FACTORS CAUSING INEFFICIENCY IN ADMINISTRATION AND COLLECTION OF TAX IN KENYA. A CASE STUDY OF KITUI COUNTY

BY

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DECLARATION

I declare that this proposal is my original work and has never been submitted for a degree in any other university or college for examination /academic purposes.

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DEDICATION

I dedicate this work to my family who gave me the reason and motivation to pursue further education and to their constant reminder that failure is not an option.

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LIST OF ABBREVIATIONS

AITR	:	Annual Income Tax Return
GDP	:	Gross Domestic Product
EAC	:	East African Community
IMF	:	International Monetary Fund
ITA	:	Income Tax Act
KC	:	Kitui County
KMC	:	Kitui Municipal Council
KRA	:	Kenya Revenue Authority

ABSTRACT

This study provides a theoretical analysis of the factors on failure to achieve full potentiality on tax administration and collection in Kenya in a case study of the Kitui County located in Eastern part of Kenya. The study intends to identify the main resources of tax available in Kenya and investigate the major obstacles that hinder performance of tax administration and collection process in KC.

The study used primary data and secondary data. Primary data involves the use of questionnaire and secondary data involved the use of published records of KC. This study consist a total sample size of 70 respondents. The study reveals that KC is facing hindrances in administration and collection of tax due to tax exemptions, tax evasion, tax avoidance and cash transactions.

This study has highlighted KC tax administration and its effect on tax collection. The study has determined factors that hinder the KC failure to raise adequate tax collected for economic and social developments. The researcher recommends that further research is required in other counties of Kenya to know factors that cause inefficiency in tax administration and collections.

The findings of this study provide directions in determining the factors that lead to inefficiency in administration and collection of tax in KC. The management of KC should understand that proper tax administration and collection is necessary in order to raise adequate tax for social and economic development of the county. Therefore KC management needs to determine what factors are causing inefficiency in administration and collection of tax in the county.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Tax is defined as a way in which governments finance their accrued expenses by administering charges on the residents and businesses located within the country. However Jackson (2004) he defines tax as a way to crush a bourgeoisie while Limbaugh (2007) defines tax as large fortunes that are all founded either on the occupation of land or lending of the labor. Dalton (1985) asserts that tax is a contribution which is compulsory and administered by a authority with no regard of the exact return rendered service to a taxpayer. Smith in Canons of Taxation (2010) asserts that tax is a payment levied by the government on businesses and individuals in order to meet the expenses which will occur in maintaining the welfare of the public in the country and is therefore compulsory.

Tax system in Kenya came as a result of many upcoming businesses which led to more imports and exports of illegal goods and services. The government of Kenya wanted to control the amount of wealth in the country and gain revenue. In 1967 led to the establishment of East African Community (EAC) which its work was to deal with all tax administration and collection matters. The EAC consisted of three countries which were Kenya, Uganda and Tanzania. The countries within EAC in 1973 concluded that only income tax will be administered and collected by each country on its own..

EAC collapsed eventually and the tax administration and collection was delegated to the Ministry of Finance. The Ministry of Finance administered and collected tax up to 1995 when the parliament of Kenya decided to establish Kenya Revenue Authority (KRA).

June 1996 the KRA started operating and was established in order to bring efficiency in tax collection and administration The KRA works in five departments and include Support Services Department, Custom Services Department, Road Transport Department, Investigation and Enforcement Department and Domestic Taxes Department (KRA Act Cap 469 of Laws of Kenya, 2012).

After KRA was introduced, Kitui Municipal Council (KMC) continued to administer and collect tax since it was categorized as a branch of KRA until after 2012 elections when KMC was changed after the new constitution was passed and KC came to existence where it administers and collects taxes on behalf of KRA (Article 176 of the Constitutions of Kenya, 2010).

1.1.1 Inefficiency in Tax Administration and Collection

Lack of transparency by taxpayer is one of the major factors leading to inefficiency in tax administration and collection which eventually leads to tax evasion or avoidance. Tax evasion is defined as failing in paying the administered tax to individual or business by a public authority. Avoidance of tax is the use of legal methods to enable in modifying the exploiting of the tax system to reduce liabilities now or in future. It involves imposing artificial transactions t in order to benefit from tax (Rosen and Gayer, 2008).

Corruption is another factor influencing inefficiency in tax administration and collection and is practiced in different forms such as services that should be free are charged or to help taxpayers with complicated procedures the tax officials charge them or to get tax exemption qualification the tax officials charge the tax payers, failing to assess the non-registered businesses , smuggling of goods into the country, overstating values, under assessing tax to importers and tax payers and loosing files (Child,2008).

A tax exemption is granted by the government of a country and it is one of the core factors which lead to inefficiency in tax administration and collection. Tax exemptions involve large sums of money. The amount of money which is involved raise question about the purpose incentives are serving and whether the amounts being spent on them are accounted. Large firms often make use of this tax incentive mechanism to avoid paying taxes. Developing countries are eager to attract investment in their countries thus they grant exemptions to large firms as incentive to boost investment while other large firms see this as a loophole to avoid paying taxes. The exemption granted covers one of these taxes which include corporate income tax, sales tax or VAT and import duties or both sales tax or VAT and import duties at some point to a specific firm (Gauthier and Reinikka, 2001).

When a business transacts through cash transaction the situation complicates the administration and collection of tax. Businesses which are involved in cash transactions have the loophole of not being recognized by tax authority hence thus resulting to inefficiency in tax administration and collection (Gordon and Li, 2005).

