

**TAX EVASION IN THE INFORMAL SECTOR IN KENYA: ASSESSING THE  
ADEQUACY OF THE LEGAL AND REGULATORY FRAMEWORK**

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## **DECLARATION OF ORIGINALITY**

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## DECLARATION

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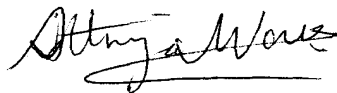
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**Friday, 27 November 2020**

## Supervisor Approval

This research Paper has been submitted for examination with my approval as university supervisor.



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**3<sup>rd</sup> December 2020**

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

ETR	Electronic Tax Register
FGD	Focused Group Discussion
GDO	Gross Domestic Product
ITA	Income Tax Act
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
NACOSTI	National Commission for Science, Technology and Innovation
PAYE	Pay As You Earn
PIN	Personal Identification Pin
SME	Small and Medium Enterprises
TJN	Tax Justice Network
TOT	Turnover Tax
TPA	Tax Procedures Act, 2015
VAT	Value Added Tax

## **LIST OF STATUTES**

1. The Constitution of Kenya, 2010.
2. The East African Community Customs and Management Act, No. 1 of 2005, Laws of Kenya.
3. The Finance Acts (several).
4. The Income Tax Act, Cap 470, Laws of Kenya.
5. The Kenya Revenue Authority Act, Cap 469, Laws of Kenya.
6. The Stamp Duty Act, Cap 480, Laws of Kenya.
7. The Tax Procedures Act, No. 29 of 2015, Laws of Kenya.
8. The Value Added Tax Act, No 35 of 2013, Laws of Kenya.



## LIST OF CASES

1. *Plessy V Ferguson*, **163 U.S. 537 (1896)**.
2. *Sweatt V Painter* 339 U.S. 629 (1950).
3. *Brown V Board Of Education* 347 U.S. 483 (1954).

## **DEDICATION**

I dedicate this project to my dear parents who have always been there for me in my education journey and have always encouraged me to be the best person in whatever I do. Secondly, I dedicate it to my dear siblings for encouraging me to do my best and for challenging me to be a better person every day and lastly to my husband and son.

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## **ABSTRACT**

There is a huge potential for revenue in the informal sector and the government can leverage on this to meet its yearly budgetary targets. For many years, the major source of government funding in Kenya has been tax revenue. There is a need to maximize revenue collection from both the formal and the informal sector. The overall objective of this study is to investigate how the use of legal tools and framework facilitates the bringing of the informal sector into the tax bracket and as a result combat tax evasion.

The study established that the causes of tax evasion within the informal sector is attributed to: the lack of tax information, high illiteracy levels, poor record keeping, poor management structures, the reluctance in enforcement of the existing legal framework, anticipation of government benefits by the taxpayers and the perception that the government misuses taxpayers' money.. It is evident that the informal sector portrays a huge potential for widening the tax base.

The government needs to formulate and employ strategies of moving the informal sector to the formal sector by facilitating the transitioning of informal businesses. Taxpayer education should be a priority to help change the narrative (the perception of taxpayers within the informal sector) and investing in regulatory framework for purposes of implementation of tax evasion laws alongside investing in digital infrastructure.

## CHAPTER ONE: INTRODUCTION

### 1.1. Background

The informal sector refers to the part of the economy whose jobs do not involve direct income, they do not have specific economic structures, and most of the businesses in this sector do not pay taxes.<sup>1</sup> The Institute of Economic Affairs<sup>2</sup> described the informal sector as mainly comprising traders involved in vegetable selling, shoe repair and shining, carpentry, sale of second-hand items such as clothes and street vendors and they operate in small scale. There is ease of mobility in this sector since most traders do not have a definite place of business and keep on shifting from one location to another depending on the circumstances and as it may be convenient for them. The informal sector is largely a cash based economy.<sup>3</sup>

Deen-Swarray, Ndiwalana and Stork noted that the informal sector relies on cash as the main form of transaction with its customers. Individuals with low levels of education run most of these businesses, as special skills or knowledge is not required. This is a direct opposite of the formal sector. To distinguish the two sectors, their unique characteristics need to be taken into account. The formal sector on the one hand is

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<sup>1</sup>Business Dictionary <http://www.businessdictionary.com/definition/formal-sector.htm>.

<sup>2</sup> Zilper Audi & Oscar Okoth, 'Informal Sector and Taxation in Kenya' (2012) IEA Issue No. 29/2012, 9  
<<https://www.ieakenya.or.ke/downloads.php?page=Budget-Focus-29.pdf>> accessed on 6<sup>th</sup> October, 2020.

<sup>3</sup>Mariama Deen, Ali Ndiwalana and Christoph Stork, 'Bridging the Gap and Unlocking the Potential of Informal Businesses through Mobile Money in the Four East African Countries' (2013) Conference Paper.  
<[https://researchictafrica.net/publications/Other\\_publications/2013\\_Deen-Swarray\\_-\\_Ndiwalana\\_-\\_Stork\\_-\\_Informal\\_businesses\\_and\\_mobile\\_money\\_-\\_Conference\\_paper.pdf](https://researchictafrica.net/publications/Other_publications/2013_Deen-Swarray_-_Ndiwalana_-_Stork_-_Informal_businesses_and_mobile_money_-_Conference_paper.pdf)>.

characterized by difficulty in entry, its operations are on a large-scale, protected markets, formally acquired skills, it is capital intensive, corporate ownership of enterprises and advanced technology. The informal sector on the other hand is characterized by ease of entry, reliance on indigenous resources, family ownership of enterprises, small scale operations, labour intensive, poor technology, unregulated and competitive markets.<sup>4</sup> Further, there is a huge presence of small-scale and medium business operations.

The informal sector faces a number of challenges but despite all these challenges, it remains the backbone to the economy of Kenya. According to the Kenya National Bureau of Statistics, the informal sector houses and employs a big percentage of the working population in Kenya; 83.6% of the total employment and 762.1 thousand new jobs in 2018.<sup>5</sup> The World Bank gives a 95% estimate in the total number of entrepreneurs and businesses in Kenya,<sup>6</sup> to the informal sector.

Therefore considering its size and growth rate, the role of informal sector in Kenya cannot be under-estimated, as the sector is the biggest source of employment opportunities in developing countries like Kenya.<sup>7</sup> It is the engine of social, economic

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<sup>4</sup> Gibson Nabuteya, 'Informal Sector in Kenya' (2007) Report presented at the Youth Microfinance Enterprise Forum at the University of Nairobi.

<sup>5</sup> Kenya National Bureau of Statistics Economic Survey (2019).  
<<https://www.theelephant.info/documents/kenya-national-bureau-of-statistics-economic-survey-2019/>> accessed on 23<sup>rd</sup> March 2020.

<sup>6</sup> Enterprise Survey, 2016.  
<<https://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/ResearchPapers/Informal->> accessed on 20th October 2020.

<sup>7</sup> Roseline Misati, 'The Role of the Informal Sector in Investment in Sub-Saharan Africa' (2007) KIPPRA.

and political development. In addition, in turn, leads to reduced crime rate and poverty alleviation since it enables the members of the society to earn a living.

However, the government loses a lot of revenue to the informal sector where tax evasion is prevalent. Those in the informal sector evade paying taxes for one reason or another but majorly because of their perception; they view paying taxes as a burden since they do not enjoy the services rendered by government. To understand the capacity of the informal sector and the people involved, reference is made to the 2017 general elections where over 18 million Kenyans were actively involved in voting. Out of these, only 2.5 million Kenya's filed returns for the financial year 2017/2018.<sup>8</sup> It is statistically evident from the above that many Kenyans are not in the tax system. Whilst the government has made major efforts over the years to maximize revenue collection to fund its projects, it is yet to realize revenue from the informal sector.<sup>9</sup>

Having laid the above background, an understanding of tax evasion within the sector is paramount. Simply put, tax evasion is “the illegal non-payment or a reduction of taxes, thus the element of fraud particularly important in the determination.”<sup>10</sup> Dennis Berlin in his article<sup>11</sup> defines tax evasion as the fraudulent concealing of assessable

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<sup>8</sup> Tax.com, ‘Voters and Taxpayers in Kenya’ (2017) <<https://www.taxkenya.com/voters-and-taxpayers-in-kenya-022-2/>>.

<sup>9</sup> Daniel Muema, ‘Presumptive Tax on the Informal Sector’ *Business Daily* (Nairobi 2018).

<sup>10</sup> Bryan A. Garner, *Black’s Law Dictionary* (10<sup>th</sup> ed. Thomson Reuters, USA 2004).

<sup>11</sup> Prebble QC John, ‘Criminal Law, Tax Evasion, Shams, and Tax Avoidance: Part II – Criminal Law Consequences of Categories of Evasion and Avoidance’ (1996) *New Zealand Journal of Taxation Law and Policy*, Vol. 2, pp. 59-74, Victoria University of Wellington Legal Research Paper No. 13/2012 <<https://ssrn.com/abstract=1604868>> accessed on 20<sup>th</sup> June 2020.

income and allowable deductions to reduce the amount of tax due to the government or completely avoid paying taxes.

Tax evasion in the informal sector is largely attributed to the fact that, a larger part of the informal sector remains non-compliant whether registered or unregistered for any tax obligation.<sup>12</sup> Majority get away with this offence because of the nature of their business operations, which is informal. This makes it difficult for the government to realize revenue.<sup>13</sup> Therefore, there is the need for the government to broaden the tax base in order to reduce the tax burden on those who are already in the tax bracket. Further, the government needs to come up with strict guidelines on the taxation of the informal sector as this will facilitate and support growth and development in the nation of Kenya. The government also needs to support the sector to motivate and facilitate compliance.

## **1.2.Statement of Problem**

Although the major source of government funding in Kenya is tax revenue, nevertheless, it remains inadequate to fund the country's budget. The mere fact that the informal sector makes over 83.6% of the working population calls for tapping revenue from the sector. There is an urgent need to maximize collection from both the formal and the informal sector to improve revenue collection. The yearly budget deficits further demonstrates this.

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<sup>12</sup>Shebo Nalishebo & Albert Iltwalampe (2014), 'Uncovering the Unknown: An Analysis of Tax Evasion in Zambia', Zambia Institute for Policy Analysis and Research, Working Paper 18 <<https://www.africaportal.org/publications/uncovering-the-unknown-an-analysis-of-tax-evasion-in-zambia/>> accessed on 5<sup>th</sup> September, 2020.

<sup>13</sup>Zilper Audi & Oscar Okoth (n. 2)



This study demonstrates that the informal sector remains largely untaxed; and if laws are in place for its taxation, they are not implemented. Therein lies the challenge. Further, the Kenyan taxation laws are still silent on the definition of the informal sector. There is no legal provision on the approach of taxing the informal sector. However, the government has since come up with the turnover and presumptive taxes that are to cover the low-income earners.

### **1.3.Statement of Objective**

The overall objective of the study is to find out how the law can be used as a tool to combat tax evasion within the informal sector and as a result widen the tax base.

#### **1.3.1. Specific Objectives**

This study has three specific objectives. First, it seeks to find out why the people and businesses in the informal sector are largely defiant in tax matters. The second objective is to establish the challenges the people and businesses in the sector face when it comes to taxation matters. The last objective is to suggest regulatory reforms to tackle the taxation challenges within the informal sector.

### **1.4.Specific Research Questions**

To meet the set objectives, the research study seeks to answer the following three questions: the first is why are the people and businesses in the informal sector defiant in tax matters? Second question is, what are the challenges facing the people and businesses in the informal sector in taxation matters? Last question is, what regulatory reforms can be made to tackle the challenges within the informal sector?

### **1.5.Hypotheses**

This study seeks to test the three key hypotheses. The first is that it is possible for the government to approach and tax the informal sector and achieve its budgetary target. The second is that there are some legal and regulatory challenges to taxing the informal sector. The third is that extending the tax base to the informal sector will facilitate compliance in both the formal and the informal sector because of the shared tax burden.

### **1.6. Justification of the Study**

Like in most African countries, the informal sector remains the backbone of the Kenyan economy. It is very crucial because it aids in job creation for the youth and elderly, roles otherwise the government should have played. While informality remains key, the issue rotates around taxing the sector. Laws may be in place but implementation remains a challenge. Understanding tax evasion and what facilitates it within the informal sector is thus key and this is what the research intends to pursue. Further, scarcity of literature on ‘how’ tax evasion will be combated within the informal sector so as to enhance revenue collection prompts this research and will add to the few existing pieces of study in the area and as a result guide both future researchers and the tax authority; Kenya Revenue Authority (KRA).

### **1.7. Literature Review**

#### **1.7.1. Understanding the historical concept of tax evasion and the informal sector**

Historically, taxes are traceable to the Egyptians, Romans and even the Greeks who levied taxes on their citizens to finance military operations and the services offered to

its peoples.<sup>14</sup> In Africa generally, the notion of tax collection and administration existed before the colonial periods when chiefs would demand payments from their subjects' farm produce or livestock.<sup>15</sup> During this period, compliance was not mandatory and people paid the taxes at will. Thus the struggles and evolution of tax, right from property to personal tax has marked the history of taxation in America, Europe, and Africa. This is even though taxation was one aspect of colonialism that affected the lives of nearly all Africans.<sup>16</sup>

Nadda and Jack analyze tax in the colonial times; right from independence in 1963 to early 1980s. Then, collection of Kenya's revenue was in form of uncoordinated taxes and government fees adopted from the British rule during the colonial times.<sup>17</sup> During this time, the formal and informal sectors were not distinguished for tax purposes. There was no coercion of taxpayers to pay taxes. As a result, there were deficiencies in meeting the budgetary allocations and this is when calls for widening the tax base started.<sup>18</sup> Reforms took place from the late 80s to early 90s, through the adoption of tax systems that would bring more taxpayers into the tax system. The incorporation of the Kenya Revenue Authority (KRA) through the Kenya Revenue Act in 1995 was a

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<sup>14</sup>Musonda Kabinga, 'Principles of Taxation,' Tax Justice and Poverty' (2016) Paper 5 <[www.taxjustice-and-poverty.org/fileadmin/Dateien/Taxjustice.../05\\_Principles.pdf](http://www.taxjustice-and-poverty.org/fileadmin/Dateien/Taxjustice.../05_Principles.pdf)> Accessed on 7<sup>th</sup> December, 2019

<sup>15</sup> Ibid.

<sup>16</sup>Isaac Kipsang, 'A History of the Direct Taxation of the African People of Kenya, 1895-1973' (Rhodes University 2004), pp. 23-44.

<sup>17</sup>Nadda Eissa & William Jack, 'Tax Reforms in Kenya: Policy and Administrative Issues, Initiative for Policy Dialogue' (1999) Working Papers <<https://academiccommons.columbia.edu/catalog/ac:153953>> Accessed on 7<sup>th</sup> December, 2019

<sup>18</sup> Nadda Eissa & William Jack (n. 17)

milestone.<sup>19</sup> This organized the administration and collection of taxes. In Kenya, the constitution,<sup>20</sup> various Acts of parliament and other regulatory policies and guidelines regulate taxes.

Other major Acts include Income Tax Act,<sup>21</sup> Value Added Tax (VAT) Act,<sup>22</sup> Tax Procedures Act<sup>23</sup> and East African Community Customs Management Act<sup>24</sup> among other laws and regulations. International treaties ratified by Kenya also form part of the Kenyan laws that governs revenue collection in Kenya. The study covers the international, regional, national and county legislations, regulations and guidelines if there are any.

The Constitution of Kenya 2010 came with major reforms in the Kenyan legal system by clearly indicating the rights and obligations of all Kenyan citizens under the Bill of Rights.<sup>25</sup> It gives the national government the power to impose income taxes, VAT, and custom duties and excise duties.<sup>26</sup> It further gives the parliament the power to enact a legislation to guide the county government in collection of revenues such as property tax, entertainment tax among others.<sup>27</sup> In 2015, the Kenyan tax system experienced a major milestone with the enactment of Tax Procedures Act 2015. This is a stricter legislation that will bring many evaders to book. The problem may be in its

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<sup>19</sup> Ibid.

<sup>20</sup> Article 209 and 210 of the Constitution of Kenya, 2010.

<sup>21</sup> Income Tax Act, CAP 470, Laws of Kenya.

<sup>22</sup> VAT Act, No. 25 of 2013, Laws of Kenya.

<sup>23</sup> Tax Procedures Act, No. 29 of 2015, Laws of Kenya.

<sup>24</sup> East African Community and Management Act, 2009.

<sup>25</sup> Chapter 4 of the Constitution of Kenya, 2010.

<sup>26</sup> Article 209 and 210 of the Constitution of Kenya

<sup>27</sup> Article 209 and 210, Constitution of Kenya, 2010.

implementation and enforcement. This is despite the enactment of the various laws and legislations; understanding the informal sector remains a daunting task, as the laws do not give clear meaning. There is need to turn to the turnover and presumptive taxes (taxes targeting the sector).

Turning to the informal sector, the discussions date back to the 1950s when W. Arthur developed a model of economic development. The model based on the assumption that it is possible to integrate the informal sector into the formal economy.<sup>28</sup> While this may have worked for developed countries, it has not been the case for developing countries and low developing countries (LDCs) whereby integrating the formal and the informal sector was never an area of concern. This is particularly a challenge as no much effort and resources have been put in understanding operations within the sector. Further, there is no appropriate legal definition within the tax laws.<sup>29</sup> Instead, the governments of the developing countries have focused their resources in the formal sector because of the notion that huge firms collect better revenue than the small informal businesses.

The informal sector is forgotten and yet it is the backbone of developing countries.<sup>30</sup> Cortellese in attempting to define the informal sector argues that there is no unique definition of the informal economy, as authors use what best fits with the object of their

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<sup>28</sup> Kari Polanyi & W. Arthur, 'Pioneer of Development Economics' *United Nations Magazine* vol XLV 1(2008) <<https://webcache.googleusercontent.com/search?q=cache:ddDAKDJMf8J:https://unchronicle.un.org/article/w-arthur-lewis-pioneer-development-economics+&cd=6&hl=en&ct=clnk&gl=ke&client=firefox-b-ab>>.

<sup>29</sup> Bitange Ndemo, 'Taxing the Informal Sector requires a Better Strategy' *Business Daily* ((2016) <<https://www.businessdailyafrica.com/analysis/Taxing-informal-sector-requires-better-strategy/539548-3251182-125ty6b/index.html>>.

<sup>30</sup> Gibson (n 4).

analysis. She analyses a number of authors: one, Hoshi who discriminates between registered and unregistered economic activity.

Secondly, Andrew describes the informal sector as, “economic activities and transactions that are sufficiently hidden” and Schneider defines informal economy as all market-based legal production of goods and services that are deliberately concealed from public authorities to avoid: payment of income, value added, social security contributions, legal labour market standards and administrative procedures amongst others.<sup>31</sup> She however, defines it as what should be formal according to the law of a state but it is not and limits the analysis to the activities that affect public revenue and expenditure, undermining the potential socio-economic development of a country or a region.

In the next section, the study conceptualizes the informal sector and its operations.

### **1.7.2. Understanding the nature of operations within the informal sector**

The International Labour Organization (ILO) internationally recognized the concept of informal economy in 1972.<sup>32</sup> In Kenya, informal sector is known as the *jua kali* industry. It involves business organizations that are not well organized for example the self-employed persons, small and macro-enterprises among others.<sup>33</sup> The business

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<sup>31</sup> Francesco Cortellese , ‘Definition of the Informal Economy and Estimation of Tax Evasion for European Countries- The Impact of Financial Crisis on Tax Evasion Estimation’ 2015 Universidad Autonoma de Madrid.

<sup>32</sup>J.D Muir, ‘Employment, Income and Equality: A Strategy for increasing Productive Employment in Kenya’ (1972) 600pp, ILO <[www.ilo.org/public/libdoc/ilo/1972/72B09\\_608\\_engl.pdf](http://www.ilo.org/public/libdoc/ilo/1972/72B09_608_engl.pdf)> Accessed on 8th December 2019

<sup>33</sup>Ndaka Angella, ‘Informal Sector in Kenya: Causes and Effects’ (2017) 1(4), International Journal of Law Humanities and Social Sciences

activities in the sector remain largely unregulated by law and hence unfair competition when compared to their regulated counterparts.<sup>34</sup>

In Kenya, the informal sector is estimated to be employing more than 83% of the Kenyan labor force.<sup>35</sup> Understanding the operations within the sector becomes very crucial. Operations of the informal sector are quite dynamic. Underneath lies, social relations and associations formed by people largely involved as traders, manufacturers and small-scale farmers in their own right, their interactions are trust-based, face-to-face relations and transactions of inter-dependence.<sup>36</sup> Kinyanjui argues that these social relations and associations fulfill multiple tasks and functions like addressing fundamental concerns- regulating members' behavior, coordinating markets, production, consumption, distribution, protection and transformation.

The above notwithstanding, the Institute of Economic Affairs<sup>37</sup> discusses the inability of the government to collect the required amount of revenue every financial year which it links to the operations within the informal sector. Majority of those in the sector view paying taxes as a huge burden that can only be borne by large-scale business, not the SMEs, and other small-scale business. Allan Olingo,<sup>38</sup> argues that the government

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<[www.ijlhss.com/wp.../Informal-Sector-and-Taxation-in-Kenya-Causes-and-Effects.pdf](http://www.ijlhss.com/wp.../Informal-Sector-and-Taxation-in-Kenya-Causes-and-Effects.pdf)> accessed on 5<sup>th</sup> December, 2019.

<sup>34</sup>Ibid.

<sup>35</sup>Ibid.

<sup>36</sup> Joan Atim, 'Cushioning the Informal Sector during the Covid-19 Pandemic in Kenya' (2020) <<https://fiscallawafrika.wordpress.com/2020/05/15/cushioning-the-informal-sector-during-the-covid-19-pandemic-in-kenya/>>.

<sup>37</sup> Zilper Audi & Oscar Okoth (n. 2)

<sup>38</sup>Allan Olingo, 'Kenya Uganda Plans to Pull Informal Sector into Tax Bracket' (2016) <<http://www.theeastafrican.co.ke/business/Kenya-Uganda-in-plans-to-pull-informal-sector-into-tax->bracket/2560-3255840-ea00tlz/index.html>> accessed on 20th January, 2020.

budgets do not always consider the needs of the informal sector such as the access to affordable credit services and the access to proper infrastructure yet this would motivate the taxpayers to comply. This makes it difficult for the government to tax this sector and end up losing a lot of revenue.

Kenya has had trouble in dealing with the informal sector over the years. Before the enactment of the TPA in 2015,<sup>39</sup> there were difficulties in revenue collection due to the challenges faced in the implementation of the laws in place and the failure of the enforcement authorities in ensuring that the laws are enforced. Further, the government has been slow in conducting awareness programs and trainings among the taxpayers in the informal sector.

Thus, many factors attribute to this state of affairs: the nature of operations within the sector, the regulations in place, and the administrative aspects in terms of enforcements.

### **1.7.3. Known characteristics of the informal sector**

The known characteristics of the informal sector includes, ease of mobility of businesses. Majority of traders do not have a definite place of business and keep on shifting from one location to another depending on the circumstances the encounter and as may be convenient for them. For instance, street vendors in Nairobi central business area who move with their goods from one point to other convincing customers to buy their goods and services may illustrate this.

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<sup>39</sup> Tax Procedures Act, No. 29 of 2015, Laws of Kenya.



Transactions within the sector are largely cash based Research ICT Africa,<sup>40</sup> a study by Deen-Swarray, Ndiwalana and Stork noted that the informal sector relies on cash as the main form of transaction with its customers. Evident in the fact that 63.1% have no bank accounts at all while about 21.2% of businesses in the sector had bank accounts dedicated for business transactions only. Although the World Bank<sup>41</sup> revealed that about 34.4% of firms in the sector have bank accounts to run their business. This very low percentage would hamper any traceability of movements of monies / profits made. Edwin Okoth in his article in the Daily Nation<sup>42</sup>, states that despite an 87% mobile banking penetration in Kenya, cash transactions remain the main means.

There is high level of literacy within the sector as most operators within the sector have little or no formal education. The above clearly shows the tasks that is ahead for government and the revenue collector.

#### **1.7.4. Taxation of the informal sector**

The taxation of the informal sector has been a challenge in most African states; including Kenya. This is attributable to the characteristics of the sector, the nature of

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<sup>40</sup>Mariama Deen, Ali Ndiwalana and Christoph Stork, ‘ Bridging the Gap and Unlocking the Potential of Informal Businesses through Mobile Money in the Four East African Countries’ (Year not known). Conference Paper <[https://researchictafrica.net/publications/Other\\_publications/2013\\_Deen-Swarray\\_-\\_Ndiwalana\\_-\\_Stork\\_-\\_Informal\\_businesses\\_and\\_mobile\\_money\\_-\\_Conference\\_paper.pdf](https://researchictafrica.net/publications/Other_publications/2013_Deen-Swarray_-_Ndiwalana_-_Stork_-_Informal_businesses_and_mobile_money_-_Conference_paper.pdf)>.

<sup>41</sup> World Bank Group, ‘Informal Enterprises in Kenya’ (2016) <<https://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/ResearchPapers/Informal-Enterprises-in-Kenya-2016.pdf>>.

<sup>42</sup>Edwin Okoth, ‘Most Kenyans Still Use Cash Transactions’ *Daily Nation* (Nairobi 2016) <<https://www.nation.co.ke/lifestyle/smartcompany/Most-Kenyans-still-use-cash-to-transact-Survey/1226-3088980-u6tvahz/index.html>>. Accessed 12<sup>th</sup> November, 2020.

the sector amongst others. Obara and Naghi<sup>43</sup> argued that the informal sector is mainly characterized by their small-scale operations, ease of mobility of business, cash transactions and unwillingness or the inability to keep proper books of accounts and other records. Most of their business activities remain unknown and concealed hence making it difficult for the revenue agencies to tax them. These businesses however, form a larger part of the economy Kenya. Therefore, taxing this sector requires extra efforts in terms of mobilizing the potential taxpayers to comply and by imposing the obligation on them and putting in place very punitive sanctions.

According to the Zilper Audi & Oscar Audi,<sup>44</sup> the potential taxpayers in the informal sector aim at minimizing their costs and maximize their profits. The lack of compliance by most of the taxpayers in this sector because of government failure to provide incentives is evident. This weighed against the cost of compliance, rather complicates the situation further. Despite this complication, there are attempts at taxing the sector in the past few years with the turnover and presumptive taxes.

#### **1.7.5. Tax Evasion in the informal Sector**

Whilst tax payment is a civic duty and an imposed contribution by the government to contribute to her principle source of revenue to provide public goods and services to its citizenry, tax evasion remains prominent in both the formal and informal sector. This study however limits tax evasion to the informal sector; which is common in most of

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<sup>43</sup>Obara Chukwuma & Nagih Eteelo, 'Taxing Informal Sector and Revenue Generation in developing countries: An Empirical Investigation from Rivers State Nigeria' (2017) 3 Journal of Accounting and Financial Management <[www.iiardpub.org](http://www.iiardpub.org)> accessed 7<sup>th</sup> December 2019

<sup>44</sup> Zilper Audi & Oscar Okoth (n. 2)

the developing countries. Macharia defines tax evasion as an illegal deliberate misrepresentation of the true state of affairs by individuals and corporations to the tax in order to reduce their tax liability by methods that violate the provisions of tax laws.<sup>45</sup> Thus, an offence leads to imposition of criminal proceedings against the taxpayer. For a clear understanding between tax evasion and its impact on revenue, a look at the shortfalls in revenue collections becomes eminent.<sup>46</sup>

The nature of the informal sector also hinders the government from ensuring that the sector is put into the taxation bracket.<sup>47</sup> Adding them to the tax bracket is particularly challenging because of the size of their businesses. According to Apollo Karumbaticle,<sup>48</sup> tax evasion in the sector is attributed to the perceptions that the tax burden is too high compared to what the small taxpayers in the informal sector gets from their business operations. The reason they argue that the tax burden should be borne by those in the formal sector. The operations within the sector further facilitate evasion as the people there in are able to conceal and protect others from the authorities.

From the literature reviewed, non-offered durable solutions on how to directly deal with the problem of evasion within the informal sector and therein lies the gap this study seeks to propose to influence policy and contribute to literature.

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<sup>45</sup> Joseph Macharia, 'The Effect of Tax Evasion on Tax Revenues in Kenya' (2012) University of Nairobi

<sup>46</sup> Ibid

<sup>47</sup> Bryan (n. 10).

<sup>48</sup> Apollo Karumba 'Boost Compliance in the Informal Sector to Plug the Revenue Gaps.' *Standard Digital News* (Nairobi 2016) Available at <<https://www.standardmedia.co.ke/m/article/2000193424/boost-compliance-in-informal-sector-to-plug-revenue-gaps/?pageNo=2>> accessed on 20<sup>th</sup> January 2020.

## 1.8. Research Methodology

This research utilized both primary and available secondary data. Primary data was obtained through a field research that involved various stages. A license from NACOSTI formalized the research study. Employing the use of structured questionnaires and the interview schedules, business owners within the informal sector, tax officials and experts within the Nairobi City County were interviewed.

The aim was to get first-hand information on the nature of business activities within the informal sector, the income generated in the sector, the challenges faced by the sector and the perception of the sector towards taxation. With regard to the tax officials at KRA, the aim was to find out whether they were aware of the size of the taxpayers or potential taxpayers in the informal sector. Interviews for tax advisors from a private audit firm; Price Water Coopers (PWC) who preferred to remain anonymous was done.

Further, a Focused group discussion (FGD) was conducted in Kibera. The group comprised of nine individuals carrying out informal businesses in Kibera Centre. They included a shoemaker, electrician, pharmacist, vegetable seller, and utensils' vendor among others. A summary of successful interviews conducted are as below:

<b>Interviewed Individuals</b>	<b>Date</b>	<b>No of the interviewees</b>
Focus Group Discussion (Kibera residents)	10th August 2018	10
Tax Officials at KRA	22nd August 2018	2
Private Audit Firm	4th September 2018	1
Owner of Electrical Company	19th September 2018	1
<b>TOTAL</b>		<b>14</b>

Secondary data was obtained through a desktop research in the library. This involved review of various secondary documents like books, journal publications, government documents and electronic sources such as the internet. Various sources were reviewed including books, journals, publications, government documents, statutes, online sources such as the internet and any other relevant literature. This will guide the researcher in establishing the behavior of the taxpayers or prospective taxpayers in the informal sector and it will guide in establishing the attitude of the tax officials towards taxing the informal sector in Kenya.

### **1.9.Limitations of the Study**

The student intends to carry out an extensive research to achieve the objectives set. However, some limitations are unavoidable and will contribute to the outcome of the research findings. The first limitation is time constraints because the time to carry out the research study will be very short to attain the set objectives to the maximum. There are also financial constraints. Therefore, this study limits its research to tax evasion within the informal sector and how government can tap into the sector to increase revenue collection.

### **1.10. Definition of the Key Terms in Understanding Tax Evasion in the**

#### **Informal Sector**

**Financial Year-** it refers to a period of twelve months used by the government or business individuals for accounting and tax purposes.<sup>49</sup>

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<sup>49</sup> *Cambridge international dictionary of English* (Cambridge University Press 1995).

**Formal Sector-** this refers to the section of the economy that involves normal working hours and regular salaries, wages, and is recognized as the income sources upon which taxes must be paid.<sup>50</sup>

**Informal sector-** It refers to all the activities that are not directly included in the national income accounts of any given country at any given time. It comprises of all activities that are not recognized as sources of income and are not taxed.<sup>51</sup>

**Tax avoidance-** this refers to a transaction or scheme designed to avoid liability to pay tax under any tax law.<sup>52</sup> It involves exploitation of gaps in the law and other legislations in ways that cannot be detected by law enforcement agencies.

**Tax Base-** this is the measurement upon which the determination of tax liability is based.<sup>53</sup>

**Tax compliance-** this refers to the willingness of a taxpayer to cooperate with law enforcement agencies and comply with the rules and regulations that have been set in the country that he or she is based. It can be done through filing of returns, declaration of total income earned, paying of taxes due and doing so in a timely manner.

**Tax evasion-** this refers to the adoption of the illegal means to reduce tax liability such as nonpayment of income, or underpayment of taxes due. It can be done through false declaration of taxes due to the relevant tax authorities that could have otherwise resulted in interests and penalties if the perpetrator was caught.

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<sup>50</sup>The Business Dictionary Available at  
<<http://www.businessdictionary.com/definition/formal-sector.html>>

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

<sup>53</sup> Ibid.

## **1.11. Chapter Outline**

### **1.11.1. Chapter one: Introduction**

This is the introductory chapter. It contains the background information, statement of problem and the justification of study, research questions and objectives of the study, the hypothesis, the literature review and the limitations of the study.

### **1.11.2. Chapter two: Theoretical Framework**

This second chapter discusses the various schools of thought that help advance the discussions on tax compliance and tax evasion by taxpayers and potential taxpayers in the informal sector. These theories are the Theory of Law and Society and the Sociological School of Law Theory.

### **1.11.3. Chapter Three: The Case Study**

The third chapter is the case study, which analyses the literature reviewed against the findings. The chapter discusses factors contributing to tax evasion in the informal sector in Kenya evaluates the weaknesses and the strengths of the legal and regulatory framework on tax evasion amongst other

### **1.11.4. Chapter Four: Conclusion and Recommendations**

Chapter four sets out the conclusion and recommendations of the study. It suggests possible solutions to seal the gaps identified during the research study.

## **CHAPTER TWO: THEORETICAL FRAMEWORK**

### **2.1. Introduction**

The previous chapter was an introductory chapter. This chapter discusses the conceptual framework of tax evasion and the various schools of thought that evolve around tax compliance and tax evasion by taxpayers and potential taxpayers in the informal sector. The study borrowed from existing research and it was influenced by some legal and jurisprudential theories that have been put across by various jurisprudential theorists and legal scholars. As outlined in chapter one these theories include, the theory of Law and Society, the Sociological School of thought and the Theory of Planned Behavior. In the chapter, each theory shall be discussed in terms of what the theory states, the theorists concerned, criticism on the theory and the application of the theory to the research problem.

### **2.2. Theoretical Framework**

#### **2.2.1. Theory of law and society**

The theory of law and society emerged as an American movement after the Second World War. Sociologists who had interests in the study of law started it. This theory addresses the relationship between law and society. One of the proponents of this theory is Lawrence Friedman.

The scholars of this theory have argued that law emerges from societal processes and therefore it affects the social changes that take place in the society. They view law as an instrument that constitutes social institutions and hence the connection between the



two.<sup>54</sup> The sociologist view law as a social institution created from how human beings interact with one another. This means that humans are the authors of all social arrangements including law.<sup>55</sup> According to this theory, individual's compliance behavior affects social interaction and relationship with other people such as friends, relatives and neighbors.

This theory applies to this study because the laws and regulation put in place are intended to affect the society positively. Moreover, since law cannot be separated from the society, societal behavior influences the laws. All the tax laws in Kenya today should thus reflect the will of the people as oppressive laws tend to be ignored or avoided. Taxpayers in the informal sector view tax laws as punitive and Do not benefit them in anyway and this is a narrative that must be changed if progressive change is to be met.

The laws should therefore facilitate the creation of awareness amongst the taxpayers, so they get to appreciate their impact in the country in terms of potentiality to contribute to revenue collection in the country. For mutual benefits between the government and the taxpayers in the informal sector, both the sector players and the government should come together and make laws that will favour each of them and this will boost the revenue collection in the sector.

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<sup>54</sup> Joachim Savelsberg & Lara Cleveland, 'Law and Society' (2017) Oxford Bibliographies. <<http://www.oxfordbibliographies.com/view/document/obo-9780199756384/obo-9780199756384-0113.xml>> Accessed on 19th January, 2020.

<sup>55</sup> Susan Silbey, 'A Sociological Interpretation of the Relationship between Law and Society' <[http://web.mit.edu/ssilbey/www/pdf/law\\_society.pdf](http://web.mit.edu/ssilbey/www/pdf/law_society.pdf)> accessed on 20th March 2020.

### 2.2.2. Sociological School of Thought

This is a theory of law that arose due to the reactions to the Positivist legal theory that disregarded social and economic circumstances in law. What is of concern is the working of law rather than its nature. Sociological Legal Theory is a very wide field of jurisprudence that got the support of many scholars. This theory examines the sources, effects and functions of the law vis-à-vis the attitudes, behaviors and powers influencing the maintenance of a society.<sup>56</sup> Some of these scholars include Roscoe Pound, Von Jhering, Leon Duguit, and Jeremy Bentham among others. The argument under this theory is that legal order is part of the social control.

Von Jhering argues that the social origin of law and legal institutions is of critical importance in understanding the law. In examining the origin of law, he argues that the origin of law lies in sociological factors, human conduct and social conditions that exists in the society. He describes the law to an end and thus the intended purpose of law is social control. This means that law is an instrument for serving the society it governs and thus should into account the needs of the society.<sup>57</sup> A law should also be good enough to accommodate changes in the society since the law is created to serve the society and not the society to serve the law since society shapes the law. Thus, changes in values and beliefs of a society should ideally result into changes in law to accommodate the change needed. It is therefore incumbent on the government through the relevant institutions e.g. parliament to amend the law to fit the current society.

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<sup>56</sup> Paul Omony, '*Key Issues In Jurisprudence*' (Law Africa Publishers 2006).

<sup>57</sup> Ibid

A classic example of this is on social segregation in the United States of America. In 1896, the court in *Plessy V Ferguson*<sup>58</sup> upheld racial segregation that was present between Negroes and Whites stating that even legislation could not change that situation, that is, even if the legislators outlawed it, a social reality would still be present. Half a century later, the court in *Sweatt v Painter*<sup>59</sup> outlawed racial segregation. This position was later upheld in *Brown v Board of Education*.<sup>60</sup> At the time the two latter cases were decided, the belief of the American society had generally changed towards the belief and consciousness that segregation is no longer acceptable.

The theory guides this study because, like other laws, tax laws should be informed by sociological factors in the society. They should be in place to benefit the society. Understanding the nature of operations and diversity within the informal sector could be the key to unlocking the puzzle. This will help give guidance on why tax evasion is high in the informal sector and propose recommendations on how to curb it.

### **2.2.3. Theory of Planned Behavior**

The Theory of Planned Behavior (TPB) was developed as an extension to the Theory of Reasoned Action. The theory explains human behaviors and the reasons human beings behave in a manner. It is a theory that tries to predict an individual's intention to engage in a certain behavior at a specific time and place.<sup>61</sup> These proponents of the

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<sup>58</sup> 163 U.S. 537 (1896).

<sup>59</sup> 339 U.S. 629 (1950)

<sup>60</sup> 347 U.S. 483 (1954)

<sup>61</sup> Icek Ajzen, 'The Theory of Planned Behavior: Organizational Behavior and Human Decision Processes' (50, 179-211 1991)

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<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.317.9673&rep=rep1&type=pdf>> Last accessed 20<sup>th</sup> October 2020>.

theory are Fishbone and Ajzen. The theory was developed by Ajzen in 1991<sup>62</sup> to improve the initial theory known as the Theory of Reasoned Action.<sup>63</sup> It explains all behaviors that humans can exert self-control over them. The key component in this theory is the behavioral intent. Behavioral intentions are influenced by the attitude that individuals will have toward the expected outcome and the subjective evaluations of risks and benefits associated with that income.

According to this theory, the behavior of human beings is influenced by certain reasons and normally they emerge in a planned way.<sup>64</sup> The ability of an individual to have a behavior towards something is dependent on the fact that the individual has a purpose that drives him or her to behave in the way they behave. Factors determining the purpose include attitude towards the behavior, societal norms and perceived behavioral control.<sup>65</sup> These factors determine the intentions of an individual towards a target behavior and the performance of that behavior because behavioral achievements depend on both the intentions and the ability to behave in a way.<sup>66</sup>

This theory is relevant to the study because it explains why individuals behave in a certain way. The attitude and the intentions of the individuals in the informal sector affect their compliance level. Most individuals in the informal sector have a negative

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<sup>62</sup>Ibid

<sup>63</sup>Ibid

<sup>64</sup>Ismail Erten and Salim Razi, 'The effect of Cultural Familiarity on Reading Comprehension' (2009) *Reading in a Foreign Language* vol 21 1 pp 60-77

<sup>65</sup> Ibid.

<sup>66</sup> Marta Smart, 'The Application of the Theory Of Planned Behavior and Structural Equation Modelling in Tax Compliance Behaviour' (University of Canterbury 2012) <[https://ir.canterbury.ac.nz/bitstream/handle/10092/7528/thesis\\_fulltext.pdf;sequence=>](https://ir.canterbury.ac.nz/bitstream/handle/10092/7528/thesis_fulltext.pdf;sequence=>)

attitude towards taxation and it may be difficult to convince them to pay taxes thus very crucial to unpacking the impasse.

### **2.3. Conclusion**

This chapter discussed the theories that informed the study. Thus understanding the theories would help further unlock the puzzle for the lawmakers and policy influencers. These theories demonstrate different ways in which understanding can be drawn for taxpayers' perception towards taxation and reasons for tax evasion. The theory of Planned Behavior, for example, illustrates how the behavior of an individual influences their decision making and perception towards something. The theory of law and society on the other hand demonstrates the relationship between the societal norms and the decisions made by the members of the society. These theories help advance the road map to eradicating evasion within the informal sector and as a result widening the tax base.

## **CHAPTER THREE: TAX EVASION IN THE INFORMAL SECTOR IN KENYA**

### **3.1.Introduction**

The chapter starts by discussing size of the informal sector and the role it plays in Kenya. This includes creating enormous employment opportunities to both the skilled and the unskilled, which in turn reduces crime rate; as a link between the two exists, alleviation of poverty through employment of the youth and the elderly.

Despite this, tax evasion is prevalent within the informal sector in Kenya. Some of the factors include facilitates evasion within the sector include: lack of tax information, unregistered business owners, high illiteracy levels, and perception that the government mismanages tax revenue, anticipation of government services, unwillingness to comply, poor record keeping and the negligence by enforcement agencies in enforcing existing laws.

While the above issues exist, the government has made efforts and leaps in the right direction to ensure that all pay taxes; including those within the informal sector hence curbing tax evasion.

### **3.2. Informal Sector in Kenya**

#### **3.2.1 The Size of the Informal Sector in Kenya**

The informal sector in Kenya is bigger as compared to the formal sector.<sup>67</sup> Out of the total number of entrepreneurs and businesses in Kenya, the World Bank publication<sup>68</sup>

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<sup>67</sup> Audi and Okoth (n. 2).

<sup>68</sup>World Bank Group, *'Informal Enterprises in Kenya'* (Enterprise Survey, 2016)

equates 95% to the informal sector. Employment is a key parameter in measuring the size of the sector. The KNBS survey of 2018<sup>69</sup> revealed that employment in the informal sector accounted for 83.4% of the total employment in 2017 with more than 16.9 million people engaged in the sector. This is reflected in the employment growth rate over the years, which sheds light on the size of the sector. As compared to 2015, the year 2016 experienced an increase in employment; Over 832,900 new jobs were created<sup>70</sup>. In 2017, it was reported that new jobs amounted to 897,800 out of which 787,800 were in the informal sector. This shows that the informal sector in Kenya is big and employs over 83% of the working population thus, emphasizing its significance in the economy.

### **3.2.2. The Role of the Informal Sector in Kenya**

The informal sector plays a crucial role in the economy of Kenya. The sector is the biggest source employment opportunities in the country. In a report publication by KIPPRA<sup>71</sup>, Rose Misati notes that the informal sector enterprises form a key provider of employment opportunities and income in both urban and rural areas in Sub Saharan Africa. The sector has the highest level of employment as compared to the formal sector. In the year 2016, the informal sector had engaged about 13.3 million people that accounted for 83.1 per cent of the total number of people in employment<sup>72</sup>. In 2017,

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<<https://openknowledge.worldbank.org/bitstream/handle/10986/24973/Informal0enterprises0in0Kenya.pdf?sequence=1&isAllowed=y>>.

<sup>69</sup>Economic Survey, 2018 < <https://www.knbs.or.ke/download/economic-survey-2018/>>

<sup>70</sup> Economic Survey, 2017 <https://www.knbs.or.ke/download/economic-survey-2017/>

<sup>71</sup> Roseline Misati 'The Role of the Informal Sector in Investment in Sub-Saharan Africa' (2007), KIPPRA.

<sup>72</sup> Economic Survey (n 72).

employment in the informal sector was at 83.4 per cent of the total employment in the country. As at 2016,<sup>73</sup> the level of unemployment in Kenya was at 50 per cent. Credit in employment, per new jobs is attributed to the informal sector. The government should thus devise means of tapping into the sector.

The sector also plays a key role in poverty alleviation. Through the available employment opportunities, many households earn some income thus reducing poverty levels. Growth in the informal sector indirectly helps in reduction of crime in the country as the sector gives opportunity for many to be engaged and be busy as opposed to being idle and disorderly. Thus while many advantages come with operations within the informal sector, the question that one continues to grapple with is, how do we deal with tax evasion in the sector?

### **3.3. Tax Evasion and Factors that Hinder Compliance in the Informal Sector in Kenya**

Tax evasion refers to the illegal and intentional actions taken by individuals or firms to reduce their tax obligations.<sup>74</sup> They can do this by underreporting income; overstating deductions, exemptions, or credits; failing to file tax returns or engaging in barter. Tax evasion is central to fundamental issues in public economies. Its most obvious impact is to reduce tax collections, thereby affecting the taxes that complaint taxpayer's face

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<http://www.theeastafrican.co.ke/business/Informal-sector-new-economic-reality-in-developing-countries-/2560-3140688-10dr5p5z/index.html>.

<sup>74</sup> James w, 'Tax Evasion, Labor market effects, and income distribution' (2014) <<https://wol.iza.org/uploads/articles/91/pdfs/tax-evasion-labor-market-effects-and-income-distribution.pdf>>.



and the public that citizens. Beyond the revenue losses, evasion leads to resource misallocation when people alter their behavior to cheat on their taxes.

Further, the extent of tax evasion is extremely difficult to determine in any country<sup>75</sup> and it has been an area of concern for most developing countries. The tax-evading attitude is argued to have an adverse effect on government's socio-economic and political programs. Many authors, commentators and analysts blame this on the tax administrations and others on the unpatriotic attitude of the taxpayers. Thus taxing the informal sector becomes an almost impossible task with the characteristics discussed above.<sup>76</sup>

The findings of the study established a number of factors that hinder voluntary compliance and effective tax administration in the informal sector in Kenya are:

### **3.3.1. Lack of Information**

This research study sought to find out whether information about taxation in Kenya was readily available to all taxpayers regardless of where they are operating their businesses. The study further sought to find out whether Kenya Revenue Authority ensured that taxpayer information is readily available to all individual and firms in the

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<sup>75</sup> Emmanuel Tenakwah Junior and Emmanuel Tenakwah Senior, 'Tax Evasion in the Informal Sector: Ghana's Case' (Paperback Lambert Publishing 2018).

<sup>76</sup> Thorben Kundt, 'Opportunities and Challenges for Taxing the Informal Economy and Subnational Taxation' (2007) Emerging Issues Report  
<[https://webcache.googleusercontent.com/search?q=cache:Ox1Gebi6xMYJ:https://assets.publishing.service.gov.uk/media/5b3b64a6e5274a6fe8b7048e/Opportunities\\_and\\_challenges\\_for\\_taxing\\_the\\_informal\\_economy\\_and\\_subnational\\_taxation.pdf+&cd=7&hl=en&ct=clnk&gl=ke&client=firefox-b-ab](https://webcache.googleusercontent.com/search?q=cache:Ox1Gebi6xMYJ:https://assets.publishing.service.gov.uk/media/5b3b64a6e5274a6fe8b7048e/Opportunities_and_challenges_for_taxing_the_informal_economy_and_subnational_taxation.pdf+&cd=7&hl=en&ct=clnk&gl=ke&client=firefox-b-ab)>

country. This helped in evaluating the availability of the information against the level of compliance by the taxpayers in the informal sector.

Individuals running businesses in the informal sector are not aware of their tax obligations. They are also not aware of the implications of not meeting their obligations. More than 80% of the respondents running businesses in the informal sector felt that the information disseminated by Kenya Revenue Authority on taxation matters is not readily available and therefore they do not find the need to bother themselves with tax matters.

### **3.3.2. Unregistered Business Owners**

Many taxpayers in the informal sector own unregistered business and do not have physical addresses. This affects them when it comes to an attempt to register the business, the fail to get taxpayers PIN and this affects tax compliance.<sup>77</sup>

During the research, it was established that most of the taxpayers in the informal sector do not have registered premises and they have not registered their businesses for taxation purposes. The study established that most taxpayers in the informal sector obtain pin knowing it is meant for registration purposes only. Not every person who holds a PIN understands his or her tax obligations. For them, obtaining a PIN is meant for registration purposes only and that it is used for obtaining services like bank loan facilities and registration to youth groups.<sup>78</sup>

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<sup>77</sup> Interview with Focused Group Discussion, Kibera (10<sup>th</sup> August 2018).

<sup>78</sup> Ibid.

It was established that more than 50 percent of the businesses run in the informal sector are not registered. The respondents stated that they have not registered their businesses for a trading permit because no one does a follow up. Other reasons given by the respondents concerning the minimum business premises on the informal sector included high costs of running businesses, the nature of their businesses and the nature of their clients.

### **3.3.3. High Illiteracy Levels**

Knowledge is key in all aspects. Tax knowledge is pertinently important for taxpayers because this affects the level of compliance and the tax anthropology. Uneducated people find it difficult to understand the laws and understand what is required of them as taxpayers or prospective taxpayers. Complexities of tax law and taxation generally affect the level of compliance in the informal sector. Most business owners in the informal sector demonstrated that they did not have the highest qualifications in education. More than 50% of the taxpayers in the informal sector have the minimum basic formal education.<sup>79</sup> From the respondents whom participated in the study, less than 40% of the business owners in the informal sector have college education. Most of the individuals in this sector have secondary school education and below. Running a business would require accounting knowledge for record keeping. However, this is not likely to take place in the informal sector because of the low levels of education.<sup>80</sup>

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<sup>79</sup> Ibid.

<sup>80</sup> Ibid

Further, more than 60% of the individuals running businesses in the informal sector are computer illiterate and are not able to navigate the online iTax portal. Thus not user-friendly, and this contributes to tax evasion in the informal sector.

#### **3.3.4. Anticipation of Government Benefits**

Taxpayers anticipate services from the government such as good roads, free education, and functional health facilities among other services. From an interview carried out on a focused group discussion in Kibera, the respondents attributed non-compliance to lack of government services. They stated that they anticipate services from government and this include provision of facilitated hospitals, proper roads, schools and other learning facilities among other services. From the response given, the individuals in the informal sector receive minimal services from the government or no services at all. Their perception is that by paying taxes, other people other than them benefit from their collection.

#### **3.3.5. Unwillingness to Comply due to High Tax Rates**

Ideally, voluntary compliance would be because of many factors. As the theory of planned behavior explains, there are reasons behind each human behavior, with factors that would motivate human beings to behave in a certain manner. The behavior contemplated in this context is voluntary compliance. However, factors seem to lean towards encouraging non-compliance. These factors include the attitude of the taxpayer towards the burden of tax as well as the ease or difficulty of complying.

Having discussed the above, findings for the research study, revealed the data discussed. For instance, the FGD at Fig tree market in Ngara and Kibera helped bring

out the characteristics and challenges of informal sector in Kenya with business people selling of vegetables, tailoring, salons, and food kiosks among others. The Institute of Economic Affairs confirmed this and its description of the informal sector; as mainly comprising traders involved in vegetable selling, shoe repair and shining, carpentry, sale of second-hand items such as clothes and street vendors and they operate in small scale.<sup>81</sup>

The interviews in Kibera also revealed the literacy levels; most respondents dropped out of school at primary level with only a few having managed to pursue secondary and tertiary education. However, these individuals are able run businesses because most of the activities they engage in do not require any special knowledge or skills. For example, selling of vegetables, shoe repairs and shoe shiners, selling of utensils among other small-scale businesses. However, a few such as masonry, carpentry, boda boda operators, and mechanics among others require trained skills that may be acquired through tertiary education or on the job training.

From the findings obtained, most taxpayers find the cost of compliance to be very high compared to the income earned, these costs may increase further depending on the number of obligations that the taxpayers are subjected to. Above 70% of the respondents believed if the costs of complying were minimal or free, then many of them would be encouraged to comply. This negative attitude and the difficulty and cost of complying discourage voluntary compliance and as a result, many of the taxpayers opt to evade the taxes because it is cheaper to do so.

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<sup>81</sup> Zilper Audi & Oscar Okoth (n. 2)

### **3.3.6. Revenue Enforcement Agency Reluctant**

The tax authority is focused on the formal sector because of the perception that the formal sector will yield more revenue than the informal sector. KRA has a mandate as provided for in the KRA Act Part II to collect revenue<sup>82</sup> and it is the responsibility of the revenue officers to ensure that they enforce the legal provisions on tax evasion whether in the formal or informal sector.

### **3.3.7. Poor and Minimum Record Keeping**

Majority of the taxpayers in the informal sector do not keep books of accounts. This is attributed to the fact that they do not have the ability to hire qualified accountants to do proper accounts. They also lack general knowledge in book-keeping skills. Out of those interviewed, over 70% of the respondents revealed that they did not have any accounting knowledge and therefore they did not see any need to keeping books of account. Further, close to 85% of the respondents agreed that they did not have the financial muscle to hire qualified accountants to deal with their books of accounts due to the high fees charged. Further, transactions carried out in the sector cannot be traced because most of these transactions are on cash basis and hence the difficulty in making inferences and drawing conclusion as to the taxes due to government from the sector.

### **3.3.8. The Perception of Mismanagement of Tax Revenue**

The taxpayers' and the prospective taxpayers in the informal sector have the perception that the government mismanages the revenue collected from its citizens. From an interview conducted in Kibera within the Nairobi City County, the respondents argued

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<sup>82</sup> Kenya Revenue Authority Act, CAP 469, Laws of Kenya.

that there did not find the need of paying taxes only to be used by selfish individual for their own self-gain. They make the decision not to concern themselves with compliance of tax obligations because it does not benefit them in any way.

### **3.4. Taxation of the Informal Sector and Challenges Faced**

Whilst article 201 of the Constitution of Kenya provides broad guidelines on taxation, the burden of taxation should be shared fairly and equally among all taxpayers<sup>83</sup> within the formal and informal sector. However, this is not the case as there are challenges that KRA has faced and continues to face in its attempt to tax the informal sector.

Though the government has made effort through local media in sensitizing Kenyans on the need to remit taxes due, only formal sector has managed to comply while the informal sector remains largely unreachable. This is attributed to the characteristics within the sector, that is, small scale operations, predominantly cash transactions, high levels of illiteracy, lack of fixed premises and running of non-registered businesses making it impossible for the businesses owners to be traced. Much of the debate over the costs and benefits of taxing the informal sector has focused on the direct revenue and equity implications of the taxes themselves. The cost of complying is higher than that of evasion.<sup>84</sup> This is because keeping proper records of accounts is essential for tax assessment, which is lacking in the informal sector as previously discussed.

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<sup>83</sup> Article 201 (b) (i) of the Constitution of Kenya, 2010.

<sup>84</sup> Victor Juma 'KRA Turns to Tough Law on Tax Evasion' *Business Daily* (Nairobi 2010).

Further, taxing the informal sector is challenging because there is no specific policy that targets the informal sector on how to tax them or how to give tax incentives.<sup>85</sup> The government has made some efforts to curb tax evasion in the informal sector in the form of turnover and presumptive taxes as earlier stated. However, this will not be a walk in the park because of the nature of the informal sector; constant mobility of the business owners. There is no established place of business making it difficult to trace the taxpayers. In addition, the informal sector is very large and getting all of it to comply is a gradual process that needs time.

Secondly, the people in the sector face a challenge of limited access to training and professional services. Including lack of required skill and access to the online tax systems whether for registration or filing of returns. The tax administrators also face challenges: most of the businesses are a one-man show ran by sole proprietors. This makes it very difficult to understand the sector and hence proving it difficult to tax the sector. Another challenge faced by the government in taxing the informal sector is the failure of the government to include business owners in the informal sector in policy reform processes

Lastly, there is the challenge of political interference. Politics in Kenya try as much as possible to convince individuals that they can do all they can to solve their problems. People in the informal sector are likely the most vulnerable because they are not in so good working conditions and they do not want one on one interaction with the

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<sup>85</sup> Ibid.



government. They ended up relying on the false promises of the politicians and run away from the government

Because of these challenges, tax evasion remains a vice affecting revenue collection in our country Kenya. Some of the factors contributing to tax evasion in the informal sector shall be discussed in the next section of the work.

### **3.5.Effort Made and Measures Taken by the Government of Kenya in an Attempt to Curb Tax Evasion in the Informal Sector.**

The introduction of turnover tax (now payable every month at a rate of 1% from the previous 3%) and presumptive tax ( an advance tax paid by a person acquiring or renewing a business permit or trade license at the county government at a rate of 15% of the business permit fee or license) in the 2020 tax laws is commendable. However, Atim argues that this may not actually benefit the sector.<sup>86</sup> The taxes are for small businesses whose gross sales do not exceed or is not expected to exceed Kenya Shillings 50 million from the upper limit of 5 million. However, the taxman KRA states that all Kenyans will now be paying their fair share of taxes. This may not be the case as presumptive tax was introduced in the 2019 to do away with the turnover tax after KRA admitted it was not working but both taxes are now in the 2020 Tax Bill that the President assented to.<sup>87</sup> The taxman still argues that, with presumptive tax, turnover tax and tax education now in place, KRA is upbeat that the taxation landscape of the informal sector is set to change for good. However, in no way do these changes capture the informal sector, as the turnover tax would completely ignore the small businesses

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<sup>86</sup> Atim (n. 36)

<sup>87</sup> Victor (n. 84).

since there is no clarity on the status of businesses with turnover below the prescribed limit (which most businesses in the informal sector seem to fall under).<sup>88</sup>

Another effort made by the government was the enactment of the Tax procedures Act. The Act lays out the offences and penalties for committing tax offences. Failure to comply with the provisions of the Act leads to punitive measures against the offenders. The Act provides that every taxpayer that qualifies for registration must do so under the requirements of Section 14 of the Act.<sup>89</sup> Some of the offences provided for in the Act include failure to file returns, failure to register and failure to pay taxes due to the government. These offences amount to tax evasion. The argument on these provisions is that the act has impliedly provided means of dealing with tax evaders regardless of whether they are; in the formal or the informal sector.

Introduction of the online tax system known as iTax was another milestone by the government as a way of simplifying filing of returns. This system was developed by KRA to improve on efficiency. It allows the taxpayer to file for returns, to request for payment receipts and to update their database.

### **3.6. Addressing Policy Gaps to combat Tax Evasion in the Informal Sector**

While the government has registered milestones in this regard, there are a number of policy gaps that need to be addressed for these milestones to work. First, in the government has to change the narrative in tax anthropology. The government should encourage the operators within the informal sector to comply with their taxes by filing

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<sup>88</sup> Ibid.

<sup>89</sup> Tax Procedure Act, No. 29 of 2015, Laws of Kenya.

their tax returns and remitting the taxes due to the government.<sup>90</sup> To enhance fair and healthy competition within the informal sector and between the formal and the informal sector, the government should enhance collaboration of the business operators in the informal sector. This will create a huge market and enhance operations through exchange of skills and technological advancements.

Existence of intermediaries continues to exploit and undermine the operations of small business owners. This discourages the small business and keep them off the government requirements because they feel that they do not receive enough protection from the government. The government should thus deal with this to motivate compliance.

The government should create conducive business environment for the small business owners to run their businesses. Hawkers, for examples have always faced torture in the hands of the Nairobi City county officers who harass them day in day out and demanding for bribes. From one of the interview carried out in the Kibera slums, the interviewee stated that the areas in which most of the business owners in these area operate is not conducive enough to motivate and encourage them to listen to the demands by the government.<sup>91</sup> There is need to create space for operators of the informal sector with necessities such as clean water, proper sanitary and waste disposal facilities, and proper infrastructure among other facilities have not been availed by the government.<sup>92</sup>

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<sup>90</sup> Gibson (n 4).

<sup>91</sup> Interview (n 77).

<sup>92</sup> Ibid.

The government has not been effective in facilitating the provision of credit facilities to the small business owners.<sup>93</sup> Financial institutions have high demands when it comes to giving credit facilities to small business owners because of the fear that they may not pay back. They prefer big businesses or those in employment because of the security and the ability to pay back. The individuals running businesses in the informal sector may not secure credit facilities because they are perceived that they may not have the ability to pay back.<sup>94</sup> It is the duty of the government to address this issue and come up with ways of cushioning the sector in a sustainable matter. It is recently that financial institutions such as Equity Bank<sup>95</sup> started offering small loans to small business owners. This goes a long way in helping the small business owners but the government is yet to address the issue so that all businesses get to enjoy the credit facilities.

Another issue that has not been addressed fully is provision of tax information to all individuals. The respondents from an interview undertaken indicated that many individuals are not compliant because of will but because of lack of knowledge.<sup>96</sup> For effective compliance by every business, the government is expected to avail all the information pertaining compliance. In this regard, individuals will be enlightened on what is expected of them and what they should expect from the government in return.

The procedure of registering and owning a business in Kenya remains costly and complicated task.<sup>97</sup> This issue needs to have been addresses as early as possible. The

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<sup>93</sup> Ibid

<sup>94</sup> Ibid

<sup>95</sup> Ibid

<sup>96</sup> Ibid

<sup>97</sup> Companies Act, No. 17 of 2015, Laws of Kenya.

reason why many individuals evade paying taxes is that they are avoiding the long procedures of compliance. This has direct impact on the cost of compliance and therefore, many would opt to keep quiet rather than frustrations of having to deal with complicated procedures. In 2013, KRA introduced an online filing system, which up to date very many Kenyans are not familiar with the system.

### **3.7.Conclusion**

This chapter discussed the informal sector, its characteristics and the role it plays in the Kenya economy. Informal sector is characterized by ease of entry, high levels of illiteracy, ease of mobility of business, minimum record keeping, small-scale operations and domination of cash transactions. Some of the factors contributing to tax evasion in the informal sector includes lack of information, poor record keeping, low levels of education unregistered business owners, anticipation of government benefits, low levels of voluntary compliance and lack of proper management and administrative structures. The chapter further discussed the efforts that have been made by the government in an attempt to bring the taxpayers in the informal sector to tax brackets, it also highlights the issues, and areas that the government has failed to address that keep the informal sector far from compliance.

## **CHAPTER FOUR: RECOMMENDATIONS**

### **4.1 Introduction**

This chapter gives recommendations to the users of this research including, policy makers in this country, the revenue institutions, the taxpayers and the future researchers.

### **4.2 The Study Recommendations**

The study provides short, medium and long term recommendations as follows:

#### **4.2.1 Policy Options for Taxing the Informal Sector**

Although the value of prioritizing the informal sector remains debated, there is agreement about the need to improve existing policy and practice. The government can thus seek to implement policy changes in order to widen its tax base via the informal sector are as follows by enforcement of rules and regulations; nurturing the fiscal social contract; and promoting an atmosphere of trust.

Vigorous implementation of the presumptive taxes resolves these problems by using simplifies indicator of the tax base to simply recordkeeping for firms and estimation tax liabilities by tax collectors. These same data can be used to enforce compliance as well. To add to the already introduced taxes that require implementation, indirect taxes remain the most effective way of taxing the informal sector; taxing the goods and services sold within the sector; through VAT and will not refunded to unregistered businesses.

Financing the informal sector should be an option explored with proper policies and regulations because the overwhelming majority of informal sector businesses self-fund,

get money from friends and relatives, credit and advances from suppliers and customers, which tend not to be sustainable. They can be encouraged to take advantage of the Immovable Property Security Rights Act while government gives directives to financial institutes to lessen their financing requirements.

#### **4.2.2. Administrative Actions**

##### **4.2.2.1. Tax Education**

Tax education is a very important tool that can be used to enhance tax literacy. As result, the taxpayers' make decisions from an informed point of view after understanding that payment of taxes is for the common good and in so doing reduce tax evasion in the informal sector. Taxpayer education promotes voluntary tax compliance and enhances revenue collection because it provides comprehensive awareness and information to the taxpayers. As Kelvin Githaru puts it, education makes the taxpayers aware of their rights and obligations and this potentially increases tax compliance because they know what is expected of them. An assertion this study agrees with. One of the methods that can be used in the education is by taking advantage of the structures within the informal sector to champion this as we have associations and groups therein.

Further, tax education should be introduced in secondary education so that by the time high school students are leaving school they are aware of what is expected of them. Sexual education for example has been introduced in secondary and primary schools. This has created awareness among the young being and it has made them to be very cautious in their day-to-day life to avoid the consequences of negligent behavior. In the same way and spirit, tax education should be made to be part of the syllabus in

secondary education system in Kenya. This will create awareness because by the time a student is leaving for college or university that is the time most of them acquire PIN numbers and it will be very easy to comply because they already know what is expected of them.

#### **4.2.2.2. The iTax System**

Government should improve the usability of the iTax system. The study established that most people in the informal sector are not able to access or use the iTax system owing to a number of issues; which are mostly technical. Taxpayers are entitled to a fair and relatively easy tax system that meets the needs of all persons without discrimination. All citizens regardless of age, sex, race, level of education among other factors should be able to file their returns without any complexities. This will encourage a number of the taxpayers to use the e-filing right from the comfort of their work places.

#### **4.2.2.3. Increasing the Tax Morale**

The study recommends that the government should increase the tax morale among the taxpayers to enhance voluntary compliance. This can be improved through incentive regimes and tax breaks. Further, most of the taxpayers in the informal sector feel that the government has left them out. In fact, during the field study, it was established that the operations in the informal sector are run without formal permits. This is because the concerned officials have never bothered to inspect those businesses. This also applies to revenue officers who never bother to engage the taxpayers in friendly manner concerning their tax matters but instead engage in running battles with them.



Taxpayers are entitled to a fair and relatively easy tax system that meets the needs of all persons without discrimination. All citizens regardless of age, sex, race, level of education among other factors should be able to file their returns without any complexities. The government can also increase the tax morale by ensuring that the taxpayers' money is accounted for to the last coin. Accountability encourages the taxpayers to be compliant because they get to know how the government spends the money and they even receive services from the government without feeling discriminated or betrayed.

Increasing tax moral can be done through enhancing the filing system to be friendly to all and by accountability of the taxpayers' money. Filing of tax returns can be automated in a way that even an individual who cannot access the internet can use their simple mobile phones and still be compliant.

#### **4.2.2.4. Equal and Fair treatment for all Kenyans**

Equality and fairness are principles enshrined in the constitution. From the findings of the research study, it was established that the informal sector business owners have the perception that the government has left them out and instead bothers himself with the rich individual. The government should also ensure that the business owners in the informal sector are protected from external competition especially for Asian countries and China imports, which are ordered at relatively cheap market, which subsequently ruins the local market.

#### **4.2.2.5. To Establish Satellite Offices in every Sub-county**

KRA should establish satellite offices in every sub-county to establish service delivery. This will facilitate trainings, organized educational seminars among other services leading to enhanced compliance even in the most remote areas. The decentralization of revenue services will minimize tax evasion especially in the informal sector whereby tax is evaded because there is little information known about the taxpayers or prospective taxpayers.

#### **4.2.2.6. Digital Infrastructure**

Longer-term, invest in infrastructure and building modern markets; with adequate room size, storage and display that will accommodate traders, artisans and peasants. The government should also invest in better digital infrastructures i.e., installation of fibre optics even in rural areas, constant electricity among others as digital platforms offer a progressive road to formalization as more people use it and would be an important tool to help widen the tax base.

## **CHAPTER FIVE: CONCLUSION**

### **5.1 Overall conclusion**

Three research questions guided this study i.e. Why are the people and businesses in the informal sector defiant in tax matters, what are the challenges facing the people and businesses in informal sector in taxation matters and what regulatory reforms can be made to tackle the challenges within the informal sector? The research answered the questions it raised.

The hypothesis put forward are as follows: one, the possibility for the government to approach and tax the informal sector and achieve its budgetary target. There are some legal and regulatory challenges to taxing the informal sector and extending the tax base to the informal sector will facilitate compliance in both the formal and the informal sector because of the shared tax burden.

The findings of this research proved the above three hypothesis as discussed in chapter three; and in doing so also laid out the importance of understanding the nature, the characteristics and the role of the informal sector. All these guided the recommendations made in chapter four.

Overall, the potential for raising additional revenue and widening the tax base further is with the informal sector. This can be achieved through the recommendations given in chapter four; which must be aligned with the existing regulatory and enforcement frameworks coupled with friendly approaches to engaging the taxpayers within the informal section.

## **5.2. Chapter Conclusions**

### **5.2.1. Chapter one: Introduction**

This is introductory chapter, which laid foundations for the entire study. It distinguished between the formal and informal sector. The chapter also outlined the research problem, which the study was meant to address regarding tax evasion in the informal sector. The chapter further provided a justification for the study, and outlined its main objectives. The study had three research questions to be answered guided by three hypotheses. The chapter also discussed the literature review and the limitations of the study.

### **5.2.2. Chapter two: Theoretical Framework**

This chapter discusses the theories and philosophical underpinnings that inform the study and that help advance the discussions on tax compliance and tax evasion by taxpayers and potential taxpayers in the informal sector. The theories discussed include the theory of planned behavior, the sociological school of thought and the theory of law and society. These theories demonstrate different ways in which the taxpayers' perception towards taxation and their reasons for tax evasion. The theory of Planned Behavior, for example, illustrates how the behavior of an individual influences their decision making and perception towards something. The theory of law and society on the other hand demonstrates the relationship between the societal norms and the decisions made by the members of the society.

### **5.2.3. Chapter three: Tax Evasion in the Informal Sector in Kenya**

The third chapter is the case study, which analyses the literature reviewed against the findings. It discusses the informal sector, its characteristics and the role it plays in the

Kenya economy. Informal sector is characterized by ease of entry, high levels of illiteracy, ease of mobility of business, minimum record keeping, small-scale operations and domination of cash transactions. Some of the factors contributing to tax evasion in the informal sector includes lack of information, poor record keeping, low levels of education unregistered business owners, anticipation of government benefits, low levels of voluntary compliance and lack of proper management and administrative structures.

The chapter further discusses factors contributing to tax evasion in the informal sector in Kenya and evaluates the weaknesses and the strengths of the legal and regulatory framework on tax evasion. It highlights the efforts made by the government in an attempt to bring the taxpayers in the sector to tax brackets, it also highlights the areas that the government has failed to address that keep the informal sector far from compliance.

#### **5.2.4. Chapter four: Recommendation**

Chapter four makes suggestions on what should be done by the government and the policy makers to bring the taxpayers in the informal sector into the tax bracket. Some of the recommendations made include introducing tax education in schools, increasing tax morale by increasing incentives in the sector, easing the identification registration processes in Kenya, Establishing KRA satellite offices in every sub-county to facilitate compliance at the lowest social units, equal and fair treatment for all Kenyans, facilitating trainings and tax education.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE FOR BUSINESS OWNERS IN INFORMAL SECTOR

This questionnaire is for collect data for a research study on Taxation of the informal sector in Kenya. The case study is within the Nairobi County. Any information gathered is solely for academic purposes and all the respondents are assured of confidentiality.

#### PERSONAL DATA

1. Gender

Male ( )                      Female ( )

2. Age Gap

i. 20-35 years ( )

ii. 36-50 years ( )

iii. 51-65 years ( )

3. Education Level

i. Graduate ( )

ii. Tertiary ( )

iii. Secondary ( )

iv. primary ( )

v. Others ( )

4. How many years have you been in business

i. Less than 2 years ( )

ii. 3-7 years ( )

- iii. 8-15 years
- iv. More than 15 years

OTHER QUESTIONS

5. What is type of business do you engage in

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6. Level of Income per year

- i. Below 100,000
- ii. Between 100, 000 to 500,000
- iii. Over 500,000

7. Where do you operate your business?

- i. An established shop
- ii. Roaming around/Hawking

8. What is the mode of payment that customers use when purchasing your goods and services

- i. Cash
- ii. Credit
- iii. Both

9. What is the level of your knowledge in accounting?

- i. Poor
- ii. Medium
- iii. Very good

10. Do you hire the services of an accountant?

- i. YES                         NO

ii. If no, why?

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11. Do you keep accounting records

i. YES ( )                      NO ( )

ii. If no, why?

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12. What is your perception towards payment of tax? Do you find it important?

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13. What suggestions if any would you give to guide the government in overcoming the challenge of tax evasion in the informal sector?

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## APPENDIX II: QUESTIONNAIRE FOR KRA OFFICERS

This questionnaire is for collect data for a research study on Taxation of the informal sector in Kenya. The case study is within the Nairobi County. Any information gathered is solely for academic purposes and all the respondents are assured of confidentiality.

### PERSONAL DATA

1. Gender

Male ( )                      Female ( )

2. Age

i. 20-35 years ( )

ii. 36-50 years ( )

iii. 51-65 years ( )

3. Level of education

i. Graduate ( )

ii. Post graduate ( )

iii. Professional ( )

iv. Others ( )

4. How many years have you worked with Kenya Revenue Authority

i. Less than 3 years ( )

ii. 4-10 years ( )

iii. 10-20 years ( )

iv. More than 20 years ( )

5. Position held

i. Junior staff ( )

ii. Senior staff ( )

iii. Management staff ( )

OTHER QUESTIONS

6. Do you apply all the sanctions to tax evaders

i. YES ( ) NO ( )

ii. If no, give reasons for avoiding sanctions for tax evasion?

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7. Do you regularly educate the taxpayers in the informal sector on the importance of tax compliance?

i. YES ( ) NO ( )

ii. If no, why?

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8. Do you encounter any challenge in your day to day job as a as a revenue officer?

i. If yes, what are some of the challenges?

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9. How do you determine the taxes of the taxpayers in the informal sector?

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10. Do you achieve total compliance in filing returns annually?

i. YES ( ) NO( )

ii. If no, why?

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11. Do you receive complaints from taxpayers on difficulties encountered in in filing of returns?

i. YES ( ) NO( )

ii. If yes, what are some of the complaints?

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iii. What avenues have you created to ease reporting of complaints by taxpayers?

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12. Have you been encountering any challenge with the taxpayers paying their taxes?

- i. YES ( )                      NO( )
- ii. If yes, what are some of the challenges?

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13. In your own opinion, what makes it difficult for the informal sector to comply?

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14. What possible solutions can you offer to enhance tax compliance in the informal sector in Kenya?

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