1.4 Research Questions

This study sought to answer the following research questions

- i. What is the influence of tax administration on tax revenue collection in KRA, Nyeri?
- ii. How does corruption affect tax revenue collection in KRA, Nyeri?
- iii. To what extent does tax evasion influence tax revenue collection in KRA, Nyeri?
- iv. What is the influence of tax exemptions on tax revenue collection in KRA, Nyeri?

1.5 Significance of the Study

The study will contribute to the existing literature on tax revenue in Kenya. The results could be used to design growth oriented programmes and carry out tax changes that are growth enhancing. The study will provide an empirical groundwork on Kenya's tax revenue structures upon which prudent tax measures could be based. The study will determine the factors that enhance efficiency in tax revenue in Kenya. It will provide an informed basis for taking action on tax policy in addition to filling the gap on what is currently known about tax revenue in Kenya. The results of the study will therefore be of paramount assistance to policymakers in the tax revenue echelons in Kenya. The study will also be of importance to other researchers in the field of tax revenue as it will be used as a frame of reference.

1.6 Scope of the Study

The study concentrated on the employees of KRA, Nyeri. The study targeted 48 employees at KRA, Nyeri. These will be considered for the study. The study took a duration of eight months running from November 2017 to July 2018.

1.7 Organization of the Study

This study consists of five chapters. Chapter 1 is the introduction of the study. The theoretical review and empirical review of the related literature are covered in Chapter 2. Chapter 3 provides the methodology of the study. Data analysis and presentation of findings are covered in chapter 4 while chapter 5 presents a summary of major findings, conclusions and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter examines literature relating to tax revenue. The first part outlines the concept of tax revenue collection. This is followed by a literature review on the various aspects of tax revenue and finally, a conceptual framework for the study.

2.1 The Concept of Tax Revenue Collection

Holzer and Kimes (2012) have defined revenue as the monetary unit received during a period of time. It may also mean the gross receipts. This revenue includes donations from individuals and corporations, support from government agencies, income from activities related to the organization's mission, and income from fundraising activities, membership dues, and financial investment. While the KRA have termed revenue to mean taxes, duties, fees, levies, charges, penalties, fines or other monies collected or imposed under the written laws set out in the First Schedule.

According to Wikipedia collection has been defined as the act or process of collecting something while the Macmillan dictionary has defined collection as the activity of collecting money for a particular purpose, or the money that is collected. Over the years KRA has been surpassing targets as set by the Ministry of Finance from. The only exception is in 2008 which was large because of the effects of post-election violence. In 2010, revenue collections translated into 9% of the previous year's collection. This meeting of targets can be attributed to various revenue enhancement measures that have been put in place such as internal controls, internal and client audits, border patrols, authorization and segregation of duties. However, there is still room for improvement by KRA in performing its mandate as a revenue collector. There are some areas where manual accounting is practised and there is an urgent need to computerize the areas if revenue leakages are to be minimized.

Awitta (2010) stated that revenue collection is the amount of money that a company receives during a specific period. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income. Revenue collection can be defined as income that a company receives from its normal business activities, usually from the sale of goods and services to customers. Revenue is referred to as turnover. Some companies receive revenue from interest,

dividends or royalties paid to them by other companies. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time. The Financial Accounting Standard Board(FASB) Concept Statement 6, Elements of Financial Statements (December 2010) have defined revenue as inflows or other enhancements of assets of an entity or settlements of its liabilities (or combination of both) during a period from delivery or producing goods, rendering service or other activities that constitute the entity's ongoing major or central operations. In addition, Honggreen (2012) described revenue as inflows of the asset (almost always cash or accounts receivables) received for products or services provided to customers. However, KRA has referred revenue to means taxes, duties, fees, levies, charges, penalties, fines or other monies collected or imposed under the written laws set out in the First Schedule.

An efficient tax system is a system which collects the highest amount of taxes from the existing resources in the fastest possible time duration and with the lowest costs. From this perspective, three facets of tax efficiency arise. The first one being the on the revenue raised, with efficient systems raising high revenues. The second facet of tax efficiency is on the time spent on paying or collecting revenue. Efficient systems ensure that taxes are paid and collected in the shortest time possible. The last facet of tax efficiency is on the cost of collecting the tax. Efficient systems ensure that the cost of paying and collecting the tax is minimized as much as possible. This is in line with Canon of the economy in Taxation. Therefore tax efficiency involves maximizing tax revenue while at the same time minimizing the cost and time of raising the tax revenue.

2.2 Theoretical Literature

Economic analysis has a great deal to offer in understanding the need for a more comprehensive approach to tax research and reform than always takes place currently. Attempts to provide a theoretical grounding to the practice of taxation are reflected in various theories of taxation, the evolution of which took place together with the development of various directions in economic thought.

2.2.1 Classical Taxation Theory

For a long time, the classical taxation theory was of most importance. As a result, taxation was only granted the fiscal role of providing state revenues. A. Smith is considered to be the father of

the scientific taxation theory. In his monograph “An Inquiry into the Nature and Causes of the Wealth of Nations” Adam Smith gave a definition of the taxation system, indicating the main conditions for its formation and putting forward four main taxation principles: equity, determination, convenience and thrift of taxation administration. Smith’s work was developed later on by D. Ricardo, J. Mills, and W. Petty. All the theoretical deliberation and scientific debates of those years were focused on one singular aspect: that the execution of the taxation’s function—the provision of state revenues—is achieved on basis of the principles of equity and justice. Naturally, this theoretical approach to the nature and role of taxation changed in the course of many decades and centuries, when economic relations became more complex and the need for the intensification of the state’s regulatory role became more stringent. As a result, new theories of taxation emerged; among them there were two directions of economic thought, which had the most significant influence on the taxation policy of the countries with a developed market economy: the Keynesian and the neo-classical ones.

2.2.2 Keynesian Taxation Theory

The initiator of the **Keynesian taxation theory** was John Keynes, who exposed its main principles in his book “The General Theory of Employment, Interest and Money,” in which he advocated state interventions in the processes of market economy regulation. According to Keynes, fast economic development must be based on a market expansion and an associated increase in consumption. As a result, state intervention is achieved at the level of effective demand. One of the main assumptions in Keynes’s theory is that economic growth is related to monetary savings only in conditions of full-employment. In the contrary case, large amounts of savings hinder economic development as they represent a passive form of income and are not invested in production; as a result, the author suggested that surplus savings must be subtracted with the help of taxation. This is why the state must intervene with the purpose of subtracting income savings with the help of taxation in order to finance investments and cover state expenditures. Keynes argued that high level progressive taxation is necessary and that low tax rates lead to reduced state revenues and as a result contributes to economic instability. That is, according to Keynes taxes must play the most important role in the system of state regulation. High taxes stimulate economic activity; influence the stability of the economy and in the context of the economic system act as “integrated flexibility mechanisms.”

2.2.3 Neo-classical Taxation Theory

The neo-classical theory developed by J. Mutt, A. Laffer, and others is based on the assumption that the state is obligated to remove obstacles to free market competition because the market can and must regulate itself without external intervention; in addition, it can achieve economic equilibrium. Hence, this theory differs from the Keynesian one and assigns a rather passive role to state regulation of economic processes. According to this theory, taxation policy should be developed under the same assumptions: taxes must be as small as possible and corporations should be granted significant tax exemptions. Otherwise, a high tax burden would hinder economic activity and restraint the investment policies of corporations, which would lead to a downfall in the production funds renewal and in an economic recession. A restricted taxation policy would allow the market to provide independently for fast development and would lead to a significant expansion of the taxation basis.

Arthur Laffer contributed considerably to the neoclassical taxation theory. He established a quantitative relationship between progressive taxation and budget revenues, and developed the so-called “Laffer curve.” According to Laffer, an increase in the tax burden leads to an increase in state revenues only up to a level, where they start to decrease. The higher the tax rate, the higher the motivation for tax evasion. When the tax rate reaches a certain limit, entrepreneurship incentives are suppressed, the motivations for production expansion are reduced, taxable income decreases, and as a result, a part of the taxpayers will transfer from the legal to the shadow sector of the economy. Laffer considered that 30% of income is the maximum tax rate that can be deducted for state budget purposes.

2.2.4 Neo-Keynesian Taxation Theory

Taxation problems also constitute an important element of the neo-Keynesian theory. Fisher and Caldor considered necessary the division of taxation objects in accordance with consumption, by taxing the final cost of the consumer product and by taxing savings only as a percentage of the deposit. This led to the idea of a consumption tax, which is simultaneously a method for promoting savings and a tool for fighting inflation. The money assigned earlier for the purchase of consumer goods could now be used either for investments or for savings, which are transformed in capital investments with the help of the same budget policy—“the subtraction of the surplus savings.” Long-term savings in themselves serve as a factor for future economic

growth. Caldor considered that the consumption tax introduced through progressive rates with the use of exemptions and tax allowances for separate types of goods (for example, for objects of everyday use), is more just for people with low incomes than a fixed sales tax. In addition, in comparison to the income tax, the consumption tax does not cover savings that are necessary for future investments, thus stimulating their growth. The literature on optimal taxation adds further insights and is therefore also described briefly next.

2.2.2 Optimal Taxation

The work on optimal taxation is relevant here because the literature is concerned with tax structures that take account of both the requirements of economic efficiency and the need to be fair between one taxpayer and another. It is concerned with questions such as whether income or commodity taxes should be used and how tax rates should vary across commodities. The equity dimension relates to the question of how progressive the tax system should be. To some extent, of course, there is a trade-off between the two criteria of efficiency and equity. A tax system that is economically efficient may not be considered fair and vice versa and the purpose of much of the optimal taxation literature is to find the best balance between the two. Having said that, it is not always easy to model what is considered to be fair and there have been difficulties in incorporating important variables. One of the earliest and most famous contributions was Ramsey's (2011). He concluded that uniform commodity taxes were rarely optimal, though it might be noted that the analysis abstracted from the costs of operating different tax rates. There is now a considerable literature on optimal taxation though Broome's (2015) parody suggests that it should not always be taken literally. Frey (2015) pointed out that optimal taxation will only be introduced if it is acceptable within the political-economic process.

Feldstein (2015) criticized the literature for concentrating too much on the features of the optimum and too little on the process of attaining it. An accessible summary is provided by Heady (2016) who also raised the specific question of the contribution optimal taxation could make to practical tax policy. Although that literature clearly offers some important insights, it cannot help in all areas of tax policy. Indeed the difficulty of applying much of the work in optimal taxation to policy issues is a constant theme. Alm (2016) suggested that previous attempts to derive an 'optimal tax system' were largely irrelevant to practical tax framework since they ignored a range of considerations involving fiscal and social institutions. He argued

that many of the relevant institutional features could be included in an optimal tax framework but acknowledged that it would never be able to incorporate all of the ‘incredible complexity’ that must be considered in the design and reform of tax systems.

Nevertheless, research relating to optimal taxation continues to develop and often in the right direction by including additional variables from the wider context. Gradstein (2015) examined political mechanisms that ensure efficiency enhancing restraints on taxation. In the context of the present paper, the discussion of optimal taxation and evasion is particularly relevant because, as with other areas, the analysis results in important insights but not precise policy prescriptions. Cremer and Gahvari (2016) suggest that the optimum marginal tax rate is lower in the presence of tax evasion but this depends on their particular assumptions. An increase in tax rates may improve economic efficiency as it might cause some labour to move into the illegal labour market which may be less economically distorted than the legitimate one. However, as Sandmo (2015) points out that there are some serious implications in viewing anti-social behaviour in this way. There is the theoretical but rather crude insight that increasing the probability of detection by increasing the frequency of audits and penalties for evasion are substitutes.