1.1.2 Kitui County (KC)

KC is a county in Kenya located in the eastern province and it was proposed in 2010 after the proposed constitution (2010) was proposed and later passed to be the new constitution of Kenya. Kitui came to be a County in 2012 after the general presidential elections. KC it's one of the fast economy growing county and its capital and largest town is Kitui town although Mwingi town is also another major urban center. The county has a population of 1,012,709 in regard to 2009 census, (Article 176 of the Constitutions of Kenya, 2010).\

Earlier in KC taxes were collected and administered by the Ministry of Finance through municipal council before the establishment of Kenya Revenue Authority (KRA). KC has an aim to ensure proper and effective administration and collection of taxes. While administering and collecting of tax there are policies to follow and these policies can therefore be used to minimize risks at a reasonable cost. However, no system or technology can give an absolute guarantee regarding fraud and errors done by people (K RA Act Cap 469 of Laws of Kenya, 2016).

1.1.3 Inefficiency in Administration and Collection of Tax in KC

KC tax collection performance in 2013\2014 was Kenya shillings 240 million while in 2014\2015 it was Kenya shillings 350 million thus it grew by 45% representing a contribution which is significant in the country at this time when it is focusing majorly in resources within the country to finance its development activities. However, these tax collected were inefficient as compared to other counties such as Busia county which collected over Kenya shillings 800 million as tax in 2014/2015. (Kitui County Implementation Review Report, 2014/2015).

The county uses public resources inefficiently by not improving the welfare of its residents. However KC has over the last two financial years ineffectively implemented programs in order to achieve sustainable economic growth so as to create employment opportunities and reduce poverty. By not taking interventions strategically KC real GDP although it grew by 4.2% in 2014/2015 compared to 2.7% in 2013/2014 which was largely underpinned by unstable macro-economic environment (Kitui County Implementation Review Report, 2014/2015).

Since by failing to implement measures KC does not recognize fully that success of the KC depends on the private sector. Moreover the county does not indulge itself with the private sector which is the core determinant of poverty reduction and growth within the county. However KC also does not maintain a stable macro-economic environment since it fails to implement reform measures whose aim is to create an environment which is for business development. These measures are by rationalizing the tax policy, easement of the procedures for license and implementing reforms on tax to reduce barriers in administration so as to ensure that there is efficiency and accountability while using the public resources in the county.

1.2 Research Problem

For tax to be of high burden is not only because tax rates are high but some costs arise due to the areas which are mandatory to comply with the statute thus the costs at some point tend to be of high tax. Developed countries with a modern tax system also face a high tax burden despite of having a high efficient tax administration system. In 2015 tax survey in Kenya regarding administration and collection of tax revealed individuals and businesses allocated over 30% of income to issues related to tax. A lot of respondents felt tax system to be highly complicated thus causing challenge while administering and collecting tax within KC. Moreover collection of tax is compulsory as by the statute and is not exempted by the complex tax administration in the county such as interference by government regarding decisions on exemptions of tax. Administration of tax imposes power to tax collection officials regarding exemption of tax and tax liabilities (Fjeldstad and Rakner, 2003).

The Minister of Finance grants exemptions which are abused by tax officials and this can cause problems in administration and collection of tax systems and still intervene with the administration and collection of tax. Through the problems mentioned above researcher see the county is losing millions of shillings of its needed tax.

Studies done on taxation in Kenya have not focused on the factors causing inefficiency in tax administration and collection. Most studies have dealt with tax reforms, revenue productivity and revenue mobilization and performance (Gituku, 2013; Okech and Mburu 2011; Torome, 2009). Gachanja (2012) studied on how Kenyan growth is affected by taxes. There is no study that has isolated the factors causing inefficiency in administration and collection of tax in Kenya. The level of inefficiency in tax administration and collection in KC has increased significantly over the years.

The factors mentioned above the researcher see to determine the administration and collection of tax .The above assertions imply that there is a need to analyze thoroughly the problems caused by complex tax system in the tax administration and collection. The researcher is looking into tax administration and collection in KC over the last two financial years 2013/2014 and 2014/2015 and has come up with a question on what are the factors causing inefficiency in tax administration and collection in KC?

1.3 Research Objective

To investigate the factors causing inefficiency in administration and collection of tax in Kitui County.

1.4 Value of the Study

This study will be useful to KC in future since it identifies the factors leading to inefficiency in tax administration and collection in the county. KC will develop a strong database throughout the county and be in a position to make accurate assessment and appropriate rates of taxpaying businesses and individuals. It will also assist KC in mobilizing of businesses and individuals to ensure that paying tax is an obligation **a**nd ensure tax accountability.

To policy makers the study may provide the additional information that could be useful in policy formulation and implementation particularly in the area of tax reforms in Kenya to improve efficiency in tax administration and collection. This may eventually enable the government to reduce the fiscal deficit in future.

To the academicians this study may contribute to the literature of tax reforms within the country which already exists. In addition, the study may also stimulate further research on the area of taxation and in particular the rest of the counties in Kenya not necessarily KC.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter introduces you to factors causing inefficiency in administration and collection of tax. It also focuses on what authors say on tax. Both the independent and dependent variable that lead to inefficiency in tax administration and collection of one way or the other are deeply discussed.

2.2 Theoretical Framework

Different theories have been discussed in depth below to show factors leading to inefficiency administration and collection of tax in KC. The theories are discussed below in depth.

