

**iTAX SYSTEM AND SERVICE DELIVERY BY KENYA REVENUE  
AUTHORITY, NAIROBI STATIONS**

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**DECLARATION**

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

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**SUPERVISOR’S APPROVAL**

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

Signature..... Date.....

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## **DEDICATION**

This work is dedicated to my parents who have supported and challenged me to continuously move my studies higher. Special dedication to my wife Diana for encouragement, thoughts and prayers throughout the course of this project.

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## ABSTRACT

Actual revenues and expected revenue always differ with large gap margin resulting in lower than expected revenue collection. While the total tax receipts may be lower compared to full compliance, it may not be lower than under other feasible taxation system. iTax is a modern computer-based assessment and collection software used by the government. It is a computing and accounting system for state revenues (levies, taxes) which stores all relevant (credit and debit) data in individual accounts in a data base, and thus helps monitor and control all tax transactions. iTax provides a convenient and efficient way to improve revenue collection, transparency in fiscal administration and management of local and national tax authorities. It is important to understand iTax system and its influence on service delivery. The study therefore sought to review iTax system and service delivery by Kenya Revenue Authority, Nairobi stations. The study adopted Cross-sectional research design approach. The study targeted Kenya Revenue Authority employees in Nairobi stations. Data was collected using structured questionnaires. Data obtained was subjected to quantitative methods of data analysis using SPSS (version 20). T-test was used to determine the degree and significance of the relationship between variables. The study found that employees' perception towards technology (iTax) has a statistically significant influence on customer service delivery. It found that a better understanding and knowledge of the tax system and access to internet do improve customer service delivery significantly.

# **CHAPTER ONE: INTRODUCTION**

## **1.1 Background of the Study**

Governments today are under an increasing pressure to improve the delivery of public services in cost-effective ways. Despite numerous challenges most governments have turned to e-government led solutions like electronic tax filing (e-filing) (Ojha et al., 2011). To date, the use of ICT is prominent in business and tax settings. Notably, tax authorities around the world are using electronic tax administration system to interact with taxpaying public in tax collection, administration and compliance settings. Technology has influenced the way we work, play, and interact with others. Much remains to be done in many countries to build effective tax administrations. High turnover of senior staff, weak headquarters, inadequate/unstable financing are recurrent concerns, as especially in developing countries are weaknesses in auditing, taxpayer services and legal frameworks. IT developments offer considerable opportunities but also pose new compliance problems (International Monetary Fund, 2014).

Kenya Revenue Authority has introduced e-filing system known as iTax. iTax system is a computing and accounting system for state revenues (levies, taxes) which stores all relevant (credit and debit) data in individual accounts in a data base, and thus helps monitor and control all tax transactions. iTax provides a convenient and efficient way to improve revenue collection, transparency in fiscal administration and management of local and national tax authorities.

It has enabled taxpayers to register for PIN and obtaining PIN certificate online, apply for Tax Compliance Certificate (TCC), file annual returns, amend personal details, apply for refunds, register payments to make online and pay through bank, request for waiver of interests and penalties, access their individual ledger records kept by KRA and in case of any errors can be corrected early avoiding penalties and interests, receive communications and make enquiries online and report challenges online. In conjunction with a personalized taxpayer identification number, the tax authority using iTax can automate most of the levying processes and minimize the scope for tax fraud. Technically, iTax is a completely integrated modular system for taxation with an open source database, which can handle all types of taxes. iTax supports the Kenya Revenue Authority in registration, assessment, collection, accounting, debt management, auditing, tax monitoring, and reporting (iTax case study, 2012).

The Kenya Revenue Authority's iTax system has for months provided effective service to its clients. The system provides an integrated view of a taxpayer, making it easier for taxpayers to access various tax administration services from anywhere, update their registration details, file returns, pay their taxes through mobile payment services (such as M-Pesa, Airtel Money and others), enquire about tax status, apply for a Tax Compliance Certificate and lodge refund claims online in real time, just to name a few (Daily Nation, 2015). In addition, the KRA is now able to identify taxpayers who have traded within the period 2014/2015 and who have not filed returns. The KRA announced it had hit the Sh1 trillion revenue mark for 2014/2015 fiscal year (Daily Nation, 2015).

Some of the services that have been effectively delivered to customers include registration of taxpayers, streamlining of the reporting of data and tax receipts. There are a number of methods employed today by tax agencies to capture tax return and payment data electronically. Additionally, electronic methods are increasingly being used for administrative functions, such as business tax registration, and name and address changes for both businesses and individuals.

### **1.1.1 iTax System**

iTax system launched in 2011 and implemented by Indian firm Tata, iTax replaces the online system previously used by KRA, which the public has complained about over its inefficiencies. The web-enabled system that seeks to make tax compliance a simple, quick and secure exercise is expected to bring down the cost of tax compliance in logistics, and help reduce interaction between staff and taxpayers, eliminating bribery claims. This is part of KRA's mission to attain global best practices in tax collection, and the taxman intended to benchmark against nations that have fully automated their system, including the US (Business Daily, 2015). iTax is an improvement of a previous online system by KRA called the Integrated Tax Management System (ITMS), rolled out in 2007, which failed to automate taxation and spawned serious customer dissatisfaction. KRA says that most taxpayers are locked out by inefficiencies and bureaucratic system hence iTax.

With the new system, taxpayers will be able to register, file returns, make payments and enquire about their status, while monitoring their accounts in real-time 24 hours a day, from the comfort of their homes or offices. The system will also eliminate rogue agents who swindle taxpayers by keeping outdated electronic registers of tax agents. To further cut down the cost of taxation, taxpayers will be required to fill their returns offline by downloading the returns form, filling it and uploading it at their own convenience. The system is set to integrate more than 30 banks to ensure that most taxpayers are covered (Business Daily, 2015).

Globally, the tax environment is changing rapidly. Tax authorities are being challenged to maintain a modernized and responsive tax administration system. Tax agencies are leveraging on the electronic tax filing (e-filing) system to achieve greater tax administrative and compliance efficiency (Lai et al., 2011). Electronic filing is the modern way of tax authorities interacting with tax payers. Tax practitioners as a group apparently do not see that the conversion to electronic filing offers much to them in terms of return on their investment, considering the cost of software and hardware needed to adopt the e-filing technology (Skillman, 2010). Although many tax practitioners do perceive that electronic filing is an important and improved service; they do not view it as vital in gaining competitive advantage (ACCA, 2012).

According to Ralph (2012), electronic filing is dependent on the use of technology. Technology used in e-filing comprise of computer, internet and software applications. Electronic filing can be measured when the desired outputs are realized. According to Fu et al. (2012), some of the measures of electronic filing should include, reducing life of tax, improving efficiency and reducing errors in procedures, increasing multi-tasking levels of tax officers and facilitating taxpayers in complying with tax regulations. One of the pillars of e-filing is to have a single database which covers all proceedings in relation to taxable activities of the taxpayer, that is, valuation, billing, collection and enforcement. Taking cognizance of the existence and impact of tax operating cost is not a recent phenomenon. It was started in 1776 by Adam Smith's four well-known maxims of good tax practice (equity, certainty, convenience and economy).

### **1.1.2 Service Delivery**

Service delivery is an attitude or global judgment about the superiority of a service, although the exact nature of this attitude is not agreed. Some suggest that it stems from the comparison of expectations with the performance perceptions (disconfirmation) (Parasuraman et al., 2013) while others argue that it is derived from a comparison of performance with ideal standards or from perceptions of performance alone (Cronin & Taylor, 2011).



An effective and efficient program of taxpayer service activities is a critical objective of all revenue bodies (OECD, 2012). The general complexity of tax laws coupled with the relatively large populations of taxpayers to be administered mean that all revenue bodies must rely substantially on taxpayers' voluntary compliance to achieve the outcomes expected of them. It is axiomatic that to achieve high levels of voluntary compliance, taxpayers and their representatives must have a good standard of services to help them determine their obligations under the laws and to complete the steps required to acquit those obligations (OECD, 2012).

Therefore, a quality taxpayer service program should ensure that there is timely handling of taxpayer complaints and the tax officials have empathy and are competent. Security of taxpayers' documents and tax affairs should be of paramount. The physical appearance of equipment, facilities and layout should facilitate taxpayers' services (Aslund, 2012). A well-implemented taxpayer services will result in an informed taxpayer who is able to register voluntarily, fill his returns in time and honour his tax obligations. The compliant taxpayer will be able to contribute his share of income tax collections to the overall performance of income tax revenue collections (Jenkins & Khadka, 2011). The performance of tax revenue collections is anticipated to increase with improved and sustained taxpayer services, change of attitude and conduct of KRA staff aimed at customer service and simple and under-stable tax administrative procedures put in place. The taxpayers are likely to be responsive to tax laws and practice by complying in voluntary registration, filing and payment (Surrey, 2011).

According to Poverty Reduction and Economic Management Unit (2009), the service can therefore have different starting points; the taxpayer's needs to contact the Tax Administration or the Tax Administration's needs to reach the taxpayer. Taxpayer service is also a matter of accessibility. The necessary service should not just exist, but should be easily accessible from the taxpayer's point of view. Witte and Woodbury (2013) argue that one aspect of taxpayer service are personal services at tax offices or other places, telephonic information service, and information through pamphlets, folders, forms, Internet service, advertisements in papers, commercials on radio and television. A second equally important aspect is prompt processing of taxpayer applications or complaints. Taxpayer service is also a question of attitude towards taxpayers. Effective taxpayer service requires a clear commitment of the administration to assist the taxpayer, to treat him fairly, a capacity to understand his concerns and questions and to be foresighted about his needs. This attitude must permeate all contacts with the taxpayer irrespective of the reason for the contact (Grampert, 2011).

Revenue bodies have a variety of methods (hereafter referred to as “channels”) at their disposal for delivering services to individual taxpayers and their representatives. These include the operation of physical sites (e.g. office inquiry centres) enabling face-to-face contacts, the provision of phone inquiry services (including through use of modern call centre facilities), communication by written correspondence using normal postal services, and increasingly through the provision of electronic services through the Internet and other mechanisms.

However, each of these channels is subject to varying strengths and weaknesses, not to mention cost considerations. For example, large office networks within a revenue body providing physical face-to-face contact may meet the needs of some taxpayers who desire the “reassuring” nature of personal contact services but are likely to entail significant overhead costs (and can typically only be provided in normal business hours) (OECD, 2012). On the other hand, services provided via the Internet can generally be provided universally on a 24 hour/7 days a week basis. However, not all taxpayers have access to Internet services and some segments of a revenue body’s clients may be reluctant to use them. Tools like one-stop shops and single tax web portals for all taxes and taxpayers can make it easier for taxpayers to comply with their tax obligations (OECD, 2011).

Kenya Revenue Authority has been offering efficient services since the introduction of iTax system. The authority has embarked on major issues such as confidentiality by ensuring secrecy of every taxpayer's affairs and use of tax information only as allowed by the law (KRA, 2012). Service delivery has been facilitated through providing taxpayers and their authorized agents with clear precise and timely information, ensuring the courtesy and considerate treatment are extended unconditionally to all taxpayers, responding expeditiously to every taxpayer's enquiry, complaint or request, explaining the grounds for and derivation of every tax assessment, providing proper technical advice to the taxpayer on requests about tax implications, assisting new taxpayers to register, educating the taxpayers and the general community about tax obligations and rights (Naomi & Joel, 2011).

Given these sorts of considerations, revenue bodies ideally require a systematic approach or strategy for arriving at an optimal mix of channels for service delivery, one that achieves high standards of effectiveness while at the same time also meets efficiency objectives, both from the viewpoint of the revenue body and taxpayers at large.

### **1.1.3 iTax System and Service Delivery**

Kenya Revenue Authority's domestic taxes department has revamped the existing integrated tax management system to a new one dubbed iTax that will allow employees to see their ledgers showing their pay as you earn remittances unlike before when this information was not readily available. Apart from the obvious benefit of not having to receive manual tax returns or manage queues at KRA offices for provision of services, the new system sends a user confirmation upon successful payment registration, electronic return filing and actual tax payments (Coastweek Newspapers Limited, 2015)

Transfer mispricing is robbing Kenyan workers and citizens of access to good public education, health care, transport services and a clean environment, which the government can only provide through proper revenues. Both local and Multinational companies explore transfer mispricing to avoid paying tax to the government. For example an Indian based multinational company utilized this loophole to avoid paying Kenya government nearly US\$11 million (EUR8 million) in corporate income tax, part of a larger set of tax disputes with government authorities (Pascal, 2014).

These behaviors are hemorrhaging Africa. These companies under declare the value of the merchandise shipped to a warehouse in outside Kenya saving the firm costs on its tax bill, though illegal under Kenyan law. It is estimated that capital flight due to tax evasion is costing developing countries around US\$1 trillion per year (Tax Justice Network et al., 2013). The system is expected to simplify and quicken tax compliance and secure exercise, thus bringing down the cost of tax compliance in logistics. It will also help out in reducing interaction between KRA staff and taxpayers thus eliminating cases of bribery claims.

Tax evasion creates horizontal inequity and, if opportunities for evasion are correlated with income, complicates the attempt to achieve vertical equity (Naomi & Joel, 2011). Evasion also imposes economic costs because taxpayers expend resources to facilitate evasion and the tax agency expends resources to contain it. The equity and efficiency implications of tax evasion, and optimal policy to address it, depend on its magnitude and nature which, for obvious reasons, is difficult to ascertain. This article contributes to that effort by developing a new method for estimating the extent and nature of tax noncompliance based on evidence from unaudited tax returns and how iTax implementation has affected service delivery by KRA.

#### **1.1.4 Kenya Revenue Authority**

The Kenya Revenue Authority (KRA) was formed in July 1st 1995 as government agency responsible and enhances tax collection on behalf of the Government of Kenya. It collects a number of taxes and duties, including value added tax, income tax and customs. Since KRA's inception, revenue collection has increased dramatically, enabling the government to provide much needed services to its citizenry like free primary education and HIV treatment, education, roads, health and social security, defense, and civil order forces to all (KRA, 2012).

The responsibility of the government to finance public services lies therefore at the heart of taxation. Applying criteria of efficiency, fairness, and transparency to tax system and the spending of government resources creates a virtuous circle of improving fiscal performance, good governance, fair distribution of public goods and services, and ultimately strengthens state legitimacy. It promote compliance with Kenya's tax, trade, and border legislation and regulation by promoting the standards set out in the Taxpayers Charter and responsible enforcement by highly motivated and professional staff thereby maximizing revenue collection at the least possible cost for the socio-economic well-being of Kenyans (KRA Annual Report, 2012). The body strategically aims to attain international best practice in revenue administration by ensuring maximum quality service delivery to enhance compliance. An ever more assertive Kenya Revenue Authority (KRA) is spreading its tax net even wider to beat its revenue collection targets and in the process an increasing number of tax suits are finding their way to the courts.

Over the last ten years of its existence, KRA has increased revenue collection from Kshs. 122 billion in the Financial Year 1995/1996 up to Kshs. 274 billion in Financial Year 2004/2005 (Waweru, 2006). Tax revenues collected by KRA continue to be an important source of finance for the Government, and currently account for about 95% of the total Government revenue (Waweru, 2006).

## **1.2 Statement of the Problem**

Actual revenues and expected revenue always differ with large gap margin resulting in lower than expected revenue collection. While the total tax receipts may be lower compared to full compliance, it may not be lower than under other feasible taxation system. The prevalence of fraudulent claims is often cited by tax officials as a major reason for delaying compliance of Tax returns. Often, less advanced tax administrations pursue time consuming and labor-intensive processes to verify compliance before approving tax returns compliance, resulting in backlogs of waiting cases of compliant approved tax payers and considerable disquiet among business taxpayers who have been deprived of their working capital (Commercial Taxes, 2010). Delays in taxpayer registration, information capturing also occur when state budgets are under pressure and when tax filling of returns targets is not being met. This often happens when tax authorities and finance ministries do not have suitable forecasting and monitoring system in place to anticipate return compliance levels.

Administrations with more sophisticated forecasting and budgeting capabilities have not been able to predict exact taxpayer compliant levels with a fair degree of precision, given that a pattern of tax returns compliance tends to develop within countries over time. Since the inception of KRA, revenue collection has continued to grow while professionalism in revenue administration has been enhanced. However, challenges remain, inhibiting the achievement of a fully integrated and modern tax administration. The Revenue Administration Reform and Modernization Programme (RARMP) was put in place to ensure that momentum was injected to consolidate the gains that had been made in tax administration, which made enormous strides in ensuring that KRA transformed itself into a modern, fully integrated and client-focused organization (KRA, 2012).

A number of studies have been done on various factors related to tax compliance and small taxpayers but not on iTax and service delivery. In Germany, Jürgen (2011) did a study on the benefits of a computerized integrated system for taxation. He found that iTax system has cost saving and service improvement effects induced by e-Government. Nevertheless, the use of ICT in government's authorities has achieved better public service delivery. However, he indicates that appropriate technology is necessary but not sufficient. Amongst other activities, long-term political commitment and ongoing monitoring and evaluation are of fundamental importance. Besides, effective plans need to be in place for capacity development and the improvement of technical infrastructure. Committed public administration staff has to be involved in the implementation process to ensure lasting success (Jürgen, 2011).



A sample of small businesses for payment of the value added tax in New Zealand (GST), indicates, that businesses with computerized accounting system report a very minimal amount of time spent on end-of-year tax activities (Ritchie 2011). On the other hand, Rametse (2013) while carrying out the cost implications small taxpayers will encounter on electronic filing, established that, use of electronic filing does not affect the compliance costs, which remained considerably higher for small businesses (2 percent of a turnover of say A\$100,000) than for larger- than small businesses (0.04 percent of a turnover of say A\$2 million). A study conducted by Aminuzzaman (2010) in Bangladesh revealed that some of the critical institutional challenges facing public service delivery at the level of local authorities include limited manpower and resources. The study did focus on revenue authorities and the public service delivery they offer.

A similar study was conducted in UK by Sarshar and Moores (2006) on improving public service delivery in facilities management and found that lack of strategic awareness, lack of capacity, poor performance monitoring and poor coordination processes were major challenges that hindered public service delivery. In Kenya, Akinyi (2010) looked at the challenges Government institutions face on public service delivery in Kenya. She found that there is a problem of lack of coordination between local authorities and extension service delivery workers of the government at the field level. She did not look at KRA which is the focus of this study.

However, Muita (2011), while studying the factors influencing the adoption of public e-filing in Kenya, found out that use of electronic filing will lead to managerial benefits and savings of costs. For example, on-line lodgment and transfers and the greater use of electronic submission and transfers, are likely to reduce compliance costs for small businesses.

Furthermore, Wasao (2014) did a study on the effect of online tax system on tax compliance among small taxpayers in East of Nairobi Tax District. He found out that online system enhances compliance as far as filing of tax returns is concerned, with hospitality sector in East of Nairobi Tax District scoring the highest among the sectors analysed. While a number of taxpayers agreed that with online system payments are more accurate and their tax ledgers get updated in real time, majority however, had reservation with accessibility especially on due dates (Wasao, 2014).

From the existing empirical studies, it appears no study has been done in Kenya on iTax system and service delivery. The assumption has been that it is a new initiative by Kenya Revenue Authority, which has been done world over, so it will improve service delivery. The study therefore, sought to fill this gap in knowledge, by reviewing iTax system and service delivery by Kenya Revenue Authority, Nairobi stations. The study sought to answer the following research questions: To what extent does iTax system affect service delivery at Kenya Revenue Authority? What is the relationship between iTax system and service delivery at Kenya Revenue Authority?

### **1.3 Research Objective**

The objectives of the study were:

- i. To establish the extent to which iTax system has affected service delivery at KRA.
- ii. To establish whether there is a relationship between iTax system use and change in service delivery.

### **1.4 Value of the Study**

The Kenyan government relies heavily on taxes to fund its development expenditure. An increase or decline in tax revenues has a direct bearing on the economy of Kenya as a country. The study is likely to reveal the strengths or weaknesses associated with implementation of new technology and its benefits not only to the authority but also to taxpayers thereby, enriching knowledge to other government institutions planning to embark on similar modernization programs.

The Causes and Consequences of Income Tax Noncompliance provides a comprehensive summary of the empirical evidence concerning taxpayer noncompliance and presents innovative research with new results on the effects of iTax on Tax Return Compliance (TRC). Other issues examined include to what degree taxpayers respond to the threat of civil and criminal enforcement and the important role of the media on taxpayer compliance (Dubin & Jeffrey, 2012).

This research offers researchers, students, and tax administrators' insight into the allocation of taxpayer compliance enforcement and service resources, and suggests policies that will prevent further increases in the tax gap. The research's aggregate data analysis methods have practical applications not only to taxpayer compliance but also to other forms of economic behaviour, such as welfare fraud.

The research also contributes to the existing body of knowledge and may form the basis for further research in the area of technology and tax compliance in Kenya. Finally, the recommendations made will be of great help to KRA and the small taxpayers in carrying out a cost-benefit analysis on the use of technology in efficient tax administration. This may aid in future policy formulation on the same.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter reviews literature on the impact of iTax on service delivery. It first looks at the theoretical framework and then discusses tax reform in Kenya, and presents an empirical literature based on the study objective.

### **2.2 Theoretical Framework**

Taxpaying is a primary nexus between individual and state, and tax laws are exemplar of purposive administrative law. The framework for this proposal on taxpaying emphasizes that service delivery is an important issue. Taxpaying does not necessarily involve deliberate decisions. Both the process of decision making and the content of decisions must be studied. There are several clusters of factors affecting the service delivery such as the extent to which iTax has improved service delivery at KRA and the relationship between iTax system use and change in service delivery.

#### **2.2.1 Theory of Planned Behaviour**

Theory of planned behavior is an important theory which presents within the scope of the social psychology and tries to explain human behaviors. The Theory of Planned Behavior (TPB) has been beneficial and measured as one of the models in predicting behaviors (Ajzen, 2011).

According to this theory, behaviors of the individuals within the society are under the influence of definite factors, originate from certain reasons and emerge in a planned way (Erten, 2012). Nevertheless, the ability to perform a particular behavior depends on the fact that the individual has a purpose towards that behavior. As for the factors determining the purpose towards the behaviour, they are attitude towards behavior, subjective norms and perceived behavioral control (Erten, 2012). Factors counted above are also under the influence of behavioral beliefs, normative beliefs and control beliefs (Ajzen, 2011). Intention is the basis of this theory and performance of behaviour or its transformation into a different behavior depend on the intention that the individual has generated towards the behavior. Ajzen, described intention as the factor indicating the degree of individual efforts in order to perform certain behaviour (Ajzen, 2011). Intention is explained by attitudes towards behavior, individual norms and perceived behavior controls (Klee et al. 2009).

Attitude includes the evaluations made by the individual who will perform the behavior regarding the act of that behavior. Subjective norm refers to the opinions of the other individuals who are important for individuals that will perform the behavior or are taken as reference as regards to this behavior. Finally, perceived behavior control specifies the difficulty level of the performance displayed by an individual. This element can sometimes affect the behavior directly. For example, in case the behavior control does not depend on the desire of the individual, in other words, if there is any legal sanction, perceived behavior control can affect the behavior directly.

In conclusion, the Theory of Planned Behavior posits that individuals' intentions, together with their perceived control over the behavior determine whether or not they will actually engage in the behavior.

### **2.2.2 Benefit Theory**

The benefit approach was initially developed by Knut Wicksell (1896) and Erik Lindahl (1919). According to this theory, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government. This principle has been subjected to severe criticism on the following grounds:

The state maintains a certain connection between the benefits conferred and the benefits derived. It will be against the basic principle of the taxation. A tax, as we know, is compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct quid pro quo in the case of a tax. Most of the expenditure incurred by the state is for the general benefit of its citizens. It is not possible to estimate the benefit enjoyed by a particular individual every year (Luoga & Makinya, 2012).

If we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. If we get more from the poor by way of taxes, it is against the principle of justice? The implication of this theory is that small tax payers may have to pay more taxes than medium and large tax payers.

## **2.3 Tax Reform in Kenya**

From independence in 1963 until the early 1980s, public spending in Kenya was financed through a somewhat uncoordinated set of taxes and fees inherited from British rule and supplemented by foreign aid inflows. The oil shock in the early 1970s led to the country's first significant fiscal crisis, in response to which some relatively minor tax reforms were undertaken. Sales taxes were introduced as a means of generating extra revenue, and trade taxes were used in an attempt to reduce the ballooning balance of payments deficit. One motivation for the relatively heavy reliance on good-specific sales and excise taxes was the belief that the government could "get the prices right," especially through its use of trade taxes in the pursuit of first, import-substitution policies and then export-led growth strategies (Roger, 2010).

Personal, and to a lesser extent corporate, income taxes were seen as serving primarily redistributive roles in the 1970s. During the period 1974 through 1985, the tax rates on both personal and corporate income were high. Marginal personal income tax rates ranged from 10 percent on the first shilling to a top rate of 65 percent. The tax rate applied to income of domestic corporations was 45 percent in 1974, while foreign corporations faced a rate of 52 percent.



Analysts such as Karingi et al. (2014) observed that little personal income tax was collected in the top brackets of the tax schedule. This could have been due to low labor productivity few people could hope to earn incomes high enough to put them in the top bracket. But it is likely that both the absolute size of the top personal income tax rate, and the fact that it was 20 percentage points higher than the corporate tax rate, contributed to the lack of reported income by taxpayers at the top end. In the early 1980s, growing budget deficits began to loom.

Like most developing countries, it has had to challenge with the common problems of tax system; with rates and structures that are difficult to administer and comply with; that are unresponsiveness both to growth and discretionary tax measures hence offering low tax productivity; that raise little revenue but introduce serious economics. High personal income taxes, especially the top marginal rates, have a negative effect on savings. Kenya gradually decreased its top marginal tax rate from 65% to the current 30% to provide personal incentive to save and to stimulate enterprises by creating a savings pool (John, 2012). This, it was hoped, would improve the performance of the economy and enhance job creation.

## **2.4 Empirical Literature**

A number of studies both locally and internationally have been done on the role Information Technology plays in Tax compliance. For instance a study of South Korea and Turkey on User evaluation of tax filing web sites was done by Lee et al. (2013), to compare the design and the complexity of the web sites and the ease with taxpayers are able to file tax returns and queries on their tax status. While Turkey had a complex online system, to the contrary Turkish users did not find tax filing system difficult to use and that was attributable to the fact that they relied on accounting professionals to do their tax returns online. On the other hand, South Korean system was considered less complex but few taxpayers were using it as expected. Having in place an electronic tax filing system is one thing, but being able to be used by taxpayers is another thing. This has influence on the current study in a way that the tax website ease of usage must be considered before such a system is rolled out to taxpayers. Other factors to be considered should also be the capacity of the system and the efficiency (Lee et al., 2013).

In Bangladesh, Aminuzzaman (2010) conducted a study about Public Service Delivery among Local Authorities in Bangladesh and found that some of the critical institutional challenges facing public service delivery include limited manpower and resources. The study did not focus on revenue authorities and the public service delivery they offer. Sarshar and Moores (2006) conducted a study in the UK and found that lack of strategic awareness, lack of capacity, poor performance monitoring and poor coordination processes were major challenges that hindered public service delivery.

Amitabh et al. (2009) did a study on the antecedents of paperless income tax filing by young professionals in India. The objective of this study was to study how young Indian professionals will adopt or behave towards paperless or online filing of tax returns with the aim of enhancing compliance. The regression analysis carried out found that the antecedents of young Indian professionals depended on the perceived ease of the tax system, personal innovativeness in information technology, relative advantage, performance of filing service, and compatibility. The implication of the findings to the current study is that for any online system to succeed whether for small, medium or large taxpayers' category there must be the ease of use, innovativeness and accessibility.

In Malaysia, Ling and Nawawi (2010) carried out a survey on Integrating ICT Skills and tax software in tax education. The respondents were the tax practitioners and the study aimed at establishing the necessary skills required by taxpayers to fully utilize a tax online system. The study found that three skills are needed by a taxpayer to interact well with technology based tax system namely, spread sheet software, word-processing software and e-mail. The findings of this study has got implications on the current study in that in analysing the effectiveness of electronic filing system, one must not ignore the mandatory skills that would be users of the system need to have. Failure to consider such skills may make the intention of the system not to be realized as confirmed by Maede (2002). He confirmed that despite the heavy investment that the Malaysian tax authority put in new online system, only 20% of the targeted taxpayers were able to use it after three years of implementation. This was mainly attributed to lack of necessary user skills like computer literacy; however, taxpayer's behaviour also played a role.

In Kenya, especially in Kenya Revenue Authority, different studies have been done on the subject of technology and tax compliance with specific reference to tax filing (Muita and Makanga, 2010). Makanga (2010) did a study on the adoption of technology as a strategic tool for enhancing tax compliance in Kenya. The case study was based on Large Taxpayers which included companies with a turn over Kshs. 750 million and above, or government ministries and corporations. The objective of the study was to evaluate the role Technology would play in Kenya to enhance tax compliance among large taxpayers. The study found that in the fast changing business world, technology has become part and parcel of any business growth. Either KRA or Large Taxpayers must embrace modern technology to enhance efficiency in tax compliance.

Muita (2010) did a related study on the factors that influence adoption and use of e-filing system among Large Taxpayers in Kenya. The study examined the skills required by the users of e-filing, the technology required and the tax authority's preparedness in enhancing the adoption of tax compliance based technology. The study found that for e-filing to effectively take off in Kenya skills, infrastructure and a conducive business environment are needed. Akinyi (2010) looked at the challenges Government institutions face on public service delivery in Kenya. She found that there is a problem of lack of coordination between local authorities and extension service delivery workers of the government at the field level. She did not look at KRA which is the focus of this study.

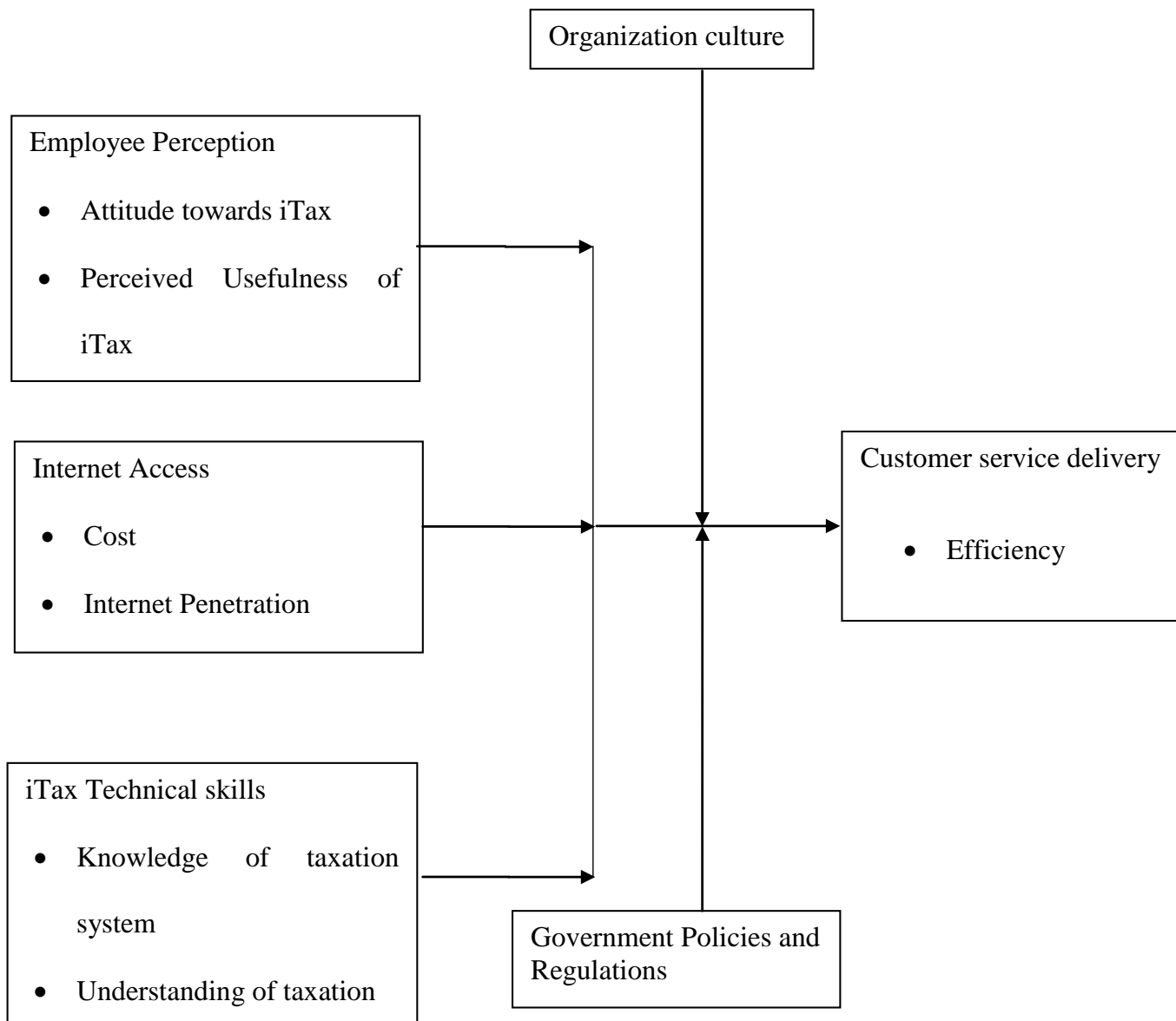
## 2.5 Conceptual Framework

Figure 2.1: Conceptual Framework

**Independent Variables**  
**Variable**

**Intervening Variable**

**Dependent**



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter describes the methods and procedures that were used in carrying out the research. The research design, target population, sampling design, data collection and analysis procedures are discussed in this chapter.

### **3.2 Research Design**

Cross-sectional research design approach was used to examine the influence of iTax system on service delivery by Kenya Revenue Authority, Nairobi stations. This type of study utilized different groups of people who differ in the variable of interest, but share other characteristics such as socioeconomic status, educational background and ethnicity.

### **3.3 Target Population**

The study targeted Kenya Revenue Authority employees in Nairobi stations. There are four stations namely East, West, South and North. For the employees, the target population will involve 320 employees of Kenya Revenue Authority. From this number, 72 were from the East station, 81 were from the West station, 78 were from the South station and 89 were from the North station as shown in table 3.2.

**Table 3.2: Target Population**

<b>Stations</b>	<b>Population</b>
East	72
West	81
South	78
North	89
<b>Total</b>	<b>320</b>

### **3.4 Sampling Technique and Sample Size**

The sampling plan describes the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the sample will be selected (Cooper & Schindler, 2013). The study adopted proportionate sampling methods. Proportionate sampling (Van Dalen, 2010) provides the researcher a way to achieve even greater representativeness in the sample of the population.

In proportional sampling, the size of each stratum is proportionate to the population size of the strata that was looked at across the entire population. This means that each stratum had the same sampling fraction. Kish (2005) says that 30 to 200 elements are sufficient when the attribute is present 20 to 80 percent of the time (i.e., the distribution approaches normality). Based on this contention, a sample size of 100 employees was regarded adequate in this study. Their distribution is as shown in table 3.3

**Table 3.3: Sample size**

<b>Stations</b>	<b>Population</b>	<b>Sample</b>
East	72	$72/320*100=$ 23
West	81	$81/320*100=$ 25
South	78	$78/320*100=$ 24
North	89	$89/320*100=$ 28
<b>Total</b>	<b>320</b>	<b>100</b>

**Researcher (2015)**

### **3.5 Data Collection**

The study used primary data. Primary data was gathered directly from respondents by use of a structured questionnaire containing both open-ended and close-ended questions. The questionnaire consisted of two sections. The first part mainly contained information on the background, which is gender, age and years of experience. This enabled the researcher to know the nature of the department, while the second part focused on iTax system and service delivery by Kenya Revenue Authority.

### **3.6 Data Analysis**

Data analysis started immediately after data collection and ended at the point of interpretation and processing data. Primary data collