ANALYSIS OF RISKS THAT AFFECT VALUE ADDED TAX REVENUE COLLECTION BY KENYA REVENUE AUTHORITY.

By

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A research project submitted in partial fulfillment of the requirements for the award of the degree of Master of Business Administration in the School of Business.

UNIVERSITY OF NAIROBI

NOVEMBER 2010
DECLARATION

This research project is my original work and has not been presented in either the same or different form to this or any other University for any academic qualification.

………………………………… Date…………………………
Owuor, James D61/9004/2006

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

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School of Business
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Finally to all who assisted me in different ways to make this work successful. May God bless you all.

Special thanks go Kenya Revenue Authority management and staff who participated in this research through research questions and giving the much needed information to make this work a success.
DEDICATION

I dedicate this project to my daughter Sheila and sons Paul and Silas who continually prayed for me. Special dedication goes to my loving wife Judith who supported me during my studies. May the Lord Almighty bless them abundantly.
ABSTRACT

The purpose of the study was to analyse the risks that impact on Value Added Tax (VAT) revenue collection by the Kenya Revenue Authority (KRA). The study was necessitated by the declining VAT revenue despite KRA implementing several collection strategies to maximise revenue collection. The study was to identify the risks that affect revenue collection and secondly to analyze the impact of those risks as to whether they are high, moderate or low.

The study has also covered broadly what other researchers have done in this area. The research gaps have also been identified regarding risk analysis in revenue collection.

The research design used is cross sectional as the study tried to establish factors associated with the declining revenue at KRA. The sampling technique applied was probability sampling which used stratified sampling. This was important as all elements responsible for identifying risks at every level was captured. The semi structured questionnaires has been administered to the staff. As this is a policy oriented research, the qualitative data analysis method has been used.

The study found out that the risks are well understood and identified by the tax managers and some tax auditors. However, the revenue officers who are the majority did not identify the risks adequately as the other groups. The risks do affect revenue collection. The study found out the most of the identified when analysed have high rate occurrence and high impact on the revenue receivable by the Authority.
Finally the study recommends that the Authority needs to adopt the bottom-top approach to risk identification and analysis. This will need the Authority to train the revenue officers in risk identification and analysis skills to make the more involved and effective in this process.
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## Abbreviations and Acronyms

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<tr>
<td>CG</td>
<td>Commissioner General</td>
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<tr>
<td>ETR</td>
<td>Electronic Tax Registers</td>
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<tr>
<td>FY</td>
<td>Fiscal Year/ Financial Year</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>KPMG</td>
<td>Keat Peat Marwick Group</td>
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<td>KRA</td>
<td>Kenya Revenue Authority</td>
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<td>Kshs.</td>
<td>Kenya Shillings</td>
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<td>PWC</td>
<td>Pricewaterhouse Coopers</td>
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<td>SARS</td>
<td>South Africa Revenue Services</td>
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<td>SME’s</td>
<td>Small and Medium Scale Enterprises</td>
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<td>SRM</td>
<td>Sales Receipt Machine</td>
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