2.2.1 Optimal Tax Theory

Theory of optimal taxation as also referred is the study of how tax is designed and implemented so as to reduce distortion and inefficiency and under a given economic constraints. The US Supreme Court (1899) asserts tax has supreme power upon which an entire national is based upon..

Gruber (2007) asserts that to understand the effect of taxation on investment decisions, one need to begin by modeling the investment decision in a world of no taxes. Both politicians and economists nowadays have long realized the importance of taxation and have even gone further and searched for a set of principles to guide tax policies.

Smith (2010) emphasizes on how the taxes should be administered to determine economic inefficiency in order promote and provide income distribution fairly. Theory of optimality is therefore significant in the research since it helps in identifying some of the factors leading to inefficiency in administration and collection of tax in KC.

2.2.2 Ability-To-Pay Taxation Theory

Kaldor (1958) assert that the ability-to-pay tax theory is the taxing of tax progressively. Ability-to-pay theory maintains that tax should be administered in accordance to paying ability f a taxpayer. This approach towards tax increases burden of tax to businesses and individuals The ability-to-pay theory is that businesses and individuals earning more income can afford to pay high amount of tax compared to those earning less income in that they pay less tax.

The ability–to-pay tax theory is mandatory to every state to impose to its residents since it needs to contribute income to support its government (Smith, 2010).The ability-to-pay theory is reflected in Smith’s phasing of the burden being owed in proportion to their respective abilities (Musgrave, 2005). The ability-to-pay approach treats the tax administered and collected by the government separately and these taxes are in proportion to taxpayers’ ability to pay. This theory is important in that it identifies the level of ability in paying tax and how it affects in tax administration and collection in KC.

2.2.3 Gordon-Li Theory

Gordon and Wei Li developed a theory of tax enforcement based on Chinese experience in 1990s. During that time, the government of China was had difficulty in collecting reasonable tax from small and medium sized businesses in that almost the entire taxes collected came from larger sized businesses. The model came to explain the reason behind the failure of the government of China from collecting tax from small and medium sized firms (Gordon and Li, 2005).

Majority of firms entirely rely on use of cash transaction which create the room for tax evasion hence narrowing of tax base. Gordon and Li (2005) assert that businesses can have tax been administered if they make use of the finance sector The theory however continues to argue that the large sized businesses will value more regarding the use of finance sector because of the expected benefits (Gordon and Li, 2005).The Gordon-Li theory is important in the study research in that it helps to identify the level of inefficiency in administration and collection of tax since tax is enforced onto the tax payers.

2.4. Factors Causing Inefficiency Tax Administration and Collection

There are different factors that hinder efficiency in tax collection in KC. These factors are discussed below.

2.4.1. Corrupt Practices in Tax Administration

According to Child (2008), corrupt practices in tax administration involves tax officers, taxpayers, importers and customs clearing agents. Corruption takes different such as services that should be free are charged or to help taxpayers with complicated procedures they charge them or to get tax exemption qualification they charge the tax payers, failing to assess the non registered businesses, smuggling of goods into the country, overstating values, under assessing tax to importers and tax payers and loosing files.

2.4.2. Tax Exemptions

The Parliament of Kenya carefully examines the government's budget yearly. Tax exemptions in Kenya however are hidden expenses to the country. Moreover tax exemptions involve large amounts of money. In 2013/2014 alone 2.5 % of GDP was granted in the tax exemptions.

The exemptions in tax in Kenya are granted for various reasons such as exemptions in items where there official nature doesn't need to be taxed like goods which the armed forces of Kenya consume. Exemption of tax is also applicable where activities of some organizations do not earn them profit buthave supreme benefit to society such as charities by religious organizations. Goods which are of benefit to society like firefighting vehicles and medicines are exempted from VAT (Income Tax Act. CAP 470 Laws of Kenya, 2012).

Exemptions are granted Kenya in order to increase the growth of its economy. The exemptions granted should influence increase, in employment and investment which later increases the amount of tax collected. (KRA Cap 469 Laws of Kenya, 2015).

Large firms often make use of this tax incentive mechanism to avoid paying taxes. Governments of developing countries are much eager to attract investment in their countries and in so doing they end up granting exemptions to large firms as incentive to boost investment while in other large firms see as the loophole to avoid paying taxes. The exemption granted either can cover one of these taxes; corporate income tax, sales tax/VAT and import duties or both of them to a specific firm (Gauthier and Reinikka, 2001).

According to Income Tax Act of 2012 section 35, 36 and 37, an exemption may be granted for variety of reasons such as promotion of investments, public interest ground or diplomatic and political grounds. For whatever reasons exemption by definition and implication are selective and discriminatory. They are therefore the source of inequality in the tax system and thus exemptions are sources of complexities in the tax administration (Mponguliana, 2005).

The government can also grant exemptions to non-government organizations on an ad hoc basis that is following no specific rules or criteria for granting exemption through the use of statutory instruments (KRA Cap 469 Laws of Kenya, 2015).

2.4.3. Evasion and Avoidance

Evasion and avoidance is a problem that tax administration has to face. Avoidance of tax is practiced by using legal methods to exploit the tax system in order to reduce the liabilities. Evasion of tax is failing to pay taxes which have been administered to a tax payer. Evasion of tax is an existing problem as observed by Plato. Rosen, 1985, p. 322

asserts that incase of income tax unjust man will pay less income tax compared to the just man.

Avoidance and evasion of tax may eventually become a habit when taxpayers get used to tax evasion the taxpayers will continue to evade tax so even if tax rates in question is lowered. Regarding the evasion and avoidance of tax no guarantee is justified that low rates of taxes which exists now will discourage evasion of income tax. Moreover the possibility of detection is little and also the penalty rate imposed is low thus encouraging the continuity of evasion of income tax (Rosen and Gayer, 2008)

Rosen (1999) define tax evasion as the situation whereby a person fails to pay legally due taxes. He accounts for the environment that can lead to tax evasion is when a person can keep two books of records, one with actual records and the other for the purpose of showing tax authorities. Fjeldstad (2003) asserts that evasion of tax were due to tax rates being high and regulations being complicated.

Tax compliance is shown by possibility of being detected legally when the possibility of being caught and punished is high regarding evasion of tax and non-compliance regarding taxation or rather tax evasion will be low (Taylor ,2001). However it provides views that losses and benefits are weighed fist by taxpayers regarding evasion of tax.

Smith and Tyler (1996) pointed that tax revenue authority administers and collects tax for the governments. If the government is seen to be present then the tax payers will be willing to pay taxes but when the tax payers perceives that government is not present tax evasion is likely to occur. Fjelstad and Semboja (2001) argue that tax payers receive few benefits in return of complying with taxation rules thus being unfair.

2.4.4. Cash Transaction

Gordon and Li (2005) assert that complication of enforcement of collection of tax is seen when businesses transact transactions through cash. Parties involved in this arrangement have the loophole of not being recognized by tax authority hence erosion of tax collected.

Taxpayers see the possibility of avoiding costs by shifting their business transactions into cash transactions. Many employees employed in the cash sector are the employees who are lowly paid. It is not established whether these low income employees working in the cash sector are the ones evading from paying tax (Income Tax Act CAP 470 Laws of Kenya, 2012).

2.5 Empirical Review

Djankov et al. (2010) in his study in United States investigates how corporate taxes on entrepreneurship investment using data for 85 countries how the effects are. The author finds effective tax rates on corporate to have a significant negative correlation to investment, foreign direct investment and entrepreneurship. The corporate taxes are correlated to investment in the manufacturing sector but not in services sector. High corporate taxes will therefore reduce investment hence lowering productivity adversely affecting economic growth. These finds are similar to those of a study by Lee and Gordon (2005), who find corporate taxes to be negatively correlated with economic growth. Low corporate taxes encourage entrepreneurial activity hence promoting economic growth however failing to capture variables which cause inefficiency in tax administration and collection.

Poulson and Kaplan (2008) in their study in Pakistan investigate how the state income taxes impacts on growth of Pakistan economy. Their research was based from 1973 to 2010. Their model is an endogenous growth model of a linear form. They regress relative growth rate on relative marginal tax rate, relative regressivity and relative per capita personal income in the initial year, income tax and regional dummy. They find that high marginal tax rate create a disincentive to work and invest hence lower economic growth. Their findings also suggest taxes to be having a negatively significant effect on growth of the economy but the impact on income tax is more than that of other taxes. States which are having with regressive system of tax have growth rates which are high than those with more progressive tax systems thus fails to capture variables which cause inefficiency in tax administration and collection.

Gachanja (2012) did a study using time series data on economic growth and taxes in Kenya from 1971 to 2010. The study reveals a relationship which is positive between the growth of economy and taxes. All taxes show a correlation which is positive to GDP. He also tests for the direction of causation of the variables using Granger Causality test and finds reversal causality on excise tax and economic growth. Gachanja points out that different uses of tax revenue affect growth differently. The model however fails to capture variables which cause inefficiency in tax administration and collection.

Okech and Mburu (2011) did a study using data from 1986-2009 and analyzed the tax revenue changes in Kenyan income and its responsiveness. The government was experiencing a continued deficit in the budget due to tax system inability to raise enough revenue to finance the government and also lack of responding to changes in Kenyan income. However they fail to capture fully the variables which cause inefficiency in tax administration and collection.

