

**WHAT DRIVES TAX MORALE IN KENYA?**

**BY**

**ESTHER MBITHE KAVILA**

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**A Research Report Submitted to the Department of Economics, University of Nairobi,  
in Partial Fulfilment of the Requirement for the Degree of Master of Arts in Economics**

**2022**

## DECLARATION

A declaration is hereby made that this work is original and was solely done by me. I furthermore declare that this work has not been shared either in part or whole to any other institution for the award of degree.

**Signature:**.......... **Date:** 31.10.2022.....

**Esther Mbithe Kavila (X50/33780/2019)**

This thesis has been submitted for examination with my approval as the University supervisor.

**Signature:** .......... **Date:** 31.10.2022.....

**Dr. Michael Ndwiga**

## **ABSTRACT**

This research aimed at analyzing drivers of tax morale in Kenya. In doing so, it sought to determine the effects of perceived trust in KRA and government, perceived corruption in KRA and in government, national pride as well as identify the socio-economic and demographic factors that influence tax morale. The sixth Afro-barometer survey dataset was utilized. Employing ordered probit regression model, the study found that pride, trust in KRA, perceived corruption in KRA, age of the respondent and the respondent's education level significantly influence tax morale in Kenya. Given these findings, the government through the ministry responsible for education and curriculum development should consider coming up with a curriculum that teaches issues of taxation at an early stage while at the same time continue implementing the 100 percent transition to secondary school education, KRA should continue building trust with the taxpayers to foster enhanced motivation, this can be done through continuous interaction with the taxpayer in ways that gives them confidence in the intentions of the revenue authority. Moreover, the government should consider tightening the fight against corruption, upholding the rule of law, initiating more feasible government projects that the citizen can identify with, given the social contract that the citizen has with the state.

## **ACKNOWLEDGEMENT**

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I am greatly indebted to my grandparents Geoffrey and Esther Lole for their encouragement and prayers throughout my studies, my mom Rael Kavila who has always been my number one fan, thank you for the love. To My Uncle Philip Kyalo, Mathew Lole, Joseph Mulinge, my auntie Beth Nduku, Isabel Mutio, Theresia Kavuu and Josphine Wayua thank you for the support you gave throughout my studies. God bless you.

I extend gratitude to my colleagues Clement Otindo and Linah Chepchirchir for the help and your input in reviewing my paper.

To my friends Millicent Kavita, Faith Muia and Christine Mwendwa thank you for always being there whenever I needed your support.

## **DEDICATION**

To my mom Rael Kavila and my grandparents Esther and Geoffrey Lole thank you for the support.

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## **LIST OF ABBREVIATIONS**

<b>IMF</b>	International Monetary Fund
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>ODA</b>	Official Development Assistance
<b>RARMP</b>	Revenue Administration Reforms and Modernization Program
<b>KRA</b>	Kenya Revenue Authority
<b>ADR</b>	Alternative Dispute Resolution
<b>TAT</b>	Tax Appeals Tribunal
<b>SDGs</b>	Sustainable Development Goals

## DEFINITION OF TERMS

**Tax morale:** This is the inherent drive for a taxpayer to pay taxes

**Tax Compliance:** Being aware of and observing the government set tax laws and requirements without coercion and threats

**Tax evasion:** Application of legal means to avoid paying taxes.

**Tax Avoidance:** Use of legal means to minimize the amount of tax a taxpayer should pay.

## CHAPTER 1: INTRODUCTION

### 1.1 Background

Revenue mobilization has been identified as one of the ways through which governments provide public goods and services to its citizens, create fiscal space and also cut foreign aid and dependence on sole resource. Drummond et al., (2012), opine that one of the key priority areas for most developing countries is raising more tax revenue. Nevertheless, the domestic tax base for these countries have remained low, mainly due to extensive tax evasion as well as tax avoidance (IMF, 2011). Tax evasion not only has detrimental effects on economic productivity but also constrains resource availability in the rollout of government programmes (Tanzi, 2000). Tax revenue is the greatest contributor to the total revenues collected by the government and thus an acts of tac evasion interferes with the targeted government revenue collection and the annual budget.

Tax evasion has been identified as a significant issue in nearly all the countries around the world, since it affects the potential tax revenue of a country. While other taxpayers strive to evade taxes, others tend to stay clear off the vice. To a larger extent, tax morale has to do with the inner context of such behaviours, since its concern is on why people either evade or not evade taxes. Commonalities between tax compliance and the natural motivation to pay taxes have well been documented, with tax compliance being an apparent action; this is evident when majority of taxpayers pay their taxes. Moreover, tax obedience is not only a function of the probabilities of detection and tax ratios, but also an attribute of an individual's disposition to meet their tax obligations. The levels of tax compliance generally increase with increase in the tax morale of taxpayers; therefore, it is important to note that tax morale is necessary in providing a justification of the whole issue of tax compliance (Torgler, 2007).

One of the key aspects of the global development co-operation and assistance programs is domestic resource mobilization (OECD, 2010). This is due to; first, the need to finance investment expenditures in order to achieve developing agenda in developing countries, especially where the previously relied upon sources of finance like the Official Development Assistance (ODA) are not adequate (Atisophon et al., 2011). Secondly, national development projects need domestic ownership of some of the priorities, and such ownership can be assured when part of the financial efforts emanates from the taxpayer. Finally, efforts of raising

domestic tax revenue for financing different development plans have the potential of increasing the efficiency of external fund, by promoting local capacities and entrenching stronger institutions. It is important to note that, there is hardly a direct relationship between transparency and domestic resource mobilization and effectiveness in government expenditure. However, historical evidence points to the fact that demand from domestic taxpayers play a key role.

A number of institutional aspects like transparency, accountability of the public sector, corruption have been identified as some of the factors that create opportunities for increased incidences of tax avoidance and tax evasion (Mansfield, 1998; Bird et al., 2008). Torgler and Schneider (2007) observed that enforcement alone could not explain the compliance levels observed. Trust in the government of the day, tax morale, and national pride are deemed to have great effect in determining tax compliance behaviour. Kenya has been through cycles of national pride and vice versa depending on the issue at hand. Nevertheless, tax compliance is a continuous requirement that should be practiced at all times irrespective of the prevailing circumstances.

### **Reforms in revenue administration**

In an effort to streamline its operation and enhance effectiveness in revenue administration, the Kenya Revenue Authority has initiated a number of reforms since its inception in 1995. Some of these reforms include; the Revenue Administration Reforms and Modernization Programme (RARMP), which saw the implementation of various reforms and modernization initiatives (Kenya Revenue Authority, 2018). The Third Corporate Plan period (2006/07 to 2008/09), outlined a number of initiatives aimed at ensuring that KRA changed from the traditional model into a fully-integrated, modern and customer friendly organization in a progressive manner. At the end of the third corporate plan came in the Fourth Corporate plan (2009/10 to 2011/12), which entrenched the transformations at the functional levels to achieve operational efficiency and improve service delivery. Through the Fifth Corporate Plan (2012/13 to 2014/15), KRA enhanced excellence in revenue administration through innovation, organizational restructure, as well as enhancement of staff capacity for better customer focus.

In order to achieve its development plans as set out in the vision 2030 and the big four agenda, the government need more revenue, and the main source of revenue is through taxation. As outlined in the Kenya Revenue Authority's 8th corporate plan, it aims to collect Kshs 6,831 billion, which are expected to have a 16.9 per cent annual growth rate over the plan period. In order to achieve such an ambitious target, the aim during the plan period is to increase the number of active taxpayers to 8.2 million up from the current 6.1 million, ensure a complete approach to enforcement, enhance compliance, tax simplification as well as improving services and the quality of operations (Kenya Revenue Authority, 2021).

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One of the key aspects of the global development co-operation and assistance programs is domestic resource mobilization (OECD, 2010). This is due to; first, the need to finance investment expenditures in order to achieve developing agenda in developing countries, especially where the previously relied upon sources of finance like the This is due to; first, the need to finance investment expenditures in order to achieve developing agenda in developing countries, especially where the previously relied upon sources of finance like. Secondly, national development projects need domestic ownership of some of the priorities, and such ownership can be assured key aspects of the global development co-operation and assistance programs is domestic resource mobilization. Finally, efforts of raising domestic tax revenue for financing different development plans have the potential of increasing the efficiency of external fund, by promoting local capacities and entrenching stronger institutions. It is important to note that, there is hardly a direct relationship between transparency and domestic resource mobilization and effectiveness in government expenditure.

With the theme of Building Taxpayer Trust through facilitation for enhanced tax compliance, the Sixth Corporate Plan (2015/16 to 2017/18) introduced a paradigm shift in tax compliance and sought to deepen automation, the Seventh Corporate Plan (2018/19 to 2020/21) shifted the focus to a data-driven strategy in enhancing tax compliance, while the 8<sup>th</sup> corporate plan has a critical focus on revenue mobilization through technology-driven compliance, tax simplification, and expansion of the tax base (Kenya Revenue Authority, 2021). Other than the strategic goals of the corporate plans, there was also the introduction of alternative channels of service delivery such as the use of Huduma Centres, Alternative Dispute Resolution Mechanisms (ADR), Tax Appeals Tribunal (TAT) for faster resolution of cases and reduction in tax debts, enactment of Tax procedure Act 2015 among other recent reforms (Kenya Revenue Authority, 2021).