Concern about minimizing compliance costs might indicate a preference for the latter. However, shifting costs from the public to the private sector is no guarantee of a net gain and on equity grounds, if no other, that approach may lead to unacceptably high penalties for the few who are caught for crimes committed by many individuals who escape unscathed. In any case, the decision to evade may well be heavily influenced by behavioural rather than economic factors narrowly defined (James et al. 2011).

The recent study by O’Donoghue and Rabin (2016) used the optimal taxation framework to examine ‘sin taxes’ –such as those on unhealthy foods that people might consume more than they should because they lack self-control or some other problem. The existence of merit goods or merit bad where the government and individuals have different ideas about individuals’ optimal consumption was raised by Musgrave (1959) and has been discussed ever since. In a sense, an individual’s consumption that does not take full account of future harm might be thought of as an internal externality with respect to that individual’s future health or internality as Herrnstein et al. (1993) put it. O’Donoghue and Rabin show that introducing taxes on unhealthy items and returning the proceeds to the taxpayers can increase economic welfare, but

such a conclusion can be reached without using optimal taxation analysis. The authors also acknowledge that the analysis has numerous limitations. This is generally in line with the nature of the optimal taxation approach and so the policy implications are also limited. The optimal taxation approach once again reinforces the point that it is a difficult and complex process to develop changes to the tax system where the advantages outweigh the disadvantages. Yet it is also clear that giving the wider context less attention than it deserves is not the way to proceed.

2.3 Empirical Review

2.3.1 Tax Administration and Tax Revenue Collection

Several studies have been conducted by some scholars on the effect of tax administration and tax revenue on economic growth. Some of the studies that are relevant and related to the study are discussed as follows: The use of tax compliance as the most veritable means of ensuring high tax revenue has been examined by some scholars. D'Archy (2011) analyzed the theoretical model of comparative treatment on tax compliance in several African countries, using a survey method. The result of the study revealed a considerable support for comparative treatment in tax compliance. D'Archy (2011) found that to earn the right to collect the tax, the state must fulfil its adjudicatory role by providing a judicial system that the citizens trust and in addition the state must be responsive to address the needs of the citizens through the delivery of services. In line with his work, given the African context, voluntary compliance will be achieved if citizen sees the result of their tax payment in terms of visible developmental infrastructures that transform into growth. Also, Timmon (2011) conducted his survey work and find a statistically significant and positive relationship between tax revenue i.e. compliance and government expenditure on social welfare in a cross-country analysis. In a similar study, Picur and Riahi –Belkaoui (2006) based their study on 30 developing and developed counties. The empirical study revealed that there is a positive relationship between attitudes of taxpayer towards tax and trust in government and that compliance is highest in countries characterized by high control of corruption and low bureaucracy.

In agreeing with their work, if corruption is adequately controlled taxpayers will be willing to pay taxes frequently and timely knowledge that the tax revenue is judiciously used for overall well being of the economy. Lee and Gordon (2011) in their study on tax structure and economic

growth examine the effect of tax policies on the economic growth of a nation. Their study work was based on cross-country data for the period of 1970 – 1997. The outcome of their work shows that tax rate is significantly negatively correlated with economic growth rate while other standard variables and other determinants of economic growth are put under control. Their finding also shows that in fixed-effect regression increase in corporate tax rate lead to lower future growth rate within countries. Although according to their study, high tax rate as a policy negates economic growth as low income will be generated, this can be applicable to Nigerians context as well as other developing economy. It might be slightly different and may not fully apply to developed economies. The rich are taxed more and they are happy with whichever tax rate applicable and this is not really a factor for their investing.

Ogbonna and Ebimobowei (2012) examined the impact of tax reforms and economic growth of Nigeria using relevant descriptive statistics and econometric analysis. Their finding revealed that tax reforms is positively and significantly related to economic growth. The study also revealed that tax reforms improve on the revenue generating machinery of government to undertake socially desirable expenditures that will transform to economic growth in real output and per capita basis. In line with their study, if tax policies are stringent, it makes tax revenue to decline; therefore, there is a need for constant reforms in the system.

Yahaya (2009) carried out a study to investigate the challenges of taxation in Kwara State using survey research method. Primary data was collected through the administration questionnaire on tax officers in Kwara State Board of internal revenue. The data was analyzed using descriptive and inferential statistics. The study found that corruption, ignorance of tax procedure and tax evasion are the major societal factors hindering effective taxation. The study also revealed that ineffective utilization of collected taxes, improper record keeping, non-enforcement of tax policies and inadequate facilities to monitor tax payment amongst others were expressed as the major administrative factors retarding effective and efficient taxation in Kwara State. In agreeing with his study work, the administrative problems of taxation is not just peculiar to Kwara State as the study revealed, it cut across all the states in Nigeria. As such, there is a need for administrative

overhaul to ensure adequate utilization of tax revenue for economic growth. Expert groups of United Nations (2000) stated that tax revenue contributes to a greater extent to economic growth

and thus the need to streamline a nation's tax system so as to ensure the realization of optimal tax revenue through equitable and fair distribution of tax burden. In reality, most developing countries are faced with severe budgetary pressure as a result of ever increasing demand for government expenditure while there is limited scope of raising extra tax revenue due to non-compliance by corporate persons as a result of technicalities and tax avoidance, poor recording keeping etc. Whilst their work has emphasized the need to streamline nation's tax system, for optimal tax revenue generation, it also implies that if the tax system is faulty revenue can still be generated, but not to an optimal unattained revenue base.

Ebeke and Ehrhart (2010), while examining the sources and consequences of the instability of tax revenue in Sub-Saharan African Countries, using a panel of 30 countries over the period of 1980 – 2005, found that tax revenue instability in Sub Saharan Africa is leading to public investment and government consumption instability which in turn generate lower public investment ration and therefore detrimental to the long run economic growth. This study revealed that fluctuation in tax revenue in any nation can lead to fluctuation in economic growth and infrastructural provision for the citizen. There was an evidence that countries with high tax revenue instability tend to have high total expenditure instability. Ken and Mansour (2010), in analyzing the revenue mobilization in Sub-Saharan African found that within Sub-Saharan African, revenue has performed more strongly in resources than rich countries. In the same vein, Desai, Foley and Hines (2011) stated that the governments have at their disposal many tax instrument that can be used to finance their activities. These taxes include personal income tax, company income tax; value-added tax, petroleum profit tax, capital gain tax etc. The revenue accrues from these taxes are used by the government for investment and economic activities. In line with their work, it is evident that there are many instruments for financing government expenditure activities; however, taxes are some of the instrument apart from FDI.

The issue of tax administration taxation is relevant here because the literature is concerned with tax structures that take account of both the requirements of economic efficiency and the need to be fair between one taxpayer and another. It is concerned with questions such as whether income or commodity taxes should be used and how tax rates should vary across commodities. The equity dimension relates to the question of how progressive the tax system should be. To some extent, of course, there is a trade-off between the two criteria of efficiency

and equity. A tax system that is economically efficient may not be considered fair and vice versa and the purpose of much of the optimal taxation literature is to find the best balance between the two. Having said that, it is not always easy to model what is considered to be fair and there have been difficulties in incorporating important variables. One of the earliest and most famous contributions was Ramsey's (1946). He concluded that uniform commodity taxes were rarely optimal, though it might be noted that the analysis abstracted from the costs of operating different tax rates. There is now a considerable literature on optimal taxation though Broome's (2013) parody suggests that it should not always be taken literally. Frey (2011) pointed out that optimal taxation will only be introduced if it is acceptable within the political-economic process.

Feldstein (2011) criticized the literature for concentrating too much on the features of the optimum and too little on the process of attaining it. An accessible summary is provided by Heady (1993) who also raised the specific question of the contribution optimal taxation could make to practical tax policy. Although that literature clearly offers some important insights, it cannot help in all areas of tax policy. Indeed the difficulty of applying much of the work in optimal taxation to policy issues is a constant theme. Alm (2006) suggested that previous attempts to derive an 'optimal tax system' were largely irrelevant to practical tax design since they ignored a range of considerations involving fiscal and social institutions. He argued that many of the relevant institutional features could be included in an optimal tax framework but acknowledged that it would never be able to incorporate all of the 'incredible complexity' that must be considered in the design and reform of the tax systems.

Nevertheless, research relating to optimal taxation continues to develop and often in the right direction by including additional variables from the wider context. Gradstein (1999) examined political mechanisms that ensure efficiency enhancing restraints on taxation. In the context of the present paper, the discussion of optimal taxation and evasion is particularly relevant because, as with other areas, the analysis results in important insights but not precise policy prescriptions. Cremer and Gahvari (2011) suggest that the optimum

marginal tax rate is lower in the presence of tax evasion but this depends on their particular assumptions. An increase in tax rates may improve economic efficiency as it might cause some labour to move into the illegal labour market which may be less economically distorted than the legitimate one. However, as Sandmo (2011) points out, there are some serious implications in viewing ‘anti-social behaviour’ as a social gain in this way. There is the theoretical but rather crude insight that increasing the probability of detection by increasing the frequency of audits and penalties for evasion are substitutes. Concern about minimizing compliance costs might indicate a preference for the latter. However, shifting costs from the public to the private sector is no guarantee of net gain and on equity grounds, if no other, that approach may lead to unacceptably high penalties for the few who are caught for crimes committed by many individuals who escape unscathed. In any case, the decision to evade may well be heavily influenced by behavioural rather than economic factors narrowly defined (James et al. 2001).

The recent study by O’Donoghue and Rabin (2015) used the optimal taxation framework to examine ‘sin taxes’ – such as those on unhealthy foods that people might consume more than they should because they lack self-control or some other problem. The existence of merit goods or merit bad where the government and individuals have different ideas about individuals’ optimal consumption was raised by Musgrave (2013) and has been discussed ever since. In a sense an individual’s consumption that does not take full account of future harm might be thought of as an internal externality with respect to that individual’s future health – or ‘internality’ as Herrnstein et al. (2013) put it. O’Donoghue and Rabin show that introducing taxes on unhealthy items and returning the proceeds to the taxpayers can increase economic welfare, but such a conclusion can be reached without using optimal taxation analysis.

The authors also acknowledge that the analysis has numerous limitations. This is generally in line with the nature of the optimal taxation approach and so the policy implications are also limited. The optimal taxation approach once again reinforces the point that it is a difficult and complex process to develop changes to the tax system where the advantages outweigh the disadvantages. Yet it is also clear that giving the wider context less attention than it deserves is not the way to proceed.

2.3.2 Corruption and Tax Revenue Collection

The most popular and simplest definition of corruption is that corruption is the abuse of public power for private benefit (Tanzi, 2010). Corruption is often seen in relation to the informal sector or shadow economy. Orviska(2011) stated that corruption is one of the factors determining the size of the shadow economy. Moreover, Orviska, Caplanova, and Hudson (2014) have also recently reported that lower levels of corruption are associated with higher degrees of satisfaction with democracy. Lacko (2000) argues that the size of the shadow economy is positively linked to weaker public services, proxy by the level of corruption and the absence of the rule of law.

Hudson, Williams, Orviska and Nadin (2009) argue that corruption and the desire to avoid corrupt governments officials are the key drivers of businesses moving into the informal economy. Kubátová and Říhová (2009) also reported that in a corrupt environment the revenues from the corporate tax are significantly lower. As stated by the authors, this is mostly due to a less effective state administration and the court system. The lower payment moral of taxpayers can be accompanying factors. These statements have been supported by the results of a regression analysis where the level of corruption has been proved to be a statistically significant factor affecting corporate tax revenues. Thus, we can say that the problems of the shadow economy and corruption are closely linked together and a reduction in corruption could have positive effects on reducing the shadow economy and vice versa.

Friedman et al. (2000) analyze the relationship between the level of corruption and the size of the shadow economy from a similar perspective. They argue that entrepreneurs choose to enter the shadow economy to “dodge the grabbing hand of corruption”. As a result, the governments tend to have less revenue and become smaller. This view is also supported by the analysis done by Schleifer (2010) who also linked firms going underground to the desire to avoid corrupt officials. Friedman et al. (2009) also found that stronger legal environments have a positive impact on tax revenues. The negative effect of corruption on tax revenues have been also empirically supported by Tanzi and Davoodi (2010). Similarly, Imam and Jacobs (2014) consider corruption as another institutional variable with a negative effect on tax revenue in Middle East countries. The role of trust between tax authorities and the taxpayer seems to be especially important for the reduction

of tax evasion in the country. Feld and Frey (2012) assume that higher trust in tax authorities could induce higher tax revenue. It is likely, that this kind of trust could be significantly distorted by higher levels of corruption. Bird, Martinez-Vazquez and Torgler (2012) argue that a more legitimate and responsible state is an essential factor for a more adequate level of tax effort in developing countries as well as in high-income countries. They extend the conventional model of tax effort and show that not only are supply factors important, but also demand factors such as corruption and voice accountability. There are also several studies that found the effect of corruption on the tax mix or structure of tax revenue.

Tanzi and Davoodi (2000) find out that a one-point increase in corruption reduces the ratio of direct taxes to GDP by more than the ratio of indirect taxes to GDP. Similarly, Abed and Gupta (2012) argue that there is a negative effect of corruption on both direct and indirect taxes. However, the effect on direct taxes is more intensive. On the other hand, Thornton (2008) based on the regression results from a panel of 53 the Middle East and African economies finds that the effect of corruption on tax collections is beside social security especially evident in the case of taxes on domestic goods and services and international trade transactions. He argues that the efforts to combat corruption in tax collections should focus on indirect taxes. According to Mahdavi (2008), corruption in tax assessment and collection tends to be a more serious problem when the tax base is more difficult to observe or in the case when taxpayers can negotiate tax payments with tax administrators. The author also emphasizes the potential positive effect of reducing the level of corruption on international trade. His results also support the assumption that reducing the level of corruption, together with other factors such as increasing government legitimacy by promoting political freedoms, have, on the one hand, a positive effect on tax revenue, but could also significantly change the tax mix on the other hand.

According to Child (2008), corrupt practices in revenue administration involves tax officers, taxpayers, and importers and customs clearing agents, therefore it can take many forms ranging from systematic- where individuals act together, systematically support evasion to individual corruption, where tax officers abuse their position for a financial gain from taxpayers. In most cases corrupt practices include: Charging for services that should be free, Charging for help to overcome complicated procedures and to qualify for exemptions or duty free treatment, Turning

a blind eye to non-registration for taxation, smuggling, and fraud (in customs, for instance, the declaration of false values supported by fraudulent invoices),Overstating values, over-assessing tax to instigate corrupt deals with importers and taxpayers, Aiding taxpayers and importers in understating income and value of goods, Losing' files, Facilitating or organizing the smuggling of goods, receiving payments to complete tax returns for taxpayers or customs entries for importers.

2.3.3 Tax Evasion and Tax Revenue Collection

One of the most important problems that any tax administration faces is cheating or evasion. It is important to distinguish between tax avoidance and tax evasion. Tax avoidance is changing one's behaviour in such a way as to reduce legal tax liability, and as such, tax avoidance is not illegal. Tax evasion is failing to pay taxes which are legally due. If a tax on oranges is levied and you sell fewer oranges, it is tax avoidance. If you fail to report your sales of oranges to the tax authorities, it is tax evasion. Tax evasion is not a new problem. Even Plato observed, when there is an income tax, the just man will pay more and the unjust less on the same amount of income (Rosen, 2010).

In recent years the phenomenon of tax evasion has received a large amount of public attention. However, by its very nature, it is difficult to measure. Cheating may be habit-forming, that is, once people become accustomed to evading taxation, they will continue to do so even if the marginal tax rates are lowered. In the face of this, there is no guarantee that the now existing low rates will significantly discourage incentives to evade income tax. Since the probability of being detected is small and the penalty rate is still low, evasion of income tax is likely to continue. It is noteworthy that tax evasion is not the only factor that has adversely affected tax collection in Kenya. The government participation in an economic activity in the economy is one of the major factors that have also contributed to low tax collections. Public participation in the economy in form of parastatal enterprises, most of which operated inefficiently, and hence fall in production resulted in low tax collection of commodity taxes (sales tax and excise duty) and company taxes.

Rosen (1999) define tax evasion as the situation whereby a person fails to pay legally due taxes. He accounts for the environment that can lead to tax evasion; a person can keep two books of records, one with actual records and the other for the purpose of showing tax authorities; barter

transactions, the situation whereby payments are received in kind; deal in cash, paying for goods and services in cash makes it difficult for tax authority to trace the transactions. The above explanation of tax evasion by Rosen (1999) asserts that the act of evading tax intentional. The bottom line is to create difficulties for tax authorities to establish the real gain or profits obtained from the transactions or businesses. The reason for tax evasion is to maximize gain or income also to maintain liquidity. According to Fjeldstad (2012), high tax rates and complicated regulations were reasons behind tax evasion. He argued that high tax rates and complex set of rules, especially for customs and corporate taxes, resulted in large potential rewards for taxpayers to evade the tax burden. Taylor (2001) asserts that tax compliance is determined by the probability of detection and legal sanctions, when the probability of being caught and punished is high, noncompliance or rather tax evasion will be low. This provides the views that taxpayers always weigh between benefits and losses resulting from tax evasion.

Grasmick and Scott (2013) not only acknowledged the relationship between the threat of legal punishment (detection probability) and intention to evade taxes but also pointed out the issue of the social stigma attached to tax evasion. This implies that how does the society consider the person who has evaded the tax, a hero or villain? And how does the person feels before the society, sense of guilt or sense of achievement? Smith and Tyler (2016) pointed out that Tax revenue authority collects revenue on behalf of governments. If the government is perceived to be representative then taxpayers will be willing to pay taxes but when the taxpayers perceive that government is not representative tax evasion is likely to occur. Fjelstad and Semboja (2016) see that line in terms of tangible benefits in return of taxes. They argue that taxes are perceived to be unfair and people receive few tangible benefits in return for tax compliance.

2.3.4 Tax Exemptions and Tax Revenue Collection

Every year the Parliament of Kenya carefully scrutinizes the Government's budget. Tax exemptions, on the other hand, do not receive the same attention in the Parliament, effectively making them hidden expenditures. Tax exemptions involve very large sums of money. In 2009/10 alone, 2.3 per cent of GDP or TZS 695 billion was granted in tax exemptions. The sheer size of the amount involved raises a question about the purpose these incentives serve and whether the amounts spent on them are justified. Could it be that tax exemptions are too high for a country that is struggling to collect sufficient resources to finance its budget? Could it be that

Kenya would be better off if fewer tax exemptions were granted and more money was spent on health, water or education? And why is information on who benefits not publicly available? This policy brief does not take a position on these questions. Instead, by providing nine key facts about tax exemptions in Kenya, it aims to contribute to a debate on whether the current practice is desirable, (Gitau, 2012).

Tax exemptions are granted for a variety of reasons. In Kenya, exemptions may be given for the following reasons: Where the foreign or official nature of the item in question doesn't warrant a tax, for example, consumption on internationally bound aircraft or goods consumed by the armed forces and diplomatic missions; Where activities of certain organizations do not earn them a profit but have a direct benefit to society which the Government may not be able to otherwise procure. This basis is used to grant exemptions to charities including religious organizations; where consumption of certain goods is deemed to have a direct benefit to society. For example, certain human and veterinary medicines are exempt from the VAT, as are firefighting vehicles. Exempting such goods from taxes increases their consumption, which in return brings greater benefits due to their positive effects on society. Another reason exemptions are granted is to stimulate economic growth.

These exemptions should normally lead to increased investment, employment, output growth and thus lead to more tax revenues in the long run. Groups of companies granted wide-ranging exemptions such as favourable corporation taxes on profits and reduced import duties fall under this category. Most notable among these are companies established under the Export Processing Zones Authority (EPZA) Act, mining companies and other companies which hold certificates of incentives. Large firms often make use of this tax incentive mechanism to avoid paying taxes (Gauthier and Reinikka, 2001). Governments of developing countries are much eager to attract investment in their countries, in so doing they end up granting exemptions to large firms an incentive to boost investment whilst in other large firms see as the loophole to avoid paying taxes. The exemption granted either can cover one of these taxes; corporate income tax, sales tax/VAT and import duties or both of them to a specific firm.

Three classes of arguments have been put forth on why nonprofits are exempt from the CIT: that net income cannot be coherently defined for nonprofits, that nonprofits are deliberately being

subsidized by government through the exemption, and that nonprofits have a historic legacy of being excluded from the tax base (for a survey of theories of the nonprofit CIT exemption, see, in addition to the references that follow in this section, Fishman & Schwarz, 2012). The first argument is that public service (as opposed to mutual benefit) nonprofit organizations “do not realize ‘income’ in the ordinary sense of the word” (Bittker & Rahdert, 2011). Bittker and Rahdert (2011) stated that net income is well defined for for-profit organizations because they are in the business of maximizing it. For nonprofits, they claim, we cannot coherently define the tax base because there is no pursuit of profit. But it is not easy to see why the definition of net income is so difficult for nonprofits. The definition of profit as applied to for-profits for tax purposes does not hinge on their being effective at profit maximization. As for nonprofits, “one has the sneaking suspicion that Harvard could come up with a taxable income number if pressed to do so” (Colombo & Hall, 2013).

There are multiple arguments for explaining the CIT exemption as a deliberate subsidy. One is that the CIT exemption represents a subsidy to the sector (in addition to the deductibility from the personal income tax of donations made to nonprofits and various other tax exemptions) to encourage its provision of services that are generally in the public interest. A possible way to define public interest is to use the evidence provided by the fact that individuals are willing to donate to the organization above and beyond payments for goods and services received. Hall and Colombo (2011) would restrict the tax exemption only to those organizations receiving a significant proportion of their income from donations; hence their report is known as a “donative” theory of the tax exemption, (Colombo, 2012). In this model, commercial nonprofits would not receive a tax exemption. Atkinson (2015) sees room for a broader scope of the tax exemption, noting that even for commercial nonprofits, the founders who invested the initial capital have made a decision to forgo personal profit from that capital, and this represents a form of donation.

According to Income Tax Act of 2004 section 10, 52 and 54, an exemption may be granted for a variety of reasons such as the promotion of investments, public interest ground, diplomatic and political grounds. For whatever reasons, exemption by definition and implication are selective and discriminatory, they are therefore the source of inequality in the tax system, thus exemptions are sources of complexities in the tax administration (Mponguliana, 2011). The government can

also grant exemptions to non-government organizations on an ad hoc basis (that is, following no specific rules or criteria for granting exemptions) through the use of statutory instruments.

2.3 Conceptual Framework

A conceptual framework is described as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Reichel and Ramey, 2010). When clearly articulated, a conceptual framework has potential usefulness as a tool to scaffold research and, therefore, to assist a researcher to make meaning of subsequent findings. Such a framework should be intended as a starting point for reflection about the research and its context. A framework is a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate this. As with all investigation in the social world, the framework itself forms part of the agenda for negotiation to be scrutinized and tested, reviewed and reformed as a result of investigation (Guba and Lincoln, 2010). For the purpose of this study, the conceptual framework in figure 2.1 shows the relationship between the independent variables (Tax Administration, Corruption, Tax Evasion and Tax Exemptions) and the dependent variable (Tax Revenue Collection)

Independent Variables

Dependent Variable

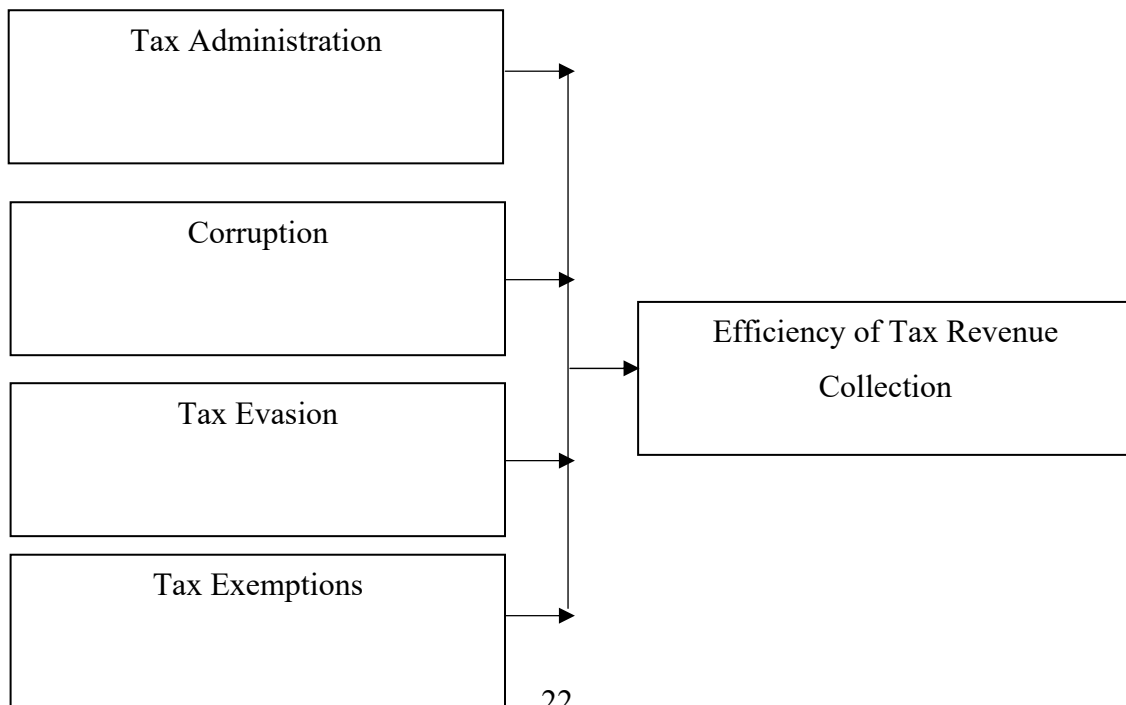


Fig 2.1. Conceptual Framework

Source: Researcher 2018

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter entails the strategies that were used to test the research question raised in this report. It consists of the research design, the target population and data collection tools and methods to be used, data analysis and data presentation.

3.1 Research Design

Research design stands for advance planning of the methods to be adopted for collecting the relevant data and the techniques to be used in their analysis, keeping in view the objective of the research and the availability of staff, time and money Kothari C.R., (2008). The research design that was employed in this study was descriptive research design in form of a survey. According to Mugenda and Mugenda (1999), a descriptive research is a process of collecting data in order to answer questions concerning the current status of the subjects in the study. The primary use of descriptive statistics was to describe information or data through the use of numbers (create a number of pictures of the information). Therefore, the major purpose of descriptive research design was to describe the state of affairs as it is at present.

3.2 Population of the Study

Mugenda and Mugenda (2012), defines a population as an entire group of individuals, events or objects having common observable characteristics. For this study, the target population was top, middle and supervisory levels management staffs of Kenya Revenue Authority, Nyeri County, Kenya. The target population had the required information on Tax revenue collection. The total targeted population was 48 management employees as illustrated in table 3.1 below

3.1. Target Population

Position Held	Target Population
Top management	5
supervisors	14
officers	29
Total Target Population	48

Source; Researcher 2018

3.3 Sampling Procedure and Sample Size

Sampling is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the large group from which they are selected (Mugenda and Mugenda, 1999). They further note that the purpose of sampling is to secure a representative group, which enabled the researcher to gain information about an entire population when faced with limitations of time, funds and energy. However, for the purpose of this study, a census approach was adopted. This is because the target population is not large enough to demand to sample. According to Orodho (2011), a population of 60 individuals and below is apt for a census study.

3.4 Data Collection instruments

According to Mugenda and Mugenda (1999), the most commonly used instrument in social sciences are; questionnaires and interview schedules. As the primary data collection instrument, a structured questionnaire includes questions that indicate the set of response alternatives and the response format Malhotra (2011). The study, therefore, used a questionnaire to collect quantitative data. The measurement constructs included tax administration, corruption, feedback, tax evasion and tax exemption. The questionnaire was designed using a five-point Likert scale to get the perception of the respondents on factors affecting efficiency in tax revenue collection. The questionnaire consisted of both open and closed-ended questions designed to elicit specific responses for qualitative and quantitative analysis respectively. The questionnaires were administered through “drop and pick later” method. The researcher self-administered the questionnaires to the respondents and this enhanced the response rate. Piloting of the research instruments and subsequent modifications was done.

3.4.1. Instrument Validity

According to Kothari C.R (2008), validity is the degree to which an instrument measures what it is supposed to measure. An attitude scale is considered valid, for example, to the degree to which its results conform to other measures of possession of the attitude. Validity is the accuracy and meaningfulness of inferences, which are based on research results (Mugenda and Mugenda 1999). In this study, the content validity of the research instrument was determined in two ways. First, the researcher discussed the items in the instrument with peers, expert, supervisor and other faculty members. The persons consulted were requested to indicate by ticking or crossing for every item in the questionnaire if it measures what it is supposed to measure or not respectively. A coefficient of the items that actually measure what it is supposed was computed. The advice given by the persons consulted was incorporated and this to assisted the researcher to determine the validity of the research instruments. Secondly, the content validity of the instrument was determined through piloting, where the responses of the subjects were checked against the research objectives.

3.4.2. Instruments Reliability

Reliability refers to a measure of the degree to which a research instrument yields consistent results after repeated trials. (Mugenda and Mugenda, 1999). To test the reliability of the questionnaire, a pilot study was carried out using ten selected candidates. The pilot study aimed at achieving the expected reliability of the questionnaire. Reliability was considered in terms of internal consistency. The appeal of an internal consistency index of reliability is that it is estimated after only one test administration and therefore avoids the problems associated with testing over multiple time periods. Internal consistency was estimated via the split-half reliability index. The general convention in research has been prescribed by Annually and Bernstein (2011) who state that one should strive for reliability values of 0.70 or higher.

3.5 Data Collection Procedures.

Due to time constraints, an informal pilot test of the questionnaire was performed, in order to identify and eliminate potential problems in the questionnaire (Malhotra *et al.*,2012). The data was collected by use of questionnaires distributed to the 48 respondents and cover letter detailing the research purpose and providing the offering researcher contact details. The researcher targeted respondents in Kenya Revenue Authority, Nyeri. The Questionnaires were collected immediately after participants completing filling them. To ensure anonymity of the research and

due to limited financial resources, participants were not contacted by a follow-up phone call. Instead, a second copy of the questionnaire was sent to all participants two weeks after the initial mailing to remind and encourage their participation. This approach was adopted as it was considered as a technique to maximize the survey returns (Cooper and Schindler, 1998).

3.6. Data Analysis

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was coded to enable the responses grouped into various categories. Raw data drawn from the responded questionnaires was run through Statistic Package for the Social Science (SPSS 20.0) software for analytical purpose. Descriptive statistics such as means, median mode and the standard deviation was formulated. The study adopted the following multiple regression model to establish the factors affecting tax revenue collection of Kenya Revenue Authority, Nyeri.

The variable Y is usually defined as

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:-Y= Tax revenue collection

- β_0 = Constant
- X_1 = effect of Tax administration on tax revenue collection.
- X_2 = effect of corruption on tax revenue collection
- X_3 =effect of tax evasion on tax revenue collection.
- X_4 = effect of tax exemptions on tax revenue collection
- e =Error term of the model
- β_1 =Coefficient of independent variables

The data analysis used inferential statistics and data presented using frequency tables.

3.7. Ethical issues

Permission was sought from relevant authorities in KRA Nyeri. Informed consent was sought from the respondents before collecting data from them at their own free will. The participants were allowed to give information at their own free will without coercion from the researcher. The questionnaire was coded and no names were written on the questionnaire. The participants were assured of total confidentiality concerning the collected information.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the findings obtained from respondents working in KRA, Nyeri. Both descriptive and inferential statistics were performed to achieve the study objectives. The data was analyzed using Statistical Package for Social Sciences (SPSS) version 20 and interpreted according to the research questions which were summarized into frequency tables. ANOVAs was carried out to test the fitness of the model. The section provides data analysis and presentations of research findings.

4.2 Descriptive Analysis

In this section, pertinent attributes of the study variables are provided. Findings relevant to tax revenue collection in relation to tax administration, corruption, tax evasion and tax exemptions have been presented.

4.2.1 Response Rate

A total of forty eight (48) questionnaires were distributed to the selected respondents working in KRA, Nyeri. A total of forty five (45), questionnaires were duly filled by the respondents and returned to the researcher. This gave a 94 % response rate. This information is shown in the table below.

Table 4.1 Response rate

Response	No. of questionnaires	Percentage
Returned	45	94%
Not returned	3	6%
Total	48	100%

From the information above, forty-five questionnaires out of forty-eight were filled by the respondents. This gave 94% response rate which was used for data analysis.

4.2.2 Gender of Respondent

Table 4.1 shows the distribution of respondents by gender.

Table 4.2 Gender of the Respondents

Gender	Frequency	Percentage
Male	26	57.8
Female	19	42.2
Total	45	100.0

From the above 57.8% of respondent are male and 42.2% are female. This means that there were more male respondents as compared to female.

4.2.3 Experience of the Respondents

The study sought to find out the level of experience of the respondents by a number of years worked. Table 4.2 shows the findings.

Table 4.3 Number of Years Worked

Years Worked	Frequency	Percentage
0-3	12	26.7
4-6	14	31.1
7-9	8	17.8
above 9	11	24.4
Total	45	100.0

From the above table, 31.1% of the respondent had an experience of 4-6 years while 26.7%, 24.4% and 17.8% had an experience of 0-3, over 9 and 7-9 years of experience respectively. This means that majority of the respondents had experience of above 4years. Consequently, this means that the respondents' answers to the questions directed to them were credible since they have vast experience working in KRA.

4.2.4 Position of the Respondent

The study sought to find out the positions held by the respondents. Table 4.3 shows the findings of the study.

Table 4.4 Position of Respondents

Position Held	Frequency	Percentage
Managers	5	11%
Supervisors	13	29%
Officers	27	60%
Total Target Population	45	100%

From Table 4.3, the position of respondents was distributed between the three groups of managers (11%), supervisors (29%) and officers 60%. These were the key informants in KRA with valued knowledge on tax revenue collection. This means that the required information on tax revenue collection was collected.

4.2.5 Academic Level of the Respondents

The study sought to find out the academic qualifications of the respondents. The results of the finding are as shown in table 4.4.

Table 4.5 Academic Level of the Respondents

Level	Frequency	Percentage
Degree	38	84.4%
Post Graduate	7	15.6%
Other	0	0%
Total	45	100.0

It's evident from this table that 84.4% of respondent had degree level of education and 15.6% were postgraduate holders each. This means that the respondents had the appropriate professional background to provide relevant information for the study.

4.3 Rate of Tax Revenue Collection in KRA Nyeri

The study sought to find out the respondents opinion on the level of tax revenue collection in Nyeri. The respondents were hence asked to indicate their opinions on the same. The results of the findings were as indicated in Table 4.5.

Table 4.6 Ratings of Tax Revenue Collection

Ratings	No. of respondents	Percentage
Very High	6	13%
High	8	18%
Moderate	11	24%
Low	16	36%
Very Low	4	9%
Total	45	100%

The research revealed that 13% of the respondents rated tax revenue collection in KRA, Nyeri to be very high, 18% indicated that it was high, 24% felt that it was moderate and 36% indicated that it was low while 9% indicated that it was very low. This indicated that majority of the respondents felt that the tax revenue collection in KRA Nyeri was low.

4.4 Tax Administration and Tax Revenue Collection

The study sought to find out the effects of tax administration on tax revenue collection. To do this, the study enquired on the views of the respondents on whether they agreed on the various attributes of tax administration in the organization. The following shows the results of the finding.

Table 4.7 Summary of Responses on Tax administration

Do you agree that	5	4	3	2	1
	SD	D	N	A	SA

KRA tax System is progressive in nature	2 (4%)	7 (16%)	5 (11%)	13 (29%)	18 (40%)
Income tax structure is equitable	3 (6%)	8 (18%)	4 (9%)	16 (36%)	14 (31%)
Corporate profit tax rate is too high	3 (6%)	5 (11%)	6 (13%)	15 (33%)	16 (36%)
PAYE is a very effective tax process	3 (6%)	7 (16%)	5 (11%)	12	18 (40%)
Assessment and interpretation of tax under the direct tax system is very poor	2 (4%)	5 (11%)	8 (18%)	14 (31%)	16 (36%)
Enlightenment and adequate the utilisation of tax revenue on public goods will encourage tax payment	2 (4%)	8 (18%)	4 (9%)	16 (36%)	15 (33%)
Tax impact significantly on profit from sales of goods and services	4 (9%)	7 (16%)	5 (11%)	14 (31%)	15 (33%)
The tax brings about increase in the price of commodities	5 (11%)	8 (18%)	5 (11%)	12 (27%)	15 (33%)
Hindrances to tax collection include poor tools, access roads, ignorance, inadequate staff, training,	3 (6%)	5 (11%)	6 (13%)	15 (33%)	16 (36%)

communication and physical resistance					
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The respondents were further asked the extent to which tax administration affect tax revenue collection. The findings of the study are shown in Table 4.8.

Table 4.8 Effects of Tax administration

Not Affecting	4	8.9
Moderately Affecting	4	8.9
Affecting	7	15.6
Highly Affecting	12	26.7
Very highly affecting	18	40.0
Total	45	100.0

From the above table, 40% of respondents were of the opinion that tax administration has a great impact on tax revenue collection in KRA, Nyeri. 26% and 15.6 % of respondents were of opinion that tax administration has moderate and least impact on tax revenue collection level of KRA, Nyeri respectively, while 8.9% were of the opinion that its impact is negligible and the rest (8.9%) indicated that it had no effect.

4.5 Corruption and Tax Revenue Collection

The study sought to find out the effect of corruption on tax revenue collection. To do this the study enquired from the respondents the level to which they agreed with various statements regarding corruption in relation to tax revenue collection. The results of the findings are as shown in Table 4.9.

Table 4.9 Summary of Responses on Corruption

Do you agree that	5	4	3	2	1
Corruption is an extractive force from the economy	2 (4%)	5 (11%)	8 (18%)	14 (31%)	16 (36%)
Corruption corrodes tax morality of the tax payer	2 (4%)	8 (18%)	4 (9%)	16 (36%)	15 (33%)
Corruption distorts the tax structure	4 (9%)	7 (16%)	5 (11%)	14 (31%)	15 (33%)
Corruption increases the size of the shadow economy	2 (4%)	5 (11%)	8 (18%)	14 (31%)	16 (36%)
Corruption hampers overall economic growth	2 (4%)	7 (16%)	5 (11%)	13 (29%)	18 (40%)
Corruption negatively affects entrepreneurship	3 (6%)	8 (18%)	4 (9%)	16 (36%)	14 (31%)
Corruption reduces effectiveness in tax collection	3 (6%)	5 (11%)	6 (13%)	15 (33%)	16 (36%)

The study further sought to find out the respondents opinion on the effect of Corruption on the tax revenue collection in KRA, Nyeri. Table 4.10 shows the findings of the study.

Table 4.10 Effects of Corruption and Tax revenue collection at KRA

Ratings	Frequency	Percentage
Not Affecting	1	2.2
Moderately Affecting	4	8.9
Affecting	2	4.4
Highly Affecting	15	33.3
Very highly affecting	23	51.1
Total	45	100.0

From the above table, 51.1% and 33.3% of the respondents indicated that corruption very highly affects and highly affects tax revenue collection in KRA respectively. The table further indicates 4.4% felt that it is affecting while 8.9% indicated that it moderately affects and 2.2% felt that corruption does not affect tax revenue collection. This means that corruption very highly affects the tax collection of the KRA, Nyeri. Hence management and stakeholders at KRA should keenly enhance the measures that help curb corruption. The study further sought to find out from the respondents about their views on how to curb corruption. According to the data derived from the respondents of the study, the corrective actions in order to fight the phenomenon of corruption in tax administration are the following, while the frequency of answers in this field is shown in Table 4.11.

Table 4.11 Corrective Action Against Corruption

Corrective Action	Frequency	Percentage
Assets Control of Officials	32	71%
Changes in Organizational Structures	28	62%
Institutional Controls	25	56%
Better Staffing	35	77%
Exemplary Punishments	40	89%

According to the findings of the study, 71% of the respondents felt that asset control of the officials should be enhanced as a measure to correct the corruption vice in KRA. The findings further show that 62% preferred changes in organizational structures, 56% institutional controls, 77% better staffing while 89% indicated that exemplary punishments would be the best measure to curb corruption as a vice and hence enhance revenue collection

4.6 Tax Evasion and Tax Revenue Collection at KRA

The study further sought to find out the effects of tax evasion on the tax revenue collection at KRA, Nyeri. To do this, the study requested the respondents to rate the occurrence of tax Evasion at KRA Nyeri. The findings of the study areas shown in Table 4.12.

Table 4.12 Ratings of Tax Evasions

Ratings	No. of respondents	Percentage
Very High	16	36%
High	11	24%
Moderate	8	18%
Low	6	13%
Very Low	4	9%
Total	27	100%

The research revealed that 36% of the respondents rated tax revenue collection in KRA, Nyeri to be very high, 11% indicated that it was high, 18% felt that it was moderate and 13% indicated that it was low while 9% indicated that it was very low. This indicated that majority of the respondents felt that the tax revenue collection in KRA Nyeri was very high. The study further enquired on the views of the respondents on whether they agreed on the various causes of tax evasion. Table 4.13 shows the findings of the study.

Table 4.13 Summary of Responses on Tax evasion

Do you agree that Tax Evasion is caused by	5	4	3	2	1
Ignorance of Tax Laws	3 (6%)	7 (16%)	5 (11%)	12 (27%)	18 (40%)
High Tax Rates	3 (6%)	8 (18%)	4 (9%)	16 (36%)	14 (31%)
Lack of strict penalties	3 (6%)	5 (11%)	6 (13%)	15 (33%)	16 (36%)
Improper Accounting penalties	3 (6%)	7 (16%)	5 (11%)	12 (27%)	18 (40%)
Political alignments	3 (6%)	8 (18%)	4 (9%)	16 (36%)	14 (31%)

The study further sought to find out the respondents opinion on the effect of tax evasion on the tax revenue collection in KRA, Nyeri. Table 4.14 shows the findings of the study.

Table 4.12 **Effects of Tax evasion**

Ratings	Frequency	Percentage
Not Affecting	4	8.9
Moderately Affecting	3	6.7
Affecting	5	11.1
Highly Affecting	16	35.6
Very highly affecting	17	37.8
Total	45	100.0

From the above table 4.10 above 37.8% and 35.6% were of opinion that tax evasion affects the tax revenue collection at KRA, Nyeri at a very great extent and great extent respectively. 11.1% were moderate, 8.9% felt it did not have any impact while 6.7% were of a little extent. This means that tax evasion highly affects tax revenue collection.

4.7. Tax Exemptions and Tax revenue collection

The study sought to find out the effects of tax exemptions on tax revenue collection. To do this, the study enquired on the various tax exemptions provided by KRA. From the study findings, the respondents indicated that tax exemptions are mainly in the form of three categories namely:

- i. Import Duty and VAT Exemption
- ii. Stamp Duty Exemption
- iii. Withholding Tax Exemption on plant and machinery

The study further sought to get the views of the respondents on whether they agreed on the various attributes of tax exemptions in KRA. Table 4.13 shows the results of the finding.

Table 4.13 Summary of Responses on Tax exemptions

Do you agree that tax exemptions affect	5	4	3	2	1
	SD	D	N	A	SA
Generation of new earnings	2 (4%)	7 (16%)	5 (11%)	13 (29%)	18 (40%)
The utilization of local raw materials	3 (6%)	8 (18%)	4 (9%)	16 (36%)	14 (31%)
The creation of employment opportunities	3 (6%)	5 (11%)	6 (13%)	15 (33%)	16 (36%)
The introduction of advanced technology	3 (6%)	7 (16%)	5 (11%)	12	18 (40%)
The contribution to locally or regionally balanced social-economic development	2 (4%)	5 (11%)	8 (18%)	14 (31%)	16 (36%)

The respondents were further asked the extent to which tax exemption affects tax revenue collection. The findings of the study are shown in Table 4.14.

Table 4.14 Effects of Tax exemptions

Not Affecting	4	8.9
Moderately Affecting	4	8.9
Affecting	7	15.6
Highly Affecting	12	26.7
Very highly affecting	18	40.0
Total	45	100.0

From the above table, 40% of respondents were of the opinion that tax exemptions have a great impact on tax revenue collection in KRA, Nyeri. 26% and 15.6 % of respondents were of opinion that tax exemptions have moderate and least impact on tax revenue collection level of KRA, Nyeri respectively, while 8.9% were of the opinion that its impact is negligible and the rest (8.9%) indicated that it had no effect.

4.8. Correlation between Variables

The coefficient of correlation enables to assess the strength of a relationship between the dependent variable and independent variable. The larger the correlation value the stronger the association between two variables. It also shows the direction of the relationship between two variables. In the study, aspects of tax administration, corruption, tax evasion and tax exemptions are the independent variables and tax revenue collection at KRA is the dependent variable. The correlation coefficients are as indicated in Tables 4.15 to Table 4.18 for the four aspects of tax administration, corruption, tax evasion and tax exemptions.

Table 4.15 Tax administration and Tax Revenue Collection level

	Correlation	Tax administration	Tax revenue collection Level
Tax administration	Pearson Correlation	1	.705**
	Sig. (1-tailed)		.000
	N	45	45
Tax revenue collection Level	Pearson Correlation	.705**	1
	Sig. (1-tailed)	.000	
	N	45	45

****.** Correlation is significant at the 0.01 level (1-tailed test).

The correlation between tax administration and tax revenue collection at KRA, Nyeri is strongly positive as indicated by the correlation of 0.705. The p-value of 0.000 is less than the acceptable significance level (0.01). This means that tax administration strongly affects the tax collection at KRA, Nyeri at 95% confidence level.

Table 4.16 Correlation of Corruption and Tax Revenue Collection

Correlations		Tax revenue collection level	Corruption Level
Tax collection Level	Pearson Correlation	1	.860**
	Sig.(1-tailed)		.000
	N	45	45
Corruption Level	Pearson Correlation	.860**	1
	Sig. (1-tailed)	.000	
	N	45	45

****.** Correlation is significant at the 0.01 level (1-tailed).

The correlation between Tax Revenue Collection level and Corruption Level is strongly positive as indicated by the correlation of +0.860. The p-value of 0.000 is less than the acceptable significance level (0.01). This means that corruption strongly affects the Performance in KRA, Nyeri at a 95% confidence interval.

Table 4.17 Correlation between Tax evasion and Tax revenue collection at KRA

Correlations		Tax revenue collection Level	Tax evasion
Tax revenue collection Level	Pearson Correlation	1	.457**
	Sig. (1-tailed)		.002
	N	45	45
Tax evasion	Pearson Correlation	.457**	1

	Sig. (1-tailed)	.004	
	N	45	45

****.** Correlation is significant at the 0.01 level (1-tailed).

The correlation coefficient between Tax Revenue Collection level and tax evasion is moderately positive as indicated by correlation of +0.457. The p-value of 0.004 is less than the significance level (0.01). This means that tax evasion has a moderate positive relationship with the Tax Revenue Collection level of KRA, Nyeri at a 95% confidence interval.

Table 4.18 Correlation between Tax Exemptions and Tax Revenue Collection

	Correlation	Tax Exemptions	Tax Revenue Collection Level
Tax Exemptions	Pearson Correlation	1	.705**
	Sig. (1- tailed)		.000
	N	45	45
Tax Revenue Collection Level	Pearson Correlation	.705**	1
	Sig. (1- tailed)	.000	
	N	45	45

****.** Correlation is significant at the 0.01 level (1-tailed test).

The correlation between tax exemptions and tax revenue collection at KRA, Nyeri is strongly positive as indicated by the correlation of 0.705. The p-value of 0.000 is less than the acceptable significance level (0.01). This means that tax exemptions strongly affects the tax collection at KRA, Nyeri 95% confidence level.

4.9. Regression Analysis

To establish the relationship between aspects of tax administration, corruption, tax evasion and tax exemptions and tax revenue collection in KRA, a multiple regression analysis was conducted. The regression model was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

Y=Tax revenue collection at KRA

β_0 = Constant

β_1 to β_4 =Coefficient of independent variables

X_1 = Tax administration

X_2 =Corruption

X_3 =Tax evasion

X_4 = Tax exemptions

e =Error term of the model

Regression analysis also produced correlation, the coefficient of determination and analysis of variance (ANOVA). Correlation sought to show the nature of the relationship between dependent and independent variables and coefficient of determination showed the strength of the relationship. Analysis of variance was done to show whether there is a significant mean difference between dependent and independent variables. The ANOVA was conducted at 95% confidence level.

Table 4.19 Model Goodness of Fit

R	R2	Adjusted R2	Std. Error of the Estimate
0.854	0.692	0.571	0.070132

a. Predictors: (Constant), Tax administration, Corruption, Tax evasion and Tax exemptions

b. Dependent Variable: Tax revenue collection at KRA. Enhance your write up. Interpret all the figures

Regression analysis was used to establish the relationship between tax revenue collection at KRA and the factors that affect variables. The results showed a correlation value (R) of 0.854 which depicts that there is a good linear dependence of tax revenue collection at KRA on tax administration, corruption, tax evasion and tax exemptions

Table 4.20 Analysis of Variance (ANOVA)

	Sum of Squares	Df	Mean Square	F	sig
Regression	5.243	3	2.367	4.896	.045(a)
Residual	16.501	12	.536		
Total	21.744	15			

a Predictors: (Constant), Tax administration, Corruption, Tax evasion

b Dependent Variable: Tax revenue collection at KRA

ANOVA statistics was conducted to determine the differences in the means of the dependent and independent variables thus show whether a relationship exists between the two. The p-value of 0.045 implies that tax revenue collection at KRA has a significant joint relationship with tax administration, corruption, tax evasion and tax exemptions which is significant at 5 per cent level of significance. This also depicted the significance of the regression analysis done at 95% confidence level. The following table presents the regression model coefficients as derived using SPSS software. The Model is important in explaining the magnitude of influence if any between the predictor variables under assessment and tax revenue collection as the dependent variable.

Table 4.21 Regression Model of Coefficients- use significance level consistently.

Tax revenue collection at KRA	Coefficient	Std error	t	P > t	95% Confidence Interval
Constant	.037	.110		.339	.007

Tax administration	.021	.182	.018	.006	.009
Corruption	.112	.187	.109	.597	.006
Tax evasion	.182	.141	.231	1.296	.002
Tax exemptions	.021	.182	.018	.006	.009

From the data in the above table, tax administration and Corruption are seen to be strongly and positively correlated with tax revenue collection at KRA. A positive relationship is further observed between tax revenue collections in KRA tax evasion as well as tax exemptions. The established regression equation was:

$$Y = .037 + .021 + .112 + .182 + .021$$

In the model, it can be seen that taking the independent variables' value at zero, the tax revenue collection at KRA would be .373.

4.10. Interpretation of Findings

Regression analysis was conducted to empirically determine whether independent variables were a significant determinant of tax revenue collection. Regression results indicate that the goodness of fit for the regression between independent variables and tax revenue collection is satisfactory. An R squared of 0.692 indicates that 69.2% of the variances in tax revenue collection at KRA are explained by the variances in the independent variables. This also implies that 30.8% of the variances in tax revenue collection cannot be explained by the independent variables and is actually attributed to variables not included in the model.

ANOVA statistics indicate that the overall model was significant. This was supported by an F statistic of 4.896 and a p-value of 0.045. The reported probability was less than the conventional probability of 0.05 (5%) significance level. The ANOVA results imply that the independent variables are good joint predictors of employee performance. The ANOVA results also indicate that predicting tax revenue collection at KRA through independent variable yields better results than predicting through the mean.

The effect of the tax administration on the tax revenue collection at KRA is positive and significant ($b_1=.021$, p value= 0.009). This implies that tax administration leads to an increase in tax revenue collection at KRA by $.021$ units. The relationship is significant because the p -value of 0.009 is less than the critical p -value of 0.05 .

The effect of the use of Corruption on tax revenue collection is positive and significant ($b_1=0.112$, p value= 0.006). This implies the application of Corruption leads to an increase in tax revenue collection at KRA by $.112$ units. The relationship is significant because the p -value of 0.006 is less than the critical p -value of 0.05 .

The effect of tax evasion on tax revenue collection is positive and significant ($b_1=0.182$, p value= 0.002). This implies the application of tax evasion leads to an increase in Tax revenue collection at KRA by $.182$ units. The relationship is significant because the p -value of 0.002 is less than the critical p -value of 0.05 .

The effect of the tax exemptions on the tax revenue collection at KRA is positive and significant ($b_1=.021$, p value= 0.009). This implies that tax exemptions leads to an increase in tax revenue collection at KRA by $.021$ units. The relationship is significant because the p -value of 0.009 is less than the critical p -value of 0.05 .

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study entailed the tax revenue collection. The chief aim was to analyze the effect of compensation systems on tax revenue collection. The chapter therefore recounts the summary of the major findings, the conclusions reached, recommendations and highlights of the area that require further research.

5.2 Summary

In this chapter, the results of the study were used to collaborate with the hypothesis posed with regard to aspects of tax administration, corruption, tax evasion and tax exemptions and tax revenue collection at KRA. The studies found that the majority of the respondents were male represented by 57.8%. Through questionnaires, information relevant for this study was collected. Majority of the respondents are well trained with over 84.4% having a degree level of education and 15.6% being postgraduate holders each. This means that the respondents had the appropriate professional background to provide relevant information for the study. Additionally, 31.1% of the respondent had an experience of 4-6 years while 26.7%, 24.4% and 17.8% had an experience of 0-3, over 9 and 7-9 years of experience respectively. This means that majority of the respondents had experience of above 4years. Consequently. Hence, the respondents had adequate experience to understand the concept of tax revenue collection.

5.2.1 Tax administration and Tax revenue collection at KRA

Tax administration analysis was performed using descriptive techniques. It was found that tax administration is necessary for enhancing tax revenue collection in KRA. The findings indicate that tax administration strongly affects the tax revenue collection level as depicted in the coefficient of correlation testing. The findings indicate that 40% of respondents were of the opinion that tax administration has a great impact on tax revenue collection in KRA, Nyeri. 26% and 15.6 % of respondents were of opinion that tax administration has moderate and least impact on tax revenue collection level of KRA, Nyeri respectively, while 8.9% were of the opinion that its impact is negligible and the rest (8.9%) indicated that it had no effect.

5.2.2 Corruption on Tax revenue collection at KRA

The findings of the study depict that 51.1% and 33.3% of the respondents indicated that Corruption very highly affects and highly affects tax revenue collection in KRA respectively. The results further indicate 4.4% felt that it is affecting while 8.9% indicated that it moderately affects and 2.2% felt that Corruption does not affect tax revenue collection. This means that Corruption very highly affects the tax collection of the KRA, Nyeri.

5.2.3 Tax evasion on Tax revenue collection at KRA

Tax evasions have a great influence on tax revenue collection level. 37.8% and 35.6% were of opinion that tax evasion affects the tax revenue collection at KRA, Nyeri at a very great extent and great extent respectively. 11.1% were moderate, 8.9% felt it did not have any impact while 6.7% were of a little extent. This means that tax evasion highly affects tax revenue collection.

5.2.4 Tax exemptions and Tax revenue collection at KRA

From the research findings, it is apparent that tax exemptions are necessary for enhancing tax revenue collection in KRA. The findings indicate that tax exemptions strongly affect the tax revenue collection level as depicted in the coefficient of correlation testing. The findings indicate that 40% of respondents were of the opinion that a Tax exemption has a great impact on tax revenue collection in KRA, Nyeri. 26% and 15.6 % of respondents were of opinion that tax exemptions have moderate and least impact on tax revenue collection level of KRA, Nyeri respectively, while 8.9% were of the opinion that its impact is negligible and the rest (8.9%) indicated that it had no effect.

5.3 Limitation of the Study

The researcher encountered various problems while undertaking the study. The study on factors affecting tax revenue collection in Kenya is a broad subject that may not be dealt with adequately in this study due to time, size and layout of the organization. The sample size may not be large enough to justify generalization of the findings. The study was done in one public institution thus reducing the level of validity of the findings. Also, the study used one measuring instrument-the questionnaire that most likely might fail to collect all relevant information to justify the final results.

5.4 Conclusions

Based on the analysis and findings presented above, the following conclusions have been reached. Tax administration increases the tax revenue collection level of KRA, Nyeri and can be used to enhance tax collection. The study hence concludes that there is a strong relationship between tax administration and tax revenue collection at KRA.

The findings reported in this study suggest that corruption has an impact on the tax revenue collection with regards to their jobs. The existing control system of officials' assets is bureaucratic and inefficient. Moreover, a relevant formal request for assets data could be answered after several months. So, there is a need for a new system of officials' assets control. The need for changes to be done in the organizational structure of tax administration's services strongly appeared in the survey. The current organizational structure and the way of working is rather outdated and does not meet the modern needs. The existing institutional control in KRA, under the name of Economic Inspection, reflects the attitude toward the phenomenon. But this service does not have sufficient staff, while also responsible for financial audits of Municipalities, Universities, Foundations, etc. which distract Economic Inspection from its main task, that the audit of the tax administration and the fight of existing corruption. In addition, the staff lacks the appropriate training in auditing and inspection methods, while there is a great shortage of the basic facilities.

From the study findings, the conclusion is made that that there is a high correlation between tax evasion and tax revenue collection. However, the punishment system for those who are found to have evaded tax is not effective. Disciplinary Committees, which are responsible for attributing categories, have been accused of being too lenient. Furthermore, the judges who will impose the penalties may themselves be accessible to corruption or may have political biases, so that may be bought by the accused or may put obstacles to the proceedings.

5.5 Recommendations

Based on the research findings, the study will be incomplete without the following recommendations and suggestions to the management of KRA and other organizations that may find this research work relevant.

- i. Management should give tax administration policy the priority it deserves and be willing to carry it out with new ideas.

- ii. For an organization that has never had a system in place, a lot of informative awareness campaign would have to be done to enable people to see reasons and appreciate why fighting corruption is necessary' both for the individuals as well as the organization as a cooperate entity.
- iii. Tax avoidance and tax evasion are sensitive issues in taxation. It is therefore recommended that there should be in place a reporting structure on tax evasion that is more detailed and comprehensive. A mere report on amounts of tax revenue foregone, after the Minister's decision to grant tax waivers, does not add much value to the process since Parliament cannot reverse the Ministerial decisions once implemented.
- iv. The Government should design a transparent process and procedure for managing and granting tax incentives and exemptions. The new system should comply with universal good governance standards and pre-empt rent seeking and political patronage. This should also contain a review of the Articles of the Constitution to incorporate a requirement by the cabinet secretary to explain his decision to Parliament. There should equally be clear oversight role granted to Parliament to proactively supervise the implementation of tax incentives and exemptions in the country.

5.6 Suggestions for Further Studies

This study sets the tone for further research into the link between compensation systems, performance management and the productivity of employees. It could also be the basis for comparing data from similar institutions on the subject matter. The study is there not exhaustive and hence proposes that the following studies to be carried out in the same area of research;

- i. A comparative analysis of tax revenue collection in KRA, Nyeri at different years on different pay scales.
- ii. An investigation of the factors influencing Tax Administration in KRA, Nyeri
- iii. Effect of performance management on Tax Revenue Collection in KRA

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APPENDIX I: QUESTIONNAIRE

Instructions

This questionnaire is designed to provide general information about factors affecting efficiency of tax collection and administration in Nyeri. We assure that your responses will be treated confidentially. Please do not write your name in the questionnaire.

SECTION: GENERAL INFORMATION

1. What is your gender

Male []

Female []

2. How many years have you worked at the organization?

0 -3 []

4 – 6 []

7 – 9 []

Above 9 years []

3. What position do you hold in the organization

Top Management []

Middle Management []

Supervisory Staff []

4. What is your level of education?

Degree []

Post Graduate []

Other []

SECTION B : RATE OF TAX REVENUE COLLECTION

This section seeks to find out the rate of tax collection in Nyeri. Please indicate appropriately

5. How would you rate the level of tax collection in Nyeri.

- Very High []
- High []
- Moderate []
- Low []
- Very Low []

SECTION C : TAX ADMINISTRATION AND TAX REVENUE COLLECTION

The table below shows effect of tax administration on tax revenue collection. Kindly tick according to your level of agreement (Please indicate by using 1-Strongly agree (SA), 2-Agree (A), 3- Undecided (UD), 4- Disagree (D), 5- Strongly disagree (SD))

Do you agree that	5	4	3	2	1
	SD	D	N	A	SA
KRA tax System is progressive in nature					
Income tax structure is equitable					
Corporate profit tax rate is too high					
PAYE is a very effective tax process					
Assessment and interpretation of tax under the direct tax system is very poor					

Enlightenment and adequate utilisation of tax revenue on public goods will encourage tax payment					
Tax impact significantly on profit from sales of goods and services					
Tax brings about increase in the price of commodities					
Hindrances to tax collection include poor tools, access roads, ignorance, inadequate staff, training, communication and physical resistance					

6. How would you rate the effect of tax administration on tax collection in Nyeri.

Not Affecting []

Moderately Affecting []

Affecting []

Highly Affecting []

Very Highly Affecting []

SECTION D: CORRUPTION AND TAX REVENUE COLLECTION

This section seeks to find out the effects of corruption on tax revenue collection. The table is meant to analyze this relationship. Kindly tick according to your level of agreement (Please indicate by using 1-Strongly agree (SA), 2-Agree (A), 3- Undecided (UD), 4- Disagree (D), 5- Strongly disagree (SD))

Do you agree that	5	4	3	2	1
Corruption is an extractive force from the economy					
Corruption corrodes tax morality of the tax payer					
Corruption distorts the tax structure					
Corruption increases the size of the shadow economy					
Corruption hampers overall economic growth					
Corruption negatively affects entrepreneurship					
Corruption reduces effectiveness in tax collection					

7. How would you rate the effect of corruption on tax collection in Nyeri.

- Not Affecting []
- Moderately Affecting []
- Affecting []
- Highly Affecting []

Very Highly Affecting []

8. Given below are suggestions for corrective actions against corruption. Tick against the ones you believe can help curb corruption.

Assets control of officials []

Changes in organizational structure []

Institutional Controls []

Better Staffing []

Exemplary punishments []

SECTION E: TAX EVASION AND TAX REVENUE COLLECTION AT KRA

9. This section seeks to find out the effects of tax evasion on tax revenue collection. Kindly indicate how you would rate the prevalence of tax evasion in Nyeri.

Very High []

High []

Moderate []

Low []

Very Low []

10. The table is meant to analyze the relationship between tax evasion and tax revenue collection. Kindly tick according to your level of agreement. (Please indicate by using 1- Strongly agree (SA), 2-Agree (A), 3- Undecided (UD), 4- Disagree (D), 5- Strongly disagree (SD))

Do you agree that Tax Evasion is caused by	5	4	3	2	1
Ignorance of Tax Laws					
High Tax Rates					
Lack of strict penalties					

Improper Accounting penalties					
Political alignments					

11. How would you rate the effect of corruption on tax collection in Nyeri.

- Not Affecting []
- Moderately Affecting []
- Affecting []
- Highly Affecting []
- Very Highly Affecting []

SECTION F: TAX EXEMPTIONS AND TAX REVENUE COLLECTION

12. This section seeks to find out the effects of tax exemptions on tax revenue collection in Nyeri. Kindly answer the questions that follow on tax exemptions. What are some of the various tax exemptions provided by KRA.

- i.
- ii.
- iii.

13. The table below is meant to analyze the relationship between tax exemption and tax revenue collection. Kindly tick according to your level of agreement. (Please indicate by using 1-Strongly agree (SA), 2-Agree (A), 3- Undecided (UD), 4- Disagree (D), 5- Strongly disagree (SD))

Do you agree that tax exemptions affect	5 SD	4 D	3 N	2 A	1 SA
Generation of new earnings					
The utilization of local raw materials					
The creation of employment opportunities					

The introduction of advanced technology					
The contribution to locally or regionally balanced social-economic development					

14. How would you rate the effect of corruption on tax collection in Nyeri.

- i. Not Affecting []
- ii. Moderately Affecting []
- iii. Affecting []
- iv. Highly Affecting []
- v. Very Highly Affecting []

Thank you for your cooperation. Your input is highly appreciated

APPENDIX II RESEARCH TIME FRAME 2018/2019

Activity	Sept 2017	Nov 2017	Jan 2018	March 2018	May 2018
Formulation of research problem					
Consolidation of literature					
Consultation with supervisors					
Project presentation					
Making corrections on the project					
Field data collection					

Source: Researcher's planning and estimation

APPENDIX III: RESEARCH BUDGET ESTIMATES

Activities	Quantity	Unit Cost	Total Cost
A. Project Writing			
i. Stationary	1 Dozen	12 X 60	720
<input type="checkbox"/> foolscaps	4 Reams	280	1,120.00
<input type="checkbox"/> pens	10 Pieces	50	500
<input type="checkbox"/> Flash disks	1	800	800
ii. Typing and Printing	30	60	1,800.00
iii. Photocopying	30 Days	500	15,000.00
iv. Binding (Loosely)	30 Days	80	2400.00
v. Transport (Local)	5 Days	1000	5,000.00
vi. Subsistence	5 Days	3000	15,000.00
vii. Literature Review	5 Days	300	1,500.00
SUB-TOTAL			43,840.00
B. Data Collection			
			-
i. Typing And Printing Questionnaires	10 Copies	40	400
ii. Photocopying	10 Copies	3	300
iii. Subsistence (local)	20 Days	1000	20,000
iv. Transport (Local)	20 Days	1000	20,000
SUB-TOTAL			40,700.00
C. Project Preparation			
			-
i. Typing and Printing	10	40	400.00
ii. Photocopying	10	3	300.00
iii. Binding	10	40	400.00
iv. Transport	5	3000	15,000.00
v. Subsistence	5	3000	15,000.00
SUB-TOTAL			31,100.00
Contingencies (10%)			11,964.00

Sub-Totals			115,640.00
Grand Total			127,604.00

APPENDIX V: STATION REVENUE PERFORMANCE AS AT 30th APRIL 2018

APPENDIX V: STATION REVENUE PERFORMANCE AS AT 30th APRIL 2018

STATION -CUMULATIVE REVENUE, 2017-2018																		
2017 -	2018	VAT			CORP TAX	WITHOL DING TAX	ADVANC E	CAPITAL GAINS TAX	TURNOV ER TAX	EXCISE		KEBS	STAMP DUTY	LAND RENT	INDV. TAX	BETTI NG/ LOTTE RIES TAX	MONTHL Y RENTAL INCOME	Total
		PAYE	VAT3	WVAT						DOMEST IC EXCISE	MONEY TRANSFE R							
JUL Y	ACTU AL	58,520,6 45	33,946, 529	7,487,7 91	8,428,50 1	7,653,1 56	2,008,1 54	153,938	2,306,7 46	5,307,4 42	1,514,71 8	101,400	8,316,3 91	100,955	7,875,5 62	0	6,102,3 48	149,824, 276
	Target	62,839,5 47	32,071, 780	1,941,4 11	17,254,6 15	8,870,4 66	4,185,2 12	5,135,1 98	6,853,2 38	18,927, 544	13,951,4 63	4,607,8 38	11,208, 172	6,035,9 49	6,084,7 87	0	13,520, 604	213,487, 824
	VARIA NCE	- 4,318,90 2	1,874,7 49	5,546,3 80	- 8,826,11 4	- 1,217,3 10	- 2,177,0 58	- 4,981,2 60	- 4,546,4 92	- 13,620, 102	- 12,436,7 45	- 4,506,4 38	- 2,891,7 81	- 5,934,9 94	- 1,790,7 75	0	- 7,418,2 56	- 56,245,2 92
	% Perf	93%	106%	386%	49%	86%	48%	3%	34%	28%	11%	2%	74%	2%	129%		45%	70%
AUG .	ACTU AL	53,493,3 09	42,847, 970	8,017,4 05	23,252,5 63	8,664,0 37	1,820,5 35	283,053	444,931	3,801,7 39	1,768,45 6	1,097,1 50	12,403, 667	67,185	4,064,0 68	0	7,560,8 28	169,586, 896
	Target	63,870,7 07	33,897, 950	2,074,1 35	19,046,0 37	7,905,1 08	1,522,2 70	1,474,6 77	459,810	18,516, 530	13,479,1 59	6,698,3 70	14,514, 806	8,782,8 63	12,997, 657	0	9,226,0 50	214,466, 129
	VARIA NCE	- 10,377,3 98	8,950,0 20	5,943,2 70	4,206,52 6	758,929	298,265	1,191,6 24	- -14,879		- 11,710,7 03	- 5,601,2 20	- 2,111,1 39	- 8,715,6 78	- 8,933,5 89	0	- 1,665,2 22	- 44,879,2 33

	%PER	84%	126%	387%	122%	110%	120%	19%	97%	21%	13%	16%	85%	1%	31%		82%	79%
SEP T	ACTU	68,981,7	44,892,	6,987,9	56,506,0	7,898,4	1,255,3	18,282,	233,065	4,900,1	1,169,62	122,437	12,653,	152,722	13,739,	0	6,899,1	244,674,
	AL	20	086	05	75	41	89	665		18	6		096		586		11	042
	Target	62,894,0	31,230,	2,330,9	55,249,6	7,506,6	3,461,0	1,300,5	605,674	25,086,	11,570,8	5,036,7	11,914,	7,185,5	12,814,	0	9,208,4	247,396,
		02	218	72	12	04	94	37		154	00	10	995	15	696		32	015
	VARIA NCE	6,087,71	13,661,	4,656,9	-	-	16,982,	-	-	-	-	-	-	-	-	0	-	-
	8	868	33	19,668,8	391,837	2,205,7	128	372,609	20,186,	10,401,1	4,914,2	738,101	7,032,7	924,890	0	2,309,3	2,721,97	
				04		05			036	74	73		93			21	3	
	% Perf	110%	144%	300%	102%	105%	36%	1406%	38%	20%	10%	2%	106%	2%	107%		75%	99%
OCT	ACTU	62,412,8	46,661,	3,968,6	22,402,9	5,256,6	1,030,7	607,261	2,275,1	6,953,2	1,040,68	73,090	10,337,	182,935	3,389,2	0	6,811,4	173,404,
	AL	63	491	07	46	53	11		62	76	8		709	50		0	78	120
	Target	69,301,5	31,833,	2,495,2	17,149,7	7,712,2	2,770,1	3,255,0	7,161,9	11,641,	13,337,5	14,752,	12,183,	5,830,5	1,876,5	0	9,446,9	210,749,
		00	305	89	48	65	22	26	57	903	96	913	971	49	93		63	700
	VARIA NCE	-	14,828,	1,473,3	5,253,19	-	-	-	-	-	-	-	-	-	-	1,512,6	0	-
	6,888,63	186	18	8	2,455,6	1,739,4	2,647,7	4,886,7	4,688,6	12,296,9	14,679,	1,846,2	5,647,6	57	0	2,635,4	37,345,5	
	7			12	11	65	95	27	08	823	62	14			85	80		
	% Perf	90%	147%	159%	131%	68%	37%	19%	32%	60%	8%	0%	85%	3%	181%		72%	82%
NOV	ACTU	65,184,1	38,411,	8,733,6	11,783,0	5,196,0	991,735	500	182,931	105,092	1,080,97	1,080,1	7,102,6	64,694	9,986,9	0	5,749,1	155,653,
	AL	12	653	64	58	52					5	02	74	45		08	295	
	Target	67,646,2	30,446,	2,224,0	27,396,8	7,107,7	2,114,1	3,747,4	613,255	15,402,	9,400,06	6,671,8	11,848,	5,250,3	2,754,1	0	9,553,2	202,177,
	72	905	85	92	22	06	28		317	9	06	575	79	35		10	156	
VARIA NCE	-	7,964,7	6,509,5	-	-	-	-	-	-	-	-	-	-	-	7,232,8	0	-	-
	2,462,16	48	79	15,613,8	1,911,6	1,122,3	3,746,9	430,324	15,297,	8,319,09	5,591,7	4,745,9	5,185,6	10	0	3,804,1	46,523,8	
	0			34	70	71	28		225	4	04	01	85		02	61		

	% Perf	96%	126%	393%	43%	73%	47%	0%	30%	1%	11%	16%	60%	1%	363%		60%	77%	
DEC	ACTUAL	62,094,4 91	34,313, 449	7,485,3 64	34,658,9 04	5,705,2 00	1,049,3 85	470,882	49,108	5,892,5 09	1,994,67 7	115,744	10,467, 139	41,585	12,600, 696	0	6,345,9 06	183,285, 039	
	Target	66,649,4 88	34,317, 678	2,538,7 78	58,404,0 63	8,414,2 38	1,921,1 95	3,018,5 22	185,597	25,886, 626	7,774,83 5	4,548,4 19	11,517, 622	3,138,8 01	12,871, 282	0	9,040,5 82	250,227, 726	
	VARIANCE	- 4,554,99 7	- -4,229	4,946,5 86	- 23,745,1 59	- 2,709,0 38	- 871,810	- 2,547,6 40	-	-	- 19,994, 117	- 5,780,15 8	- 4,432,6 75	- 1,050,4 83	- 3,097,2 16	- 270,586	0	- 2,694,6 76	- 66,942,6 87
	% Perf	93%	100%	295%	59%	68%	55%	16%	26%	23%	26%	3%	91%	1%	98%		70%	73%	
JAN.	ACTUAL	83,639,3 08	45,503, 589	9,805,8 32	5,548,38 3	16,089, 475	1,743,0 83	10,531	2,583,9 24	5,057,5 73	1,690,85 6	121,992	7,329,1 80	1,169,9 49	3,283,7 11	0	6,078,2 18	189,655, 604	
	Target	77,093,6 98	34,664, 072	3,152,0 48	3,702,18 9	9,086,9 77	3,089,3 15	1,649,4 35	7,656,7 95	25,453, 091	13,020,3 68	4,515,2 13	4,303,6 27	20,770, 525	1,775,0 54	0	9,611,2 18	219,543, 625	
	VARIANCE	6,545,61 0	10,839, 517	6,653,7 84	1,846,19 4	7,002,4 98	- 1,346,2 32	- 1,638,9 04	-	- 5,072,8 71	- 20,395, 518	- 11,329,5 12	- 4,393,2 21	3,025,5 53	- 19,600, 576	1,508,6 57	0	- 3,533,0 00	- 29,888,0 21
	% Perf	108%	131%	311%	150%	177%	56%	1%	34%	20%	13%	3%	170%	6%	185%		63%	86%	
FEB	ACTUAL	59,789,6 89	43,003, 118	8,233,2 38	26,546,2 71	20,782, 540	870,165	187,844	240,893	3,943,6 64	1,789,22 9	1,090,2 72	11,976, 151	678,703	1,748,5 96	0	5,902,0 97	186,782, 470	
	Target	72,077,9 14	33,994, 649	4,036,2 67	4,969,02 1	11,122, 942	1,915,0 62	10,831, 948	607,504	11,634, 343	5,929,69 7	6,867,8 92	6,595,4 77	12,571, 704	2,078,7 42	0	10,145, 179	195,378, 341	
	VARIANCE	- 12,288,2	- 9,008,4	- 4,196,9	- 21,577,2	- 9,659,5	- 1,044,8	- 10,644,	-	- 366,611	- 7,690,6	- 4,140,46	- 5,777,6	- 5,380,6	- 11,893,	- 330,146		- 4,243,0	- 8,595,87

		25	69	71	50	98	97	104		79	8	20	74	001			82	1	
	% Perf	83%	126%	204%	534%	187%	45%	2%	40%	34%	30%	16%	182%	5%	84%		58%	96%	
MAR CH	ACTU AL	57,242,9 46	37,267, 198	8,833,8 46	16,898,7 85	15,600, 503	1,057,0 95	249,800	217,649	9,900,2 00	1,490,82 3	155,586	12,045, 929	958,838	3,546,7 33	0	6,300,8 51	171,766, 782	
	Target	67,570,0 37	33,344, 162	3,730,5 70	54,427,4 47	10,390, 202	2,681,6 77	5,004,7 39	413,019	11,703, 194	14,628,8 71	7,865,7 97	10,352, 222	8,900,4 35	928,023	0	9,990,8 73	241,931, 268	
	VARIA NCE	- 10,327,0 91	3,923,0 36	5,103,2 76	- 37,528,6 62	5,210,3 01	- 1,624,5 82	- 4,754,9 39	- 195,370	- 1,802,9 94	- 13,138,0 48	- 7,710,2 11	- 1,693,7 07	- 7,941,5 97	- 2,618,7 10		- 3,690,0 22	- 70,164,4 86	
	% Perf	85%	112%	237%	31%	150%	39%	5%	53%	85%	10%	2%	116%	11%	382%		63%	71%	
APR IL	ACTU AL	58,189,0 46	36,741, 764	10,964, 452	36,308,2 22	14,542, 731	1,054,1 32	6,154,1 23	2,661,6 17	8,142,6 00	1,200,93 2	122,416	7,186,5 53	294,246	23,141, 040	0	5,908,7 36	212,612, 610	
	Target	90,695,6 96	34,033, 999	3,294,5 78	70,341,4 82	10,916, 066	2,128,5 84	3,026,0 53	7,342,3 26	9,836,4 99	14,158,9 80	4,679,4 92	9,341,0 70	4,958,4 22	26,955, 422	0	10,255, 262	301,963, 931	
	VARIA NCE	- 32,506,6 50.00	2,707,7 65.00	7,669,8 74.00	- 34,033,2 60.00	3,626,6 65.00	- 1,074,4 52.00	3,128,0 70.00	4,680,7 09.00	- 4,680,7	- 1,693,8	- 12,958,0	- 4,557,0	- 2,154,5	- 4,664,1	- 3,814,3	-	- 4,346,5 26.00	- 89,351,3 21.00
	% Perf	64%	108%	333%	52%	133%	50%	203%	36%	83%	8%	3%	77%	6%	86%	#DIV/ 0!	58%	70%	
MAY	ACTU AL																		
	Target																		

	% Perf																	
	VARIA NCE																	
JUN E	ACTU AL																	
	Target																	
	% Perf																	
	VARIA NCE																	