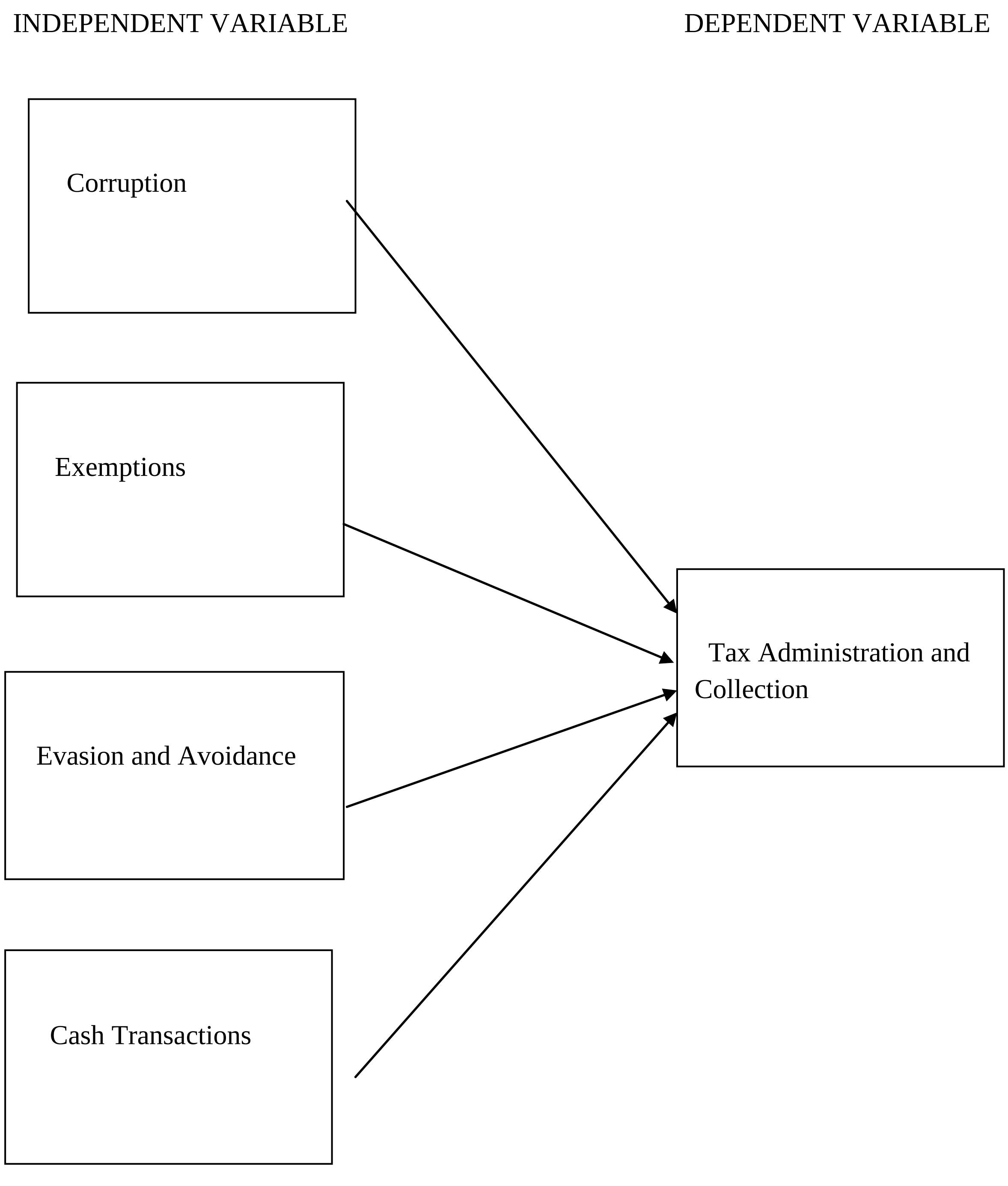
Njoroge (1993) did a study using data from 1972/1973 to 1990/1991 regarding the Kenyan tax reforms productivity of revenue. Revenue on tax was income regressed after revenues changes of tax were adjusted. Njoroge divided his study into two to make the study easy in order to determine tax reforms on revenues and its effect. Elasticity on income structure of tax found as 0.67 from 1972 to 1981.and meant a decreasing share of rising GDP as tax revenues was received by the government. He concluded in his study that the system did not meet its target and hence review was required due to changes in economy as per the revenue view. In regard to this Wawire (2011) in his study the results were unreliable since there was time series of the data collected. However he did not look on the factors causing inefficiency in tax administration and collection.

Ndaba (1987) on the study on factors facing tax collection in local government revealed that financing local government in Tanzania faces a number of problems. He explained that tax collection is a challenge since inexperienced staff are hired and local rates which are used for collection of tax on individual and their property is discontinued temporary. However he did not look on the factors causing inefficiency in tax administration and collection.

Semboja and Therklden (1992) in their study regarding Tanzania reveal that enough tax was not collected by local authorities to finance basic operations in their localities. In their research they pointed out four major cases of poor tax collection in local government authorities in Tanzania. These comprises of main basic sources of tax which are based on fixed rate of every unit ,poor administration and collection of tax, unexploited new sources which are potential and insufficient administrative and political support from Tanzanian central government to tax a population which is used to free service by public since 1967.

2.6 Conceptual Framework

FIGURE 1: Showing the conceptual framework



Adopted from (Harvey S. Rosen and Ted Gayer 2004)

2.7 Summary of the Literature

The debate on the inefficiency of administration and collection of tax on the economy of Kenya has gone on through the years without reaching a consensus. While most theoretical literature identify tax as a driver of economic growth and development (Musgrave, 1989) asserts that the existing empirical literature fails to give a definite direction on the inefficiency of tax administration and collection. The direction of causation of inefficiency in tax administration and collection is not clear. Different growth models have been used to study the inefficiency in administration and collection of tax in the county.

Most of the empirical studies reveal that taxes majorly affect the economy. Studies done on taxation in Kenya have not focused on the inefficiency in tax administration and collection only. Most studies have dealt with tax reforms, revenue productivity and revenue mobilization and performance (Gituku, 2013; Okech and Mburu 2011; Torome, 2009) and Gachanja (2012) in his study on effect of all taxes in Kenyan growth. There is no study that has isolated inefficiency in administration and collection of tax in KC. The level of inefficiency in administration and collection of tax in KC has increased significantly over the years. Studies on inefficiency in administration and collection of tax are important to governments and policy makers. This paper adds more knowledge and tries to fill the information gap by investigating the factors causing inefficiency in administration and collection of tax in KC.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter outlines research design and methodology which was followed in conducting this study. It describes the research design, population of the study, data collection method and data analysis used in the study.

3.2 Research Design

According to Kothari (2004) a research design informs decisions concerning a research study and arrangement of conditions for collection and analysis of data so as to combine relevance to the research purpose with the economy. The researcher used a descriptive cross sectional survey research design to conduct the study which involves acquiring information by asking respondents questions and tabulating answers they give (Kothari 2004). Explanatory approach was used since the research design has intended to be flexible to allow the consideration of many different aspects of the problem.

3.3 Population of the Study

According to Smith and Albaum (2012) a population consists of the total set of individuals, households or business a researcher would want to include in a study. This was a census study for KC tax officers. The number of respondents was 70 out of 120 targeted tax officers in KC, (Kitui County Public Service Board, 2016).

3.4 Data Collection

Researcher used questionnaire as the instrument for collection of data. Kothari (2004) defines questionnaire as number of questions typed and printed in a definite order on set of forms The questionnaire consists of structured questions (Appendix 1).

3.5 Data Analysis

Data analysis is a procedure of bringing order, structure and analyzing the wide range of data collected (Smith and Albaum, 2012). The study was expected to produce both Quantitative and Qualitative data whereby quantitative data was analyzed by adopting descriptive statistics to obtain percentages. The method gives summary about sample data and current quantitative description in a form which is manageable (Murphy and Simon, 2002).The analyzed data was presented using tables, figures and editing. The editing process involves correcting and inspecting each questionnaire to ensure completeness, comprehensiveness and consistency. The data was later coded and entered into version seventeen (17 Statistical Package for Special Sciences (SPSS)) of SPSS which was more user friendly than most packages. It is popular because many data sets are easily loaded into it and other programs are easily imported into files.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The chapter presents the result and findings of the study based on the research objective. The study sought to identify the factors causing inefficiency in tax administration and collection in KC. The findings were presented in summary tables to analyze the data in order to answer the research objective.

4.1.1 Response Rate

The researcher used a descriptive cross sectional survey of the KC tax officers as listed in the Kitui County Public Service Board as in September 2016.The population size was 120 tax officers in KC revenue department and 70 out of the targeted 120 respondents responded correctly by filling and returning the questionnaire and therefore used as reference for data analysis.

4.1.2 Respondents Data and KC Characteristic

The data collected from respondents was analyzed through descriptive statistics. Respondents data comprised of personal profile, administration and collection level, tax value and challenges faced concerning the understanding of their work in KC. KC characteristics comprised of two fiscal financial years that is 2013/2014 and 2014/2015 to determine factors causing inefficiency in tax administration and collection in KC, (Appendix 1).

4.2 The Personal Profile of Tax Officers in KC

Table 1.Showing the extent the respondent understands the current tax provisions.

Provisions	Frequency	Percentages	Total
1	5	7.1%	70
2	7	10%	70
3	32	45.7%	70
4	11	15.7%	70
5	15	21.4%	70

Source, primary data

The research indicates 21.4% of .respondents (tax officers) understand all the current tax provisions which are the tax registration and deregistration, tax payers tax representative, lifting of corporate veil, tax agent, statute of limitations, information technology, powers of authorized KRA officials, offenses and penalties, late payment interest, remission of penalties and extension of time to pay tax or submit a tax return.

The research indicates that 7.1% of respondents understand too little of the current tax provisions. 10% of respondents understand little of the current tax provisions. 45.7% of respondents understand on average the current tax provisions.15.7% of respondents understands above average most of the current tax provisions. This shows that most of the tax officers do not understand all the current tax provisions therefore causing inefficiency in tax administration and collection.

Table 2.Showing the extent current tax provisions create hindrance in tax administration and collection.

Hindrances	Frequency	Percentages	Total
1	4	5.7%	70
2	7	10%	70
3	38	54.3%	70
4	12	17.1%	70
5	9	12.9%	70

Source, primary data

The research indicates that 54.3% of respondents show that these hindrances are majorly affecting the current tax provisions on average.17.1% of respondents shows the hindrances affecting beyond average the current tax provisions. 12.9% of respondent saw that the current tax provisions create hindrance in tax administration and collection at a full scale whereas also10% and 5.7% of respondents saw these hindrances affecting current tax provisions below average. This shows that more than 50% of the tax officers see current tax provisions creating hindrances in tax administration and collection therefore causing inefficiency in tax administration and collection.

Table 3.Showing the extent in which corruption practices is practiced by some tax officers

Corruption	Frequency	Percentages	Total
1	15	21.4%	70
2	12	17.1%	70
3	30	42.9%	70
4	8	11.4%	70
5	5	7.1%	70

Source, primary data

The research indicates that 42.9% of respondents show that corruption practices are majorly practiced by some of the tax officers whereas 21.4% of the respondents contradict this by showing that very few workers practice corruption.17.1% of respondents show that few tax officers practice corruption whereas 11.4% of the respondents show that some tax officers practice corruption above average and finally 7.1% of respondents show that some tax officers fully practice corruption. This shows that most of the tax officers do practice corruption therefore causing inefficiency in tax administration and collection.

Table 4.Showing the rates at which KC tax collection systems curb all taxpayer loopholes.

Curbing	Frequency	Percentages	Total
1	3	4.3%	70
2	5	7.1%	70
3	35	50%	70
4	17	24.3%	70
5	10	14.3%	70

Source, primary data

The research indicates that 50% of the respondents show that tax collection systems to curb all tax payers loopholes were majorly effective. However the respondents show that in KC tax collection systems of curbing all the loopholes was not fully effective and was shown in 4.3%, 7.1% and 24.3% of the respondents while 14.3% of the respondents show that the tax collection systems in KC to curb the loopholes was fully effective. In regard to this question it shows that there is inefficiency in administration and collection of tax in KC.

Table 5.Showing the extent the county has been able to efficiently administer and collect tax

Efficiency	Frequency	Percentages	Total
1	3	4.3%	70
2	5	7.1%	70
3	35	50%	70
4	15	21.4%	70
5	12	17.1%	70

Source, primary data

The research indicates that 4.3% and 7.1% of the respondents did not see the county efficiently administering and collecting tax within the given attributes in the questionnaire and which is below average in the given scale of 5/5. However 50% and 21.4% of the respondents show that tax is administered and collected efficiently on average and above average but only 17.1% of the respondent show tax to be administered and collected efficiently. This therefore shows that at an extent in administration and collection of tax there is inefficiency in KC since only 17.1% of the respondents show KC to have fully administered and collected tax efficiently.

4.3 Value of Inefficiency in Tax Administration and Collection

Table 6.Showing inefficiency in tax administration and collection of tax and value in Kitui County

Attributes	Frequency	Percentages	Total
Strongly agree	0	0%	70
Agree	0	0%	70
Strongly disagree	40	57.1%	70
Disagree	30	42.9%	70
Neutral	0	0%	70

Source, primary data

The research indicates that the 57.1% of respondents strongly disagree and 42.9% disagree concerning whether inefficiency in tax administration and collection has led to tax value in Kitui County. This therefore shows that the attributes in the questionnaire cause inefficiency in tax administration and collection in KC.

4.4 Challenges Causing Inefficiency Tax Administration and Collection

Table 7.Showing challenges faced by Kitui County to ensure efficiency in administration and collection of tax

Attributes	Frequency	Percentages	Total
Strongly agree	32	45.7%	70
Agree	38	54.3%	70
Strongly disagree	0	0%	70
Disagree	0	0%	70
Neutral	0	0%	70

Source, primary data

The research indicates that neither of the respondents strongly disagree, disagree or are neutral concerning the challenges faced by Kitui County to ensure efficiency in administration and collection of tax. However 45.7% and 54.3% of the respondents strongly agree and agree concerning this question. Therefore these challenges are seen to

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents summary, conclusion and recommendations regarding the factors causing inefficiency in administration and collection of tax in KC. The study basis its summary on findings in chapter four and methodology in chapter three of the project.

5.2 Summary of the Study

The research was conducted in order to investigate the factors causing inefficiency in administration and collection of tax in Kenya in regard to the prevailing economic conditions. By answering this it is hoped that this will act as reference to Kitui County on how to strategically practice efficiency in administration and collection of tax.

The question which arose was on what factors are causing inefficiency in tax administration and collection in KC and also sub-questions also arose. Answers were obtained through questionnaires given to the tax officers of KC. Firstly, the research was to ascertain the factors causing inefficiency in tax administration and collection which include corruption practices by tax officers and taxpayers such as services that should be free are charged or to help taxpayers with complicated procedures they charge them or to get tax exemption qualification they charge the tax payers, failing to assess the non-registered businesses , smuggling of goods into the country, overstating values, under assessing tax to importers and tax payers and loosing files. Tax exemption is another factor which causes inefficiency in tax administration and it is granted by the government of Kenya whereby some tax payers use this to their advantage not to pay taxes. Tax avoidance and evasion is a factor causing inefficiency where some tax payers avoid or evade paying tax. Cash transactions also contribute to inefficiency in tax administration and collection where when tax payers pay tax in form of cash to tax officers and thus some of the tax officers keep part of the tax for themselves.

Secondly, what general perceptions does KC have towards curbing the loopholes of factors causing inefficiency in administration and collection of tax? The answer to this question enables the researcher to identify an overview of general perception on factors causing inefficiency in tax administration and collection. The answers obtained from KC tax officers is through registering businesses, assessment of tax, monitoring how taxes are paid and which business or individual has or hasn’t paid tax, enforcement of tax to businesses and individuals to pay tax and finally collection of tax from businesses and individuals.

Lastly, what has KC put in place to efficiently administer and collect tax? The answers to this question enable the researcher to determine the factors causing inefficiency in administration and collection of tax as formulated and their final outcome of maximizing efficiency in tax administration and collection.

5.3 Conclusion

The study set out to determine the proper tax administration and collection in Kenya in a case study of KC whereby the researcher addressed the tax administration and collection performance within KC for the past two fiscal financial years 2013/2014 and 2014/2015. The findings indicate that the broad dimensionality of tax collections as proposed by Okech and Mburu. (2011) regarding the response of tax administered and collected to changes in national income in Kenya in 1986-2009 is not adhered by KRA management and employees. The analysis of the tax exemptions that are excessively used by tax officials show that there are differences between the tax administration and tax collections efforts by KC officials. This indicated that management was insensitive to tax officers opinion. Moreover the tax officers showed that there are a lot of tax bases which should be established.

5.4 Limitation of the Study

In evaluating the study results the following limitations ought to be borne in mind**.** The study was constrained first and foremost with time. The time period for the study was too short and this limited the scope and depth of the study. Due to this factor the tax officers had to find time within their tight schedules to fill in the questionnaires.

Secondly, there were limitations of measurements which are common to business research. Beliefs and feelings that are used in the study of perception may change over time and across different personalities. Also respondents may give biased or dishonest answers.

Thirdly the study was limited to only KC and may not apply to the entire 47 counties in Kenya given that not all the factors discussed in this research will affect all the 47 counties in Kenya the same way regarding tax administration and collection.

5.5 Recommendations

The findings of this study provide initial directions in determining the factors that leads to ineffective tax administration and collection in KC. The management should understand that proper tax collections are necessary in order to raise adequate tax for social and economic development of the county. KC management needs to determine what actions to do to ensure that it collects sufficient tax.

The following practices should be undertaken such as KC management should be visible in involvement and commitment to tax administration. Also Tax officials must communicate corporate values and cultures related to collect tax on time, recognize and appreciate efforts and success of all employees and actively promote service quality. Director must provide strong leadership and the management should frequently undertake market research for the purpose of formulating efficient policies regarding on seasonal business and tax law changes. This will enable managers to provide services according to customer expectations and requirements.

Human resources development and management is another practice to be undertaken where the management should employ potential KC personnel in order to improve the tax administration and collection. Tax officers performance should be monitored and evaluated within to control loop, rewarding staff for meeting and exceeding tax collections and audit tax personnel job satisfaction regularly. There is a close similarity between tax officers satisfaction and tax collectability in order to facilitate tax quality improvements. There should be an effective top down and bottom up communication between management and tax officers and involvement of staff coming up with suggestions to improve tax collections and in recruiting tax officers. Management should consider delivering service excellence as one of the key criteria and competencies.

KC internal communication management should strive to encourage interdepartmental communication when all KRA departments are linked properly it will encourage quick response to detect fraudulent transactions and tax evasion. The study had determined persistent factors that hinder the KC failure to raise adequate tax for economic and social developments. The researcher recommends that further research is required in KC to know factors that affect the accuracy, fairness and timely tax administration and collection.

5.6 Suggestions for Further Research

From the research findings in the factors causing inefficiency in tax administration and collection of tax in Kitui County, the researchers suggests further studies be done on the very same topic but to cover a wider scope such as all counties in Kenya in order to confirm if the research findings of this study will be the same.

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APPENDICIES

QUESTIONNAIRE

FACTORS CAUSING INEFFICIENCY IN ADMINISTRATION AND COLLECTION OF TAX IN KITUI COUNTY

Instructions:

For questions you are required to select your answer by ticking among the alternatives given.

SECTION A: PERSONAL PROFILE

1. To what extent do you understand the current tax provisions?

Tax Provisions	1	2	3	4	5
Tax registration and deregistration					
Tax payers tax representative					
Lifting of corporate veil					
Tax agent					
Statute of limitations					

Information technology					
Powers of authorized KRA officials					
Offenses and penalties					
Late payment interest					
Remission of penalties					
Extension of time to pay tax or submit a tax return					

2. To what extent do current tax provisions create hindrance in tax administration and collection?

Hindrance	1	2	3	4	5
Failure to register					
Enforced registration					
Failure to submit a return on or before the due date or submitting a payment return without paying the					

tax due					
Failing keeping proper records					
Fraudulent accounting					
Failure of taxpayers to issue a tax invoice					
Obstruction of authorized officers					
Statements uttered to be false					
Charging tax to un registered individuals or businesses					
Failure to display a certificate of registration					
Failure of taxpayers to comply with VAT regulations					

Failure of taxpayers to pay tax and late payment					

3. To what extent are the following corruption practices practiced by some tax officers?

Corruption	1	2	3	4	5
Accepting bribe					
Smuggling of goods					
Undervaluation of taxes					
Under declaration of income					
Loosing files					
Charging for services which are free					

4. How would you rate KC tax collection systems to curb all taxpayer loopholes?

Curbing Loopholes	Very Good	Good	Average	Poorly	Very Poorly
Registration					
Assessment					
Monitoring					
Enforcement					
Collection					

SECTION B: ADMINISTRATION AND COLLECTION LEVEL

5. To what extent has the county been able to efficiently administer and collect tax?

Levels of tax efficiency	1	2	3	4	5
Assessment					
Collection					
Monitoring					
Enforcement					

SECTION C: TAX VALUE TO THE COUNTY

6. State agreement whether inefficiency in tax administration and collection has led to tax value in Kitui County.

Values	Strongly agree	Agree	Strongly disagree	Disagree	Neutral
Increased profitability					
Increased operation cost					

Rapid response time					
Increased tax satisfaction					
Easy adaptability of the tax processes					
Decreased manual effort					
Decreased data and operations redundancy					
Decreased risk of human error					
Increased social–economic benefits					
Increased level of coordination					

SECTION D: IMPLEMENTATION CHALLENGES

7. To what extent do you agree with the statements below regarding the challenges faced by Kitui County to ensure efficiency in administration and collection of tax?

Challenge	Strongly agree	Agree	Strongly disagree	Disagree	Neutral
Integration of different types of tax was a problem					
Resistance to the administration of various forms of taxes was high					
Financial assistance availability was a problem					
New technologies of administration and collection of tax was not supported by County because of the cost					
New technologies implemented					

were complex					
Employees perception towards the technologies were negative					
Users not well trained to use the technologies					
Corruption					
Redefining job responsibilities					
Recruitment of new talent employees					
Political interference					
Installation and maintenance of new technologies challenge					
Security challenges					
Employees training					
Restructuring County revenue operations					
Tax evasion					
Tax exemption					