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### **Revenue Performance in Kenya**

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Revenue mobilization has been identified as one of the ways through which governments provide public goods and services to its citizens, create fiscal space and also cut foreign aid and dependence on sole resource. Drummond et al., (2012), opine that one of the key priority

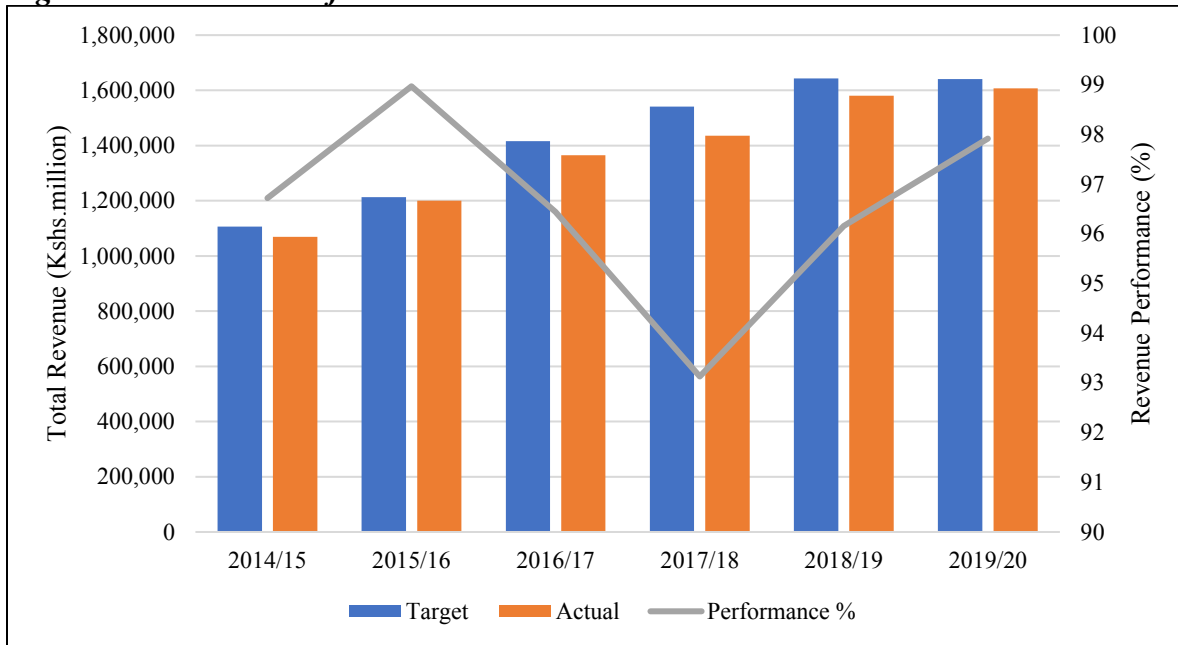
areas for most developing countries is raising more tax revenue. Nevertheless, the domestic tax base for these countries have remained low, mainly due to extensive tax evasion as well as tax avoidance (IMF, 2011). Tax evasion not only has detrimental effects on economic productivity but also puts a constraint on the amount of resources that are available for government programs. Efforts of raising domestic tax revenue for financing different development plans have the potential of increasing the efficiency of external fund, by promoting local capacities and entrenching stronger institutions. It is important to note that, there is hardly a direct relationship between transparency and domestic resource mobilization and effectiveness in government expenditure. However, historical evidence points to the fact that demand from domestic taxpayers play a key role.

A number of institutional aspects like transparency, accountability of the public sector, corruption have been identified as some of the factors that create opportunities for increased incidences of tax avoidance and tax evasion (Mansfield, 1998; Bird et al., 2008). Torgler and Schneider (2007) observed that enforcement alone could not explain the compliance levels observed. Trust in the government of the day, tax morale, and national pride are deemed to have great effect in determining tax compliance behaviour. Kenya has been through cycles of national pride and vice versa depending on the issue at hand. Nevertheless, tax compliance is a continuous requirement that should be practiced at all times irrespective of the prevailing circumstances.

Kenya's tax-to-GDP ratio averaged 16 per cent during 2014-2019 period. This is below the average of OECD countries which is at 34 percent and below Sub-Saharan Africa average of 18.6 percent (World Bank, 2021). The tax effort can further be explained using tax revenue performance over the same period. During the period under review, there has been an upward trend in revenue collection, with the Kenya Revenue Authority collecting Kshs 1,606.9 billion in the 2019/20 fiscal year up from Kshs 1,069.6 billion collected during the financial year 2014/15 (Kenya Revenue Authority, 2021). However, these revenue collections have fallen short of the target continuously as shown in Figure 1.1.



**Figure 1.1: Revenue Performance 2014/15-2019/20**



Source: Kenya Revenue Authority

## 1.2 Problem Statement

The government of Kenya has initiated a number of development plans among them; the Vision 2030 anchored on transforming Kenya into a middle-income country; ‘Big Four Agenda’ whose main aim is to ensure food security in the country, create more jobs in manufacturing, offering affordable universal health care as well as securing affordable housing in the country (Government of Kenya, 2007). Moreover, Kenya is also committed to the achievement of the African Union’s Agenda 2063 as well as ‘Sustainable Development Goals’ (SDGs). In order to achieve the set goals and targets in these development agendas, there is need for more resources and one of the ways through which the government can finance such developments is through tax revenue.

Over the years, Kenya Revenue Authority has put in place a number of various drives to further develop consistence, this incorporates change, which accentuates building public trust, help of citizens to work on their wilful compliance as well as different system automations. Despite all these efforts, level of tax compliance still remains low. For instance, data from iTax show that only about 5.77 million taxpayers are active. Representing about 53.77 per cent composite tax compliance rate. Moreover, the tax revenue is not performing as expected and, in most

cases, falling short of the set target, leading to borrowing which in turn escalates the public debt. For example, during the implementation of the seventh corporate plan (2018/19 – 2020/21), Kenya Revenue Authority failed to meet its revenue target after collecting a total of Kshs. 4,849.3 billion against a target of Kshs. 4,899.3 billion representing a deficit of Kshs. 50 billion and an average achievement of 99% (Kenya Revenue Authority, 2021). Some of the reasons put forward to explain the performance include the failure by Moreover, the tax revenue is not performing as expected and, in most cases, falling short of the set target, leading to borrowing which in turn escalates the public debt. As pointed out by Togler (2003), non-compliance to tax laws is a serious impediment globally since it limits government capacity to raise adequate revenues to finance different projects as outlined in different development plans.

As outlined in its recently launched 8<sup>th</sup> corporate plan, Kenya Revenue Authority have an overarching goal of realizing government revenue target while at the same time building a maintainable tax base whose outcome is expected to improve tax compliance. This is expected to be achieved through recruitment of new taxpayers, turning around perpetual non-filers into filers as well as bringing on board additional obligations (Kenya Revenue Authority, 2021). To achieve this, there is need to understand why taxpayers either choose. As outlined in its recently launched 8<sup>th</sup> corporate plan, Kenya Revenue Authority have an overarching goal of realizing government revenue target while at the same time building a maintainable tax base whose outcome is expected to improve tax compliance. This is expected to be achieved through recruitment of new taxpayers, turning around perpetual non-filers into filers as well as bringing on board additional obligations (Ahmed & Kedir, 2015; Otindo, 2019), not much is known as to the drivers of tax morale in Kenya. living by 2030; ‘Big Four Agenda’ whose main aim is to ensure food security in the country, create more jobs in manufacturing, offering affordable universal health care as well as securing affordable housing in the country (Government of Kenya, 2007). Moreover, Kenya is also committed to the achievement As outlined in its recently launched 8<sup>th</sup> corporate plan, Kenya Revenue Authority have an overarching goal of realizing government revenue target while at the same time building a maintainable tax base whose outcome is expected to improve tax compliance. This is expected to be achieved through recruitment of new taxpayers, turning around perpetual non-filers into filers as well as bringing on board additional obligations. In order to achieve the set goals and targets in these

development agendas, there is need for more resources and one of the ways through which the government can finance such developments is through tax revenue.

Over the years, Kenya Revenue Authority has put in place a number of various drives to further develop consistence, this incorporates change, which accentuates building public trust, help of citizens to work on their wilful compliance as well as different system automations. Despite all these efforts, level of tax compliance still remains low. For instance, data from iTax show that only about 5.77 million taxpayers are active. Representing about 53.77 per cent composite tax compliance rate. Moreover, the tax revenue is not performing as expected and, in most cases, falling short of the set target, leading to borrowing which in turn escalates the public debt. For example, during the implementation of the seventh corporate plan (2018/19 – 2020/21), Kenya Revenue Authority failed to meet its revenue target after collecting a total of Kshs. 4,849.3 billion against a target of Kshs. 4,899.3 billion representing a deficit of Kshs. 50 billion and an average achievement of 99% (Kenya Revenue Authority, 2021). Some of the reasons put forward to explain the performance include the failure by some taxpayers to comply with the tax laws. As pointed out by Togler (2003), non-compliance to tax laws is a serious impediment globally since it limits government capacity to raise adequate revenues to finance different projects as outlined in different development plans.

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compliance. This is expected to be achieved through recruitment of new taxpayers, turning around perpetual non-filers into filers as well as bringing on board additional obligations.

### **1.3 Research Objectives**

#### **1.3.1 Main Objective**

The research aimed at establishing what drove tax morale in Kenya.

#### **1.3.2 Specific Objectives**

The following were pursued:

- i) To find out how perceived trust in KRA and government affected the morale towards taxation.
- ii) To find out how corruption at KRA and in the government affected tax payer's morale.
- iii) To find out whether tax payer's morale was affected by national pride.
- iv) To identify other socio-economic and demographic factors that influence tax morale

### **1.4 Testable Hypothesis**

The research was informed by these claims:

- i) Perceived trust in government and KRA affects tax payer's morale.
- ii) Corruption at KRA and in government affects tax payer's morale.
- iii) National pride boosts tax payer's morale.
- iv) Socio-economic and demographic factors affect tax payer's morale.

### **1.5 Justification/Contribution of the Study**

As it plans to implement the 8<sup>th</sup> corporate plan whose strategic focus is on realizing revenue mobilization through tax base expansion; subsequently, this study's discoveries have the potential of giving policy-makers in the public authority and explicitly motivates tax payers to pay their taxes. In doing so, the government through KRA can then implement some of the policies geared towards enhancing taxpayer compliance which will then boost revenue collection. Subsequently, this study's discoveries have the potential of giving policy-makers in the public authority and explicitly to KRA in considering ways in which citizen tax morale can be made better for enhanced compliance. Having an understanding of factors that

motivates taxpayers' attitude would offer more insights that can be used by policy-makers for the purposes of planning. Moreover, these discoveries have the potential of giving policy-makers in the public authority and explicitly to KRA in considering ways in which citizen tax morale, and offer some recommendations that can be put in place to improve the compliance attitude of the taxpayers.

### **1.6 Scope of the study**

In assessing the drivers of tax morale in Kenya, the research utilized data from secondary sources. In particular, the sixth Afro-barometer survey was made use of. The data was gathered on taxation, governance, public attitude and non-governmental organizations across 35 African countries. The survey instrument used during the sixth round contains various questions with respect to tax, mostly got from a portion of the theories that affect tax compliance and morale.

### **1.7 Chapter summary**

The paper starts with highlighting the aspects of compliance and morale among taxpayers, the mechanism of tax morale, Kenya's tax revenue performance and the efforts that Kenya Revenue Authority has made to enhance tax compliance and increase revenue collection. Section two reviews the literature that has been done on tax morale. The aim of the literature is to generate critical insights from the research papers in terms of identifying, utilizing and displaying a research methodology expected to give both valid and solid results on tax morale, specifically for Kenyan policy makers and the revenue authority. In sections three and four, the research methodology and results are well elaborated.

## **CHAPTER TWO: LITERATURE REVIEW**

### **1.8 Introduction**

This section captures the basis upon which the present research is grounded. This is achieved through a careful scrutiny of previous empirical literature, and a reinterrogation of the existing theories that are well documented. Some of the past studies in the field of tax morale. It starts by presenting some of the theories that explain tax compliance and tax morale, followed by the empirical literature regarding the factors that determines tax morale.

### **1.9 Theoretical Literature**

Taxpayers can be thought of as displaying certain behaviours which can be explained. These explanations are grouped into economic and behavioural theories. The economic theories include economic deterrence theory and the benefits received theory. On the other hand, the behavioral theories include the social identity and comparative treatment and fiscal exchange.

#### **1.9.1 The Theory of Deterrence**

Originates from Allingham and Sandmo (1972) and modified by Becker. Tax payers are assumed to be reasonable enough, and are effective in computing costs and benefits seamlessly. Taxpayers choose the option that yields the greatest net benefit. If, for example, it is costly for a tax payer to not comply and get caught, Birsktye (2014) argued that the individual complies. Otherwise, if the penalty of getting caught is less than the net benefits of noncompliance, then Allingham & Sandmo (1972) argue that the individual does not comply.

This theory emphasizes application of coercion and threat in compliance. As such, the taxpayer will be compelled to comply with tax laws for the fear of being caught and punished (Feld & Frey, 2006). The main argument here is that, as a rational economic agent, most taxpayers would participate in actions where their utility is maximized at the least cost. Based on Mengere (2014) argument, in situations where the cost of non-compliance is more than the benefits of compliance, then taxpayers tend to be compliant.

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Subsequently, this study's discoveries have the potential of giving policy-makers in the public authority and explicitly to KRA in considering ways in which citizen tax morale can be made better for enhanced compliance. Having an understanding of factors that motivates taxpayers' attitude would offer more insights that can be used by policy-makers for the purposes of planning. This theory emphasizes application of coercion and threat in compliance. As such, the taxpayer will be compelled to comply with tax laws for the fear of being caught and punished (Feld & Frey, 2006). The main argument here is that, as a rational economic agent, most taxpayers would participate in actions where their utility is maximized at the least cost. Based on Mengere (2014) argument, in situations where the cost of non-compliance is more than the benefits of compliance, then taxpayers tend to be compliant.

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### **1.9.2 Political Legitimacy**

Here, compliance to tax laws is influenced by the taxpayer's perceived trust in the government at that particular time. In this context, legitimacy is simply the perceived trust that a citizen has on the public institutions including the policies, regulations and laws, which are viewed as advancing public interest. This view emphasizes that compliance is shaped by perceptions

about and attitude regarding government's fairness with regards to the taxes paid by the taxpayer (Feld and Frey 2002).

According to Talyer (2006), a positive association exists between the compliance behavior and the taxpayer perception trust in the government. Moreover, Torgler and Schneider (2007) alluded to the fact that an individual group identity as patriotic easily changes into tax compliance. This theory emphasizes application of coercion and threat in compliance. As such, the taxpayer will be compelled to comply with tax laws for the fear of being caught and punished (Feld & Frey, 2006). The main argument here is that, as a rational economic agent, most taxpayers would participate in actions where their utility is maximized at the least cost. Based on Mengere (2014) argument, in situations where the cost of non-compliance is more than the benefits of compliance, then taxpayers tend to be compliant.

### 2.2.3 Theory of fiscal Exchange

Here, tax payment must be aligned with received services. Based on this theory, motivation to pay taxes will be boosted when the taxpayer can identify some of the projects that the government has done using the taxes they pay, this is because satisfaction is derived from the services provided by the government. According to Moore (2004), for the government to raise compliance attitude of its citizenry, it needs to offer resourceful services to the citizens. Alm et al., (1992) in their study noted that taxpayers' willingness to pay taxes to a greater extent is positively influenced by the perceived public service provision by the government. In fact, according to them, the taxpayer's greatest apprehension is on the benefits that the government provide in exchange of the taxes paid.

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Instances where the taxpayer perceive the government to be offering positive benefits, then tax compliance attitude is likely to be improved (Bodea and LeBas, 2013). In as much as the taxpayer This theory emphasizes application of coercion and threat in compliance. As such,



the taxpayer will be compelled to comply with tax laws for the fear of being caught and punished (Feld & Frey, 2006). The main argument here is that, as a rational economic agent, most taxpayers would participate in actions where their utility is maximized at the least cost. Based on Mengere (2014) argument, in situations where the cost of non-compliance is more than the benefits of compliance, then taxpayers tend to be compliant, they pay versus the services offered by the government, they are likely to have a general feeling regarding the way they interact with the state (Richupan, 1987). This theory emphasizes application of coercion and threat in compliance. As such, the taxpayer will be compelled to comply with tax laws for the fear of being caught and punished (Feld & Frey, 2006). The main argument here is that, as a rational economic agent, most taxpayers would participate in actions where their utility is maximized at the least cost. Based on Mengere (2014) argument, in situations where the cost of non-compliance is more than the benefits of compliance, then taxpayers tend to be compliant. Taxpayers tend to be compliant; they pay versus the services offered by the government; they are likely to have a general feeling regarding the way they interact with the state (Richupan, 1987). This theory emphasizes application of coercion and threat in compliance. As such, the taxpayer will be compelled to comply with tax laws for the fear of being caught and punished (Feld & Frey, 2006). Based on this theory, motivation to pay taxes will be boosted when the taxpayer can identify some of the projects that the government has done using the taxes they pay, this is because satisfaction is derived from the services provided by the government. According to Moore (2004), for the government to raise compliance attitude of its citizenry, it needs to offer resourceful services to the citizens. Alm et al., (1992) in their study noted that taxpayers' willingness to pay taxes to a greater extent is positively influenced by the perceived public service provision by the government. In fact, according to them, the taxpayer's greatest apprehension is on the benefits that the government provide in exchange of the taxes paid.

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### **1.9.3 Theory of Social Identifiability**

According to Cialdini and Goldstein, (2004), individuals have the tendency of imitating the actions of the people who appear to be within the same social class as them and tend to strengthen collaboration with them. The linkage between tax compliance and norms originates from discussions of tax matters between colleagues at work, business associates, members of the family as well as friends. In assessing the drivers of tax morale in Kenya, this theory emphasizes application of coercion and threat in compliance. As such, the taxpayer will be compelled to comply with tax laws for the fear of being caught and punished (Feld & Frey, 2006). The main argument here is that, as a rational economic agent, most taxpayers would participate in actions where their utility is maximized at the least cost. Based on Mengere (2014) argument, in situations where the cost of non-compliance is more than the benefits of compliance, then taxpayers tend to be compliant. Afro barometer survey gathers data on taxation, governance, public attitude and non-governmental organizations across 35 African countries. The survey instrument used during the sixth round contains various questions with respect to tax, mostly got from a portion of the theories that affect tax compliance and morale. Social standards reflect usual conduct that are equivalently refereed by the taxpayer. This morale due to social identity offers significant guidance for social behavior. According to Cialdini and Goldstein, (2004), individuals have the tendency of imitating the actions of the

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#### **1.9.4 Comparative Treatment**

Fairness in the tax scheme for all businesses results into an increased level of tax compliance. With this argument, the taxpayer would evaluate the unfairness of the tax system to be that system where other competitor businesses are subjected to lower tax burden (OECD, 2010). Therefore, this will push some taxpayers to try and underreport or even evade the taxes all together. Based on this theory, motivation to pay taxes will be boosted when the taxpayer can identify some of the projects that the government has done using the taxes they pay, this is because satisfaction is derived from the services provided by the government. According to Moore (2004), for the government to raise compliance attitude of its citizenry, it needs to offer resourceful services to the citizens. Alm et al., (1992) in their study noted that taxpayers' willingness to pay taxes to a greater extent is positively influenced by the perceived public service provision by the government. In fact, according them, the taxpayer's greatest apprehension is on the benefits that the government provide in exchange of the taxes paid.

Within this theory, taxpayers who perceives unfair treatment from the government will tend to evade taxes, while those who feel that they are fairly treated are likely to depict higher

compliant attitude. As outlined by Kirchler, Muehlbacher, Kastlunger, and Wahl (2007), With this argument, the taxpayer would evaluate the unfairness of the tax system to be that system where other competitor businesses are subjected to lower tax burden (OECD, 2010). Therefore, this will push some taxpayers to try and underreport or even evade the taxes all together. Based on this theory, motivation to pay taxes will be boosted when the taxpayer can identify some of the projects that the government has done using the taxes they pay, this is because satisfaction is derived from the services provided by the government.

## **1.10 Empirical Literature**

This subsection documents the past research in the field of tax morale.

### **1.10.1 Socio-economic factors on tax morale**

The socio-economic status of an individual is a compound portion cantered on factors like income level, employment status, democracy, pride, perceived trust, perceived corruption as well as religion. These factors are reviewed separately as follows

**Democracy:** Research both from developed and developing nations has shown that taxpayers from countries where there is support for democratic values tend to portray increased levels of tax morale The socio-economic status of an individual is a compound portion cantered on factors like income level, employment status, democracy, pride, perceived trust, perceived corruption as well as religion. These factors are reviewed separately as follows. Ali et al., (2013) evaluated individuals' attitudes regarding taxation in Kenya, South Africa, Uganda, and Tanzania based on data obtained from the fifth circle of Afrobarometer Survey. Their findings show that political participation and democracy are the main factors influencing a taxpayer's compliant attitude in Kenya.

**Employment status:** Employed individuals tend to be more motivated to pay taxes compared to those who are Self-employed. government to raise compliance attitude of its citizenry, it needs to offer resourceful services to the citizens. Alm et al., (1992) in their study noted that taxpayers' willingness to pay taxes to a greater extent is positively influenced by the perceived public service provision by the government. In fact, according them, the taxpayer's greatest apprehension is on the benefits that the government provide in exchange of the taxes paid.

Moreover, those who are either working part-time, not employed or students tend to have lower tax morale compared to those who are in full employment (Daude et al., 2012; Torgler, 2004).

**National pride/patriotism:** Having higher national pride is linked with higher tax morale and hence increased tax compliance (Bilgin, 2014; Martinez-Vazquez & Torgler, 2009; Martins & Gomes, 2014; Maja, Nikica & Miso, 2013; Torgler, 2004; Torgler and Schneider, 2004). For instance, Konrad and Qari (2011) while evaluating the factors that influence taxpayer's compliance attitude based on two components of a survey data established a robust association between compliance attitude and patriotism based both on the country and individual levels data.

Moreover, Gangl et al., (2015) when conducting a study using a sample survey of 84 Austrians, based on an online survey with items on trust in tax agency, patriotism, as well as tax compliance intentions found that national pride leads to trust which in turn impacts voluntary cooperation and finally impacts tax compliance. The more the taxpayers identify themselves with their community and state, the more they are likely to trust government authorities by viewing them as caring and committed to the public good, and the more the taxpayers would feel motivated to pay their share of taxes voluntarily (Kirchler, Hoelzl & Wahl, 2008).

**Corruption:** Perceived corruption in government and its agencies is linked to reported lower tax morale (Picur and Riahi-Belkaoui, 2006; Torgler, 2006; Krasniqi and Williams, 2017). According to Picur & Riahi-Belkaoui (2006), perceived corruption has an inverse relationship tax morale. They studied 30 countries using multiple linear regression. Their findings point to the fact that compliance with tax laws is high in countries with lower levels of fraud and bureaucracy.

**Government fairness:** Higher tax morale is evident where the taxpayer perceives the government to be fair to all its citizens (Cyan et al., 2016; Cummings, Martinez-Vazquez, Mansor & Gurama, 2016; Niesiobędzka, 2014; Vythelingum et al., 2017). For instance, Moreover, Gangl et al., (2015) when conducting a study using a sample survey of 84 Austrians, based on an online survey with items on trust in tax agency, patriotism, as well as tax compliance intentions found that national pride leads to trust which in turn impacts voluntary cooperation and finally impacts tax compliance. The more the taxpayers identify themselves with their community and state, the more they are likely to trust government authorities by

viewing them as caring and committed to the public good, and the more the taxpayers would feel motivated to pay their share of taxes voluntarily (Kirchler, Hoelzl & Wahl, 2008). Moreover, Abiola & Asiweh (2012) also established when tax system lacks effective administration and proper implementation then tax payers are likely not to have the motivation of increase.

**Trust in public institutions** (executive, legislature, judiciary, tax authority and tax officials): Previous literature has shown that perceived increased trust in government authorities is related increased morale (Otindo, Mbaire & Kanina, 2021; Torgler and Schaffner, 2007). For instance, (Andriani, 2015; Chan et al., 2018) established Moreover, Gangl et al., (2015) when conducting a study using a sample survey of 84 Austrians, based on an online survey with items on trust in tax agency, patriotism, as well as tax compliance intentions found that national pride leads to trust which in turn impacts voluntary cooperation and finally impacts tax compliance. The more the taxpayers identify themselves with their community and state, the more they are likely to trust government authorities by viewing them as caring and committed to the public good, and the more the taxpayers would feel motivated to pay their share of taxes voluntarily (Kirchler, Hoelzl & Wahl, 2008). While evaluating citizen's attitude towards taxation in Tanzania, Kenya, South Africa, and Uganda, Ali et al., (2013) found that trust in institutions is significant in influencing a taxpayer's attitude towards tax compliance. They used a sample of 4,799 individuals based on the fifth round of the Afrobarometer Survey conducted in 2011/2012. Similarly, Gangl et al., (2015) when conducting a study using a sample survey of 84 Austrians found that national pride leads to trust which in turn impacts voluntary cooperation and finally impacts tax compliance.

### **1.10.2 Demographic factors on tax morale**

Demographic variables include variables like age, gender, and place of residence. These factors are discussed in detail as follows.

**Age:** Previous studies indicate that demographic variables Moreover, Gangl et al., (2015) when conducting a study using a sample survey of 84 Austrians, based on an online survey with items on trust in tax agency, patriotism, as well as tax compliance intentions found that national pride leads to trust which in turn impacts voluntary cooperation and finally impacts tax compliance. The more the taxpayers identify themselves with their community and state, the

more they are likely to trust government authorities by viewing them as caring and committed to the public good, and the more the taxpayers would feel motivated to pay their share of taxes voluntarily (Kirchler, Hoelzl & Wahl, 2008). For example, Ahmed & Kedir, (2015) did a study in Ethiopia focusing on factors that influence compliance with tax laws. They analyzed the survey data collected among 384 taxpayers using ordinary least square regression and found a direct and significant effect of age on tax compliance behavior.

**Gender:** Gender has been established to be an important factor influencing a taxpayer's motivation to pay taxes. Social research suggests that women as opposed to men depicts higher tax morale (Windebank, 2016). Using the binary probit model on survey data to analyze factors influencing tax morale established that females, unlike Pakistani males, depict higher tax morale in Pakistan.

**Education level:** Studies have shown that a higher education level has the potential to increase the taxpayer's knowledge regarding the tax system. Therefore, a highly educated taxpayer is more informed on matters related to tax laws and matters of fiscal affairs and is also able to point out the benefits that the taxpayer can derive from government services (Torgler et al., 2007; Torgler, 2012; Barone and Mocetti, 2011; Cyan et al., 2016; Williams and Horodnic, 2016). Cyan, et al (2016) in a study in Pakistan employed a binary probit model to analyze determinants of tax morale, their findings show that when conducting a study using a sample survey of 84 Austrians, based on an online survey with items on trust in tax agency, patriotism, as well as tax compliance intentions found that national pride leads to trust which in turn impacts voluntary cooperation and finally impacts tax compliance. The more the taxpayers identify themselves with their community and state, the more they are likely to trust government authorities by viewing them as caring and committed to the public good, and the more the taxpayers would feel motivated to pay their share of taxes voluntarily (Kirchler, Hoelzl & Wahl, 2008).

**Marital Status:** Several studies have shown that marital status significantly influences the tax morale of an individual. That is, married people, as opposed to those who are single, are psyched up to comply (Torgler, 2006; Torgler et al., 2007; Vythelingum et al., 2017; Krasniqi & Williams., 2017).

## **Overview of literature**

This chapter reviewed tax compliance theories explaining the dependent and independent variables. Similarly, the chapter also documented some of the earlier works focusing on the drivers of taxpayer's morale in different countries. These studies revealed that the concept of tax compliance has attracted attention not only from academics, but also from policymakers. Several studies done have focused on just a few factors that influence tax morale, while others have looked at these factors at the macro level. This study intends to analyse more variables to see which one's drive tax morale in Kenya.

Moreover, Gangl et al., (2015) when conducting a study using a sample survey of 84 Austrians, based on an online survey with items on trust in tax agency, patriotism, as well as tax compliance intentions found that national pride leads to trust which in turn impacts voluntary cooperation and finally impacts tax compliance. The more the taxpayers identify themselves with their community and state, the more they are likely to trust government authorities by viewing them as caring and committed to the public good, and the more the taxpayers would feel motivated to pay their share of taxes voluntarily (Kirchler, Hoelzl & Wahl, 2008). These included multiple linear regression (Ahmed & Kedir, 2015; Mansor & Gurama, 2016), binary probit (Cyan, et al (2016), ordered probit (Ali et al., 2013; Otindo et al., 2021). Multiple linear regression, however, may lead to bias in parameter estimation since it is used to model a categorical variable and treating the variable as though it was continuous.

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Studies conducted in Kenya had either used data obtained from the fifth phase of the Afrobarometer Survey conducted in 2011 or from targeted surveys. This study provides necessary information that will guide on the policies being executed to improve taxpayer's morale by using the most recent data set which contains aspects of taxation, which had not been used to investigate the drivers of tax morale in Kenya.

In summary, the reviewed literature showed that factors driving drive tax morale were social and economic variables. The reviewed literature analyzed very few of these variables. This study focused on incorporating several socio-economic and demographic variables to see how they interact to influence the taxpayer's morale.



## CHAPTER 2: METHODOLOGY

### 3.1 Introduction

This section outlines the model, methods, and data utilized and gives a discussion of econometric issues. It starts with theoretical framework, the model estimation, variable measurements, diagnostic tests, data used and data analysis.

### 3.2 Theoretical Framework

Economic deterrence of consumer choice brings to light consumer behavior given some outcomes. In this case, having evaluated tax compliance theories explaining the dependent and independent variables. Similarly, the chapter also documented some of the earlier works focusing on the drivers of taxpayer's morale in different countries. These studies revealed that the concept of tax compliance has attracted attention not only from academics, but also from policymakers. Several studies done have focused on just a few factors that influence tax morale, while others have looked at these factors at the macro level. This study intends to analyse more variables to see which one's drive tax morale in Kenya.

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The decision to abide by the tax laws is derived from the economic deterrence model as outlined by Allingham and Sandmo (1972).

$$V = f(B, X, J) \dots\dots\dots (1)$$

Where;

V is the indirect benefits enjoyed by the taxpayer; B is the consumable that yields utility but with no direct effect on being caught; X is the compliance-related commodity that directly affects the taxpayer's motivation to pay taxes while J is the taxpayer's compliance attitude.

The taxpayer maximizes utility subject to the production function and some constraints. This is expressed as follows;

$$Y = CP_c + XP_x + RP_r \dots\dots\dots (2)$$

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$$J = f(R, X, S) \dots\dots\dots (3)$$

Where R is taxpayers’ motivation, X is compliance-related commodity, while S captures demographic factors. Solving the problem adopts the Lagrangian:

$$L = \{U - f(C, X, H)\} + \lambda_1 \{H - f(R, X, S)\} + \lambda_2 \{Y - PC - XPx - RPr\} \dots\dots\dots (4)$$

The Lagrangian equation in (4) gives the demand function which when solved provides the ideal values of C\*, X\*, and H\*. These values maximize the utility of the taxpayer, bringing about a demand function for tax morale which is obtained by solving equation (4) to obtain:

$$R_h = f(PC, P_x, P_r, Y, S) \dots\dots\dots (5)$$

Where Rh is the demand for taxpayers’ compliance, PC, Px, Pr, Y, S are as defined in equation 2. Therefore, this shows that a tax morale depends on income, price of goods, socio-economic and demographic factors that influence their decision.

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### **3.3 Model Specification and Estimation**

Literature has shown that different authors used different models in their analysis, binary probit and ordered probit models were dominant. That notwithstanding, there are several factors to be considered for the choice of model to use, one such factor is the nature of the dependent variable. In this case, a taxpayer's intrinsic motivation is treated to three choices, 'wrong but understandable', 'wrong and punishable', and 'not wrong at all'. Given these choices, a taxpayer is said to depict the highest level of tax morale if they indicate that it is wrong and punishable for people not to pay taxes they owe to the government, followed by those who say wrong and understandable, while those who indicate that it is not wrong at all depict the lowest levels of tax morale.

Given these choices, to consider these categories, an ordered probit model was used for the analysis. The idea behind the ordered probit model is the order of the choices made by the taxpayer, from the highest to the lowest. Under this model, tax morale is ordered from the highest to the lowest tax morale, that is highest tax morale (3), moderate tax morale (2), and lowest tax morale (1).

### 2.3.1 Ordered Probit Model

This model assumes that the measure of the dependent variable follows a normal distribution. That is, the mean of the variance is defined as follows;

$$Y_i^* = \alpha x_i + e_i \dots\dots\dots (6)$$

Where;

$\alpha$  are the coefficients of determination to be estimated

$x_i$  are sets of independent variables

$e_i$  represents the error term.

$Y_i$  is determined by:

$$Y_i = \begin{cases} 1 & \text{if } y_i^* \leq 1 \\ 2 & \text{if } 1 < y_i^* \leq 2 \\ 3 & \text{if } 2 < y_i^* \leq 3 \end{cases}$$

Therefore, the probability for each category is given by:

$$Pr(Y_i = 1 | x_i) = F(x_i \alpha) \dots\dots\dots (7)$$

The estimated model is then presented as follows:

$$Pr(Tmorale_i = j | X_i) = \beta_0 + \beta_1 CorrKRA_i + \beta_2 TrustKRA_i + \beta_3 CorrG_i + \beta_4 TrustG_i + \beta_5 Pride_i + \beta_6 Democ_i + \beta_{10} Age_i + \beta_{10} Gender_i + \beta_{10} Empl_i + \beta_{10} Edlev_i + \varepsilon_i) \dots\dots (8)$$

Since we are dealing with non-linear distribution, to bring out the quantitative influence that the explanatory variables have on tax morale, the study calculated the marginal effect. The marginal effect which gives the rate of change of the dependent variable brought about by a unit change in the explanatory variables. Marginal effect was used to look into the size of the coefficients. For this study, the marginal effects was presented for the category representing

the highest level of tax morale. Moreover, missing values and those that respond as don't know were omitted from the estimation.

### 3.4 Variable Definition and Measurements

Variable	Definition	Measurement	A Priori Expectations	Expected and Source sign
<b>Dependent Variable</b>				
Y	Tax Morale	3- Highest level of tax morale, 2- Moderate level of tax morale, 1- lowest level of tax morale		
<b>Independent Variables</b>				
<i>CorrKRA</i>	Corruption in tax authority	Dummy variable, 1- Corrupt 0- Not corrupt	Perceived corruption lowers tax morale	- Torgler, 2006
TrustKRA	Trust in tax authority	1- Trust in KRA 0- No trust	Having more trust in KRA depicts higher tax morale	+ (Andriani, 2015; Chan et al., 2018; Ibrahim et al., 2015)
CorrG	Corruption in public institutions	1- Corrupt 0- No Corruption	Perceived corruption lowers tax morale	- Picur and Riahi-Belkaoui (2006)
TrustG	Trust in public institutions	1- Trust in Government 0- No Trust in Government	The more the government is perceived to be corrupt, the less their tax morale	+ (Andriani, 2015; Chan et al., 2018; Ibrahim et al., 2015)
Pride	National Pride	1- Proud to be Kenyan 0- Not Proud to be Kenya	Being patriotic increases probability of higher tax morale	+ Konrad and Qari (2011), Kirchler, Hoelzl & Wahl, 2008
Democ	Democracy	1- Satisfied with democracy 0- Not Satisfied with democracy	Perceived democracy increases tax morale	+ Ali et al., (2013)
<b>Control Variables</b>				
Age	Age of the respondent	Age of the respondent in years	Tax morale increases with age	+ Ahmed & Kedir, (2015)
Gender	Gender of respondent	1 - Male 0 – Female	Females are likely to depict higher tax morale than male	+ Cyan, et al (2016)
Empl	Employment level	1- Employed 0- Not employed	Those who are employed are likely to depict higher tax morale	+ (Daude et al., 2012; Torgler, 2004)
Edlev	Level of Education	0- No Formal Education 1- Primary 2- Secondary 3- College/University	The higher the level of education, the higher the tax morale	+ Alasfour et al., 2016



### **3.5 Diagnostic tests**

Several diagnostic tests were conducted to ascertain whether the data fits the model. When carrying out regression analysis, one may not have a surety of whether the obtained results represent the realities. The diagnostic tests conducted include:

#### **2.6.1 Test for Specification error**

The idea behind this test is that a properly specified model should not have predictors that are statistically significant. This study run a linktest in STATA

#### **2.6.2 Test for Multicollinearity**

In probit regression, it is assumed that multicollinearity among the explanatory variables is not a severe problem. Multicollinearity exists when an explanatory variable is correlated with another explanatory variable. Its existence results in unreliable estimates. This study run a Variance Inflation Factor (VIF) to test for the presence of multicollinearity.

#### **2.6.3 Receiver Operating Characteristic (ROC)**

In examining the predictive power of the model, the Receiver Operating Characteristic (ROC) Curve was assessed. Based on this curve, a greater predictive power of the model is depicted by a more bowed curve. A lower analytical power model has the area under the curve less than 0.5, and a perfect model would have the area under the curve as 1.

### **3.6 Source of data and analysis**

In assessing the factors that drive tax morale in Kenya, this study used data from the sixth round of the Afrobarometer survey conducted between 2013/2013. This is a regional representative survey conducted in about 35 countries in Africa. The survey collects data on citizen's attitudes, taxation, governance, democracy, civil society, and the market. The survey questionnaire for round six has questions about taxation that are mostly related to the theories reviewed under the theoretical literature. Data analysis was done using STATA version 15 and results presented in both tables and graphs.

## CHAPTER 3: RESULTS AND FINDINGS

### 3.1 Introduction

This chapter gives the findings of the study and also discussion of the findings. It starts with giving the descriptive statistics followed by the analysis, presentations, interpretations and discussions, and finally presents the ordered probit regression results.

### 3.2 General/ Demographic Information/Descriptive Statistics

Before running the ordered probit regression, a descriptive statistics analysis was undertaken. The descriptive statistics reports the observation, standard deviation, the mean, minimum and maximum of the variables under study as shown in Table 4.1.

*Table 3.1: Descriptive Statistics*

<b>Variable</b>	<b>Observation</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
Tax Morale	2264	2.475	.627	1	3
<b>Corruption in Government</b>					
Low	2273	.037	.188	0	1
Moderate	2273	.481	.5	0	1
High	2273	.482	.5	0	1
<b>Corruption in KRA</b>					
Low	1982	.086	.281	0	1
Moderate	1982	.516	.5	0	1
High	1982	.398	.49	0	1
<b>Trust in Government</b>					
No Trust	2314	.152	.359	0	1
Low	2314	.306	.461	0	1
Moderate	2314	.367	.482	0	1
High	2314	.175	.38	0	1
<b>Trust in KRA</b>					
No Trust	2053	.149	.356	0	1
Low	2053	.296	.457	0	1
Moderate	2053	.368	.482	0	1
High	2053	.187	.39	0	1
<b>Pride</b>					
Not Proud	2349	.055	.228	0	1
Proud	2349	.945	.228	0	1
<b>Democracy</b>					
Not Democracy	1876	.063	.243	0	1
Low	1876	.333	.471	0	1
Moderate	1876	.45	.498	0	1
High	1876	.154	.361	0	1
Age	2389	36.084	13.328	18	99
<b>Gender</b>					
Female	2389	.499	.5	0	1
Male	2389	.501	.5	0	1

<b>Employment Status</b>					
Not Employed	2386	.391	.488	0	1
Part Time	2386	.201	.401	0	1
Full Time	2386	.409	.492	0	1
<b>Education Level</b>					
No Formal	2388	.065	.246	0	1
Informal	2388	.018	.133	0	1
Primary	2388	.362	.481	0	1
Secondary	2388	.365	.481	0	1
College	2388	.136	.343	0	1
University	2388	.054	.227	0	1

*Source: Authors analysis based on Afrobarometer data 2015*

From Table 4.1, 18 years was the minimum age of the respondent, while the maximum age being 99 years. The respondents' mean age was 36 years with the standard deviation being 13.3. The standard deviation for the gender variable is 0.5 which implies that there is no great variation between female and males in the study.

### 3.2.1 Tax morale and the explanatory variables

Table 4.2 gives the relationship between the explanatory variables and tax morale. It shows that majority of those recorded the highest tax morale actually perceived corruption in government and KRA to be low. The highest percentage of those who recorded highest tax morale (61% and 67%) were actually those that had high trust in government and KRA respectively.

**Table 3.2: Crosstabulation of Tax Morale and the explanatory variables**

Corruption in Government***	Tax Morale		
	Lowest Tax Morale	Moderate Tax Morale	Highest Tax Morale
Low	19%	27%	54%
Moderate	6%	40%	54%
High	7%	38%	55%
<b>Corruption in KRA***</b>			
Low	14%	27%	59%
Moderate	4%	39%	57%
High	8%	40%	52%
<b>Trust in Government***</b>			
No Trust	9%	43%	48%
Low	8%	40%	52%
Moderate	4%	40%	56%
High	10%	29%	61%
<b>Trust in KRA***</b>			
No Trust	11%	41%	47%
Low	7%	42%	52%
Moderate	4%	41%	55%

High	9%	24%	67%
<b>Pride***</b>			
Not Proud	14%	51%	35%
Proud	7%	38%	56%
<b>Democracy***</b>			
Not Democracy	9%	37%	54%
Low	6%	42%	53%
Moderate	4%	36%	60%
High	10%	25%	65%
<b>Gender</b>			
Female	7%	40%	53%
Male	7%	37%	56%
<b>Employment Status***</b>			
Not Employed	8%	41%	51%
Part Time	10%	41%	49%
Full Time	5%	34%	61%
<b>Education Level***</b>			
No Formal	17%	48%	35%
Informal	9%	39%	52%
Primary	9%	42%	49%
Secondary	6%	39%	55%
College	5%	31%	64%
University	4%	16%	80%

*Source: Authors analysis based on Afrobarometer data 2015*

Worth noting is the fact that, about 56 percent of those who indicated that they were proud to be Kenyans also depicted the highest tax morale. With 80 percent of those with university education having the highest tax morale. Moreover, only 5 percent of those indicated that they are employed full time being in the lowest tax morale category. All these associations were significant at 1% level.

### **3.2.2 Correlation Analysis**

This sub-section presents the intercorrelation analysis based on the independent variables in the model. Intercorrelation matrix presents the relationship between two variables. The coefficient of determination ranges from -1 depicting a strong negative correlation and +1 which depicts a strong positive correlation. Based on the Pearson correlation coefficients, correlation between most of the variables appear very weak, with most of them having small effects, in fact only three variables had moderate correlations.

Perceived corruption among the tax officials and perceived corruption in government have significant moderate and positive correlation with a coefficient of 0.320, trust in KRA and corruption among the tax officials had a moderate and significant negative association with correlation coefficient of -0.385, while trust in the state and trust in tax officials have a moderate significant and positive association having a coefficient of 0.445.

**Table 3.3: Inter-Correlation Analysis**

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Corruption Gov	1.000									
(2) Corruption KRA	0.320*	1.000								
(3) Trust Gov	-0.287*	-0.194*	1.000							
(4) Trust KRA	-0.193*	-0.385*	0.445*	1.000						
(5) Pride	-0.062*	-0.086*	0.089*	0.087*	1.000					
(6) Democracy	-0.090*	-0.121*	0.235*	0.238*	0.075*	1.000				
(7) Age	-0.018	-0.021	-0.002	-0.009	0.035	-0.012	1.000			
(8) Gender	0.020	-0.013	-0.018	0.018	0.033	-0.002	0.119*	1.000		
(9) Employment Status	-0.014	-0.049*	0.017	0.063*	0.063*	0.036	0.033	0.075*	1.000	
(10) Education Level	0.049*	0.043	-0.033	0.047*	0.079*	0.075*	-0.230*	0.116*	0.241*	1.000

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

### 3.2.3 Specificity

The link test is used to test whether the model is correctly specified or not. Specificity tests investigate whether the model is correctly specified or not. The link test assumes that a model that is properly specified should not have additional significant. The model uses predicted values that are obtained from the linear model and their squares to come up with a new model. A well specified model should ideally have predicted values squared which is significant while the predicted values should not be significant. If the values predicted by the model are significant, then probably a relevant variable is omitted or the link function is incorrectly specified in terms of the form of variables. From Table 4.5, the findings show that the predicted values ( $\hat{y}$ ) are not significant variables while the square of the predicted value ( $\hat{y}^2$ ) is significant, implying that the model is correctly specified and therefore a valid conclusion can be drawn from the results.

**Table 3.4: Specificity Test**

Tax Morale	Coef.	Standard Error	z	P>z
$\hat{y}$	-0.586	0.719	-0.82	0.415
$\hat{y}^2$	0.528	0.238	2.22	0.027
/cut1	-1.369	0.535	-2.42	-0.32
/cut2	0.122	0.535	-0.93	1.171

### 3.2.4 Multicollinearity

In regression models, multicollinearity exists when sets of predictor variables are highly correlated which have the effects of giving wrong estimates. If there is a perfect correlation between the variables, indicating the presence of multicollinearity, the variance is higher than it should be and unstable. Even though from the inter-correlation matrix it was established that most variables had very weak correlations, we evaluate whether there is a problem of multicollinearity using variance inflation factor. Values greater than 10 suggests a possibility of high association between the explanatory variable and this could lead to biased estimates.

**Table 3.5: Test for Multicollinearity**

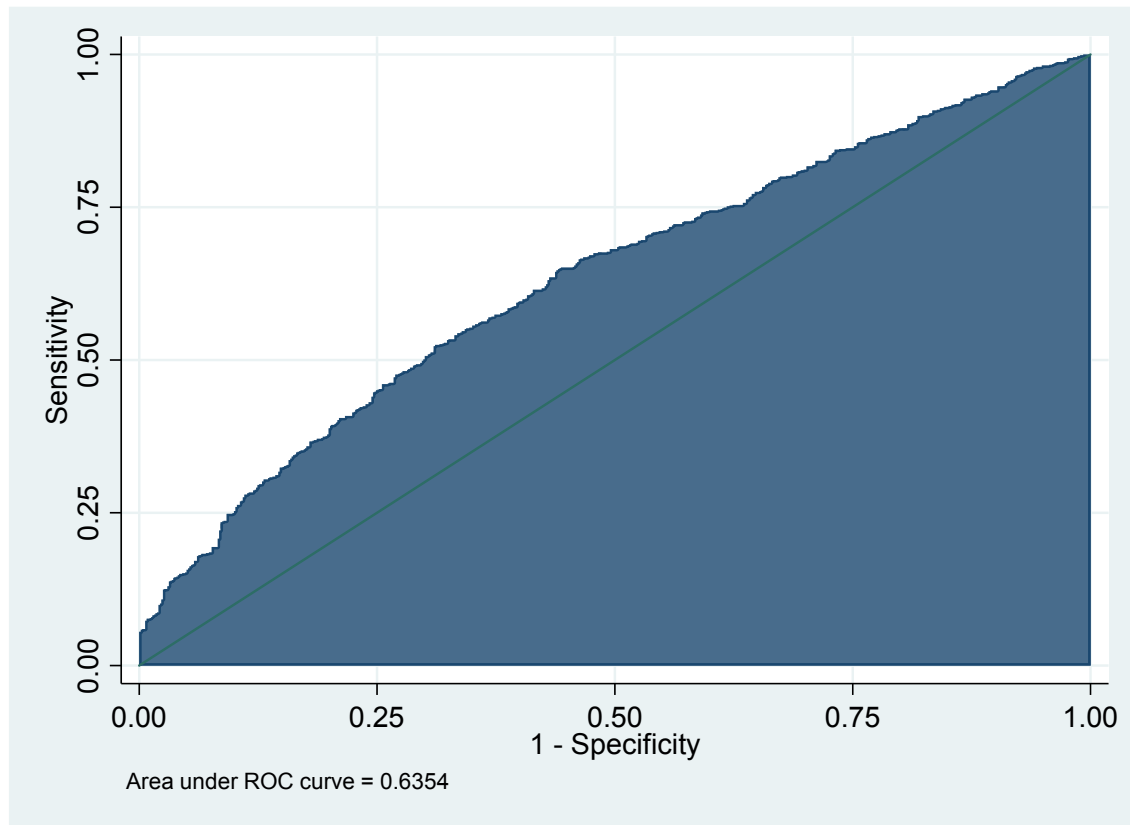
Variable	VIF	1/VIF
Trust KRA	1.43	0.701299
Trust Government	1.31	0.761378
Corruption KRA	1.26	0.790839
Corruption Government	1.16	0.859093
Education Level	1.12	0.894071
Age	1.10	0.907597
Democracy	1.10	0.912875
Employment Status	1.05	0.953048
Gender	1.03	0.966738
Pride	1.02	0.98027
Mean VIF	1.16	

Based on result in Table 4.3, the obtained mean VIF is 1.16, this implies that multicollinearity is not a problem, it does not impose a serious problem. Therefore, the estimates from this model can be relied upon to draw conclusion.

### 3.2.5 Receiver Operating Characteristic

To determine the analytical power of the regression model, this study used the receiver operating characteristic. The area under the curve is what shows the analytical power of the model. The more curved the curve, the greater the power of the model to be used in making predictions about tax moral. A higher analytical power model has the area under the curve being greater than 0.5, with the area under the curve of 1 indicating a perfect model. Form Figure 4.1, the area under the curve is 0.6354, this implies that the model has a high predictive power.

**Figure 3.1: Receiver Operating Curve**



### **3.3 Regression Results**

The estimation of the model was by ordered probit. Therefore, the dependent variable was treated as ordinal data. Since the interpretation of the estimated coefficients on the ordered probit is not straight forward, the study focussed only on the implication and the sign of the coefficients and interpreted the magnitude of the marginal effects. Other than age which is a continuous variable, all the other variables were keyed in as categorical and dummy. The ordered probit model output shows how the response variable (Tax Morale) is related with independent variables.

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have looked at these factors at the macro level. This study intends to analyse more variables to see which one's drive tax morale in Kenya.

Moreover, Gangl et al., (2015) when conducting a study using a sample survey of 84 Austrians, based on an online survey with items on trust in tax agency, patriotism, as well as tax compliance intentions found that national pride leads to trust which in turn impacts voluntary cooperation and finally impacts tax compliance. The more the taxpayers identify themselves with their community and state, the more they are likely to trust government authorities by viewing them as caring and committed to the public good, and the more the taxpayers would feel motivated to pay their share of taxes voluntarily (Kirchler, Hoelzl & Wahl, 2008). These included multiple linear regression (Ahmed & Kedir, 2015; Mansor & Gurama, 2016), binary probit (Cyan, et al (2016), ordered probit (Ali et al., 2013; Otindo et al., 2021). Multiple linear regression, however, may lead to bias in parameter estimation since it is used to model a categorical variable and treating the variable as though it was continuous.

The reviewed tax compliance theories explaining the dependent and independent variables. Similarly, the chapter also documented some of the earlier works focusing on the drivers of taxpayer's morale in different countries. These studies revealed that the concept of tax compliance has attracted attention not only from academics, but also from policymakers. Several studies done have focused on just a few factors that influence tax morale, while others have looked at these factors at the macro level. This study intends to analyse more variables to see which one's drive tax morale in Kenya.

**Table 3.6: Ordered Probit Regression Result**

	Ordered Probit Coefficient.	Marginal effects (Highest Tax Morale=3)	Standard Error	t-value	p-value
<b>Corruption in Government (Low)</b>					
Moderate	0.186	0.071	0.191	0.97	0.33
High	0.285	0.107	0.192	1.48	0.138
<b>Corruption in KRA (Low)</b>					
Moderate	0.255*	0.096	0.135	1.89	0.059
High	0.099	0.038	0.14	0.71	0.478
<b>Trust in Government (No Trust)</b>					
Low	0.022	0.008	0.103	0.22	0.829
Moderate	0.148	0.055	0.106	1.40	0.161
High	0.066	0.025	0.125	0.53	0.596
<b>Trust in KRA (No Trust)</b>					
Low	-0.012	-0.005	0.104	-0.12	0.905
Moderate	0.060	0.023	0.107	0.56	0.576
High	0.370***	0.135	0.131	2.83	0.005
<b>Pride (Not Proud)</b>					



Proud	0.293*	0.111	0.162	1.81	0.071
<b>Democracy (Not Democracy)</b>					
Low	-0.146	-0.054	0.142	-1.03	0.302
Moderate	-0.075	-0.028	0.143	-0.52	0.601
High	-0.083	-0.03	0.159	-0.52	0.602
Age	0.009***	0.003	0.003	3.48	0.001
<b>Gender (Female)</b>					
Male	-0.018	-0.007	0.064	-0.28	0.780
<b>Employment Status (Not Employed)</b>					
Part Time	-0.046	-0.017	0.089	-0.52	0.605
Full Time	0.086	0.032	0.072	1.2	0.231
<b>Education Level (No Formal)</b>					
Informal	-0.054	-0.021	0.384	-0.14	0.888
Primary	0.178	0.069	0.232	0.77	0.441
Secondary	0.391*	0.151	0.233	1.68	0.094
College	0.500**	0.192	0.243	2.06	0.039
University	1.004***	0.358	0.267	3.76	0.000
Mean dependent variable	2.528		SD dependent variable	0.593	
Pseudo r-squared	0.037		Number of observations	1529	
Chi-square	94.315		Prob > chi2	0.000	
Akaike criterion. (AIC)	2511.748		Bayesian crit. (BIC)	2645.057	

*Source: Authors analysis based on Afrobarometer data 2015*

From the results in Table 4.6, five variables are significant in explaining determinants of tax morale in Kenya. Most factors have the anticipated sign and conform to findings of the previous studies except perceived corruption in KRA. The results give a coefficient of determination of 0.037, which implies that about 3.7 percent of the difference in tax morale is explained by the independent variables. Moreover, the chi-square value is significant at 1 percent level implying that the variables in the model mutually explain variations in the tax morale.

Within this study, the interpretation of the size of the coefficient is related to the marginal effects of the highest level of tax morale. Perceived corruption in KRA, trust in KRA, national pride, age of the respondent as well as the education level of the respondent have got significant influence on tax morale. Result of the control variables show that age has a significant positive effect on the intrinsic motivation to pay taxes, with older respondents tending to depict higher tax morale compared to the younger ones. This shows that, a one-year increase in the age of respondent increases the chances of reporting the highest level of tax morale by about 0.3 percentage points. The older the respondents, the higher the chances of recording the highest tax morale.

The results show a positive and significant association between tax morale and perceived trust in tax officials. Those with high trust in tax officials tend to depict higher tax morale compared

to those with low or moderate trust in KRA. The findings indicate that having high trust in tax officials as opposed to having no trust at all increases the probability of being in the highest tax morale category by about 37 percentage points.

The findings revealed that pride and tax morale had a positive and significant relationship. The respondents who indicated that they were proud to be Kenyans depicted the highest level of tax morale compared to the ones who are not proud to be Kenyan. Looking at the magnitude of the relationship, being proud to be a Kenyan as opposed to not being proud at all increases the chances of reporting the highest level of tax morale by about 29.3 percentage points.

The findings revealed that education level of the respondent plays a significant role in influencing the taxpayers tax morale, with those with either a university, college or secondary education depicting the highest tax morale level. In terms of the magnitude, having a university education as opposed to having no formal education raises the probability of reporting the highest tax morale by about 100 percentage point. Having a college education as opposed to having no formal education raises the chances of being in the highest tax morale category by about 50 percentage points, while having a secondary education as opposed to having no formal education increases the probability of reporting the highest tax morale by about 39 percentage points.

Regarding perceived levels of corruption in KRA, the findings show a positive and important relationship between level of corruption among tax officials and tax morale. According to these findings, taxpayers who perceive the tax officials to be corrupt depicts the highest level of tax morale. In fact, perceiving the level of corruption among the tax officials to be moderate as opposed to it being low raises the chances of reporting the highest level of tax morale by about 26 percentage points.

### **3.3.1 Discussion of Findings**

**Age:** Age was found to positively and significantly influence tax morale of Kenyans. The findings revealed that being old as opposed to being young increases the chances of having a higher tax morale. For instance, a one-year increase in the age of the respondent increases the chances of being in the highest tax morale category by about 0.3 percentage point. These findings supported the findings of Ahmed & Kedir, (2015), who found that there existed a

positive and significant relationship between age and tax compliance behavior in Ethiopia among 384 taxpayers.

**Pride:** There was a direct significant linkage between pride tax morale in Kenya. Being proud to be a Kenyan as opposed to not being proud increases the chances of reporting the highest tax morale. Taxpayers tax morale is boosted when they feel proud as Kenyans. The findings corroborate those of Konrad and Qari (2011) which indicated a robust positive linkage between tax compliance attitude and patriotism and also Gangl et al., (2015) who found that national pride leads to trust which in turn impacts voluntary cooperation and finally impacts tax compliance attitude.

**Trust in KRA:** With regards to trust in tax officials, the findings show that there was a positive and significant association between perceived trust in KRA and tax morale in Kenya. Those who put their trust on tax officials tend to depict increased tax morale as opposed to those with low trust in tax officials. This implies that, for the state to improve tax morale among the taxpayers, then the tax officials should continue operating in a manner that builds trust with the taxpayer. These findings corroborate those of Andriani, (2015), Chan et al., (2018) and Ibrahim et al., (2015) who found that having trust in the regime improved tax morale of citizens. Moreover, these findings confirm the argument by Ali et al., (2013) who established that trust in institutions was significant in influencing a taxpayer's attitude towards tax compliance.

**Education Levels:** Education level was significant in influencing tax morale of taxpayers. The results indicate that the more educated a person is, the higher the chances of them reporting the highest tax morale. In fact, the study established that having a university education as opposed to having no formal education increases the chances of being in the highest tax morale category. These findings imply that, as one's education level increases, their knowledge of taxation also increases and the benefits of paying taxes. The findings validate those of Cyan, et al (2016) who found out that education significantly impacted tax morale in Pakistan

**Corruption in KRA:** Regarding perceived corruption among the tax officials, it was established that there exist a positive and significant relationship between tax morale and perceived corruption in KRA. The findings reveal that those who perceive tax officials to be corrupt depicts a higher tax morale. The direction of the relationship seems to be counter-

intuitive. In fact, the findings contradict findings from the previous studies. For instance, the findings go against those of Torgler, (2006) who found a negative relationship between tax morale and perceived corruption in tax authority. One of the possible reasons for this difference in findings could be due to the way the question on corruption was framed, perhaps had the question been framed the way the normal way the Transparency International of Ethics and Anti-Corruption frames their questions on corruption, we could have had different results.

## **CHAPTER 4: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **4.1 Introduction**

This chapter summarizes the findings obtained, provides the conclusions that we draw from the data and offers some of the policy recommendations based on the findings. Moreover, the chapter also outlines some of the limitations of the study and suggest possible areas of further study.

### **4.2 Summary of the Study**

The findings of this study revealed that five out of the ten variables were significant in influencing tax morale of taxpayers in Kenya. these variables include trust in tax officials, national pride, age of the respondents, education level as well as perceived corruption among the tax officials. It was established that, those who indicated that they were proud to be Kenyans were associated with the highest tax morale levels compared to having no pride at all. This could be due to the fact that, when taxpayers feel the sense of belonging in their own country, their motivation to pay tax increases.

Older people tend to depict higher tax morale compared to the relatively younger ones. This finding shows that, with age people tend to appreciate the importance of taxation especially in the provision of public goods which they then enjoy during their retirements.

The findings also revealed that education level plays an important role in influencing taxpayers tax morale. This implies that, more educated taxpayer seems to be more informed on the need to pay taxes and clearly understands their obligations.

Trust in tax officials was established to influence the tax morale of the taxpayers, with those whose trust in KRA is high depicting higher tax morale than those who have low trust in tax authority. Perceived corruption among the tax officials was also found to influence tax morale, with those who perceive tax officials to be corrupt depicting higher tax morale. However, these findings were against the expectation. Ideally, we would expect the tax morale to be highest among those who perceive the level of corruption among the tax officials to be low.

### **4.3 Conclusions**

The study sought to analyze drivers of tax morale in Kenya. in doing so, it seeks to investigate the effects of perceived trust in KRA and government, perceived corruption in KRA and in

government, national pride as well as identify the socio-economic and demographic factors that influence tax morale. An ideal situation would be that, taxpayers with higher perception of corruption in the tax authority and the government will always depict a lower tax morale compared to those who perceive corruptions to be low in those institutions. Similarly, taxpayers who feel proud to be members of a particular country tend to depict higher tax morale compared to the ones with low levels of pride.

This study results supported some of these conventional knowledges while some gave contrary findings. For instance, the findings of this study shows that the level of education of an individual influences the attitude and moral intentions of individual to pay taxes, specifically those with university education, college and secondary education reporting the highest levels of tax morale compared to those with no formal education. Trust in tax authority has a significant role in influencing tax morale of taxpayers, with those who have high trust in KRA depicting the highest tax morale. Patriotism is quite important in influencing the morale of individuals in paying taxes, similarly, an increase in age of a respondent is found to increase their intentions to pay taxes, hence the eldest people have the highest tax morale category. Nonetheless, perceived corruption among tax officials was found to increase tax morale. This result was counter-intuitive given that perceived corruption should demotivate taxpayers from paying their taxes.

#### **4.4 Recommendations**

This research makes the following recommendations that are in line with the findings obtained:

The relationship between the level of education of a taxpayer and their morale to pay taxes is positive, according to the findings of this study. To improve tax morale in the country, the government through the ministry responsible for education and curriculum development should come up with a curriculum that teaches issues of taxation at an early stage. Moreover, the government should continue implementing the 100 percent transition to secondary school education

National pride was established to positively and significantly influence tax morale. Therefore, the government should consider putting in place measures that makes taxpayers feel prouder to be Kenyans. These measures could include tightening the fight against corruption, upholding

the rule of law, initiating more feasible government projects that the citizen can identify with, given the social contract that the citizen have with the state.

Trust in KRA was significant in explaining tax morale. Therefore, KRA and its leadership should continue building trust with the taxpayers to foster enhanced motivation. KRA should continue interacting with the taxpayer in ways that gives them confidence in the intentions of the revenue authority.

#### **4.5 Areas for Further Research**

Given that the current study used data that was collected in 2015, the future studies can build on this by using the most recent data if available, this is due to the fact that there have been a lot of changes that could change the taxpayer's perception. Moreover, it is also important for future studies to focus on a more targeted audience like focus on different segments of taxpayers, this is because different taxpayers have different experience in terms of their interaction with the revenue authority, and it would offer more focused recommendations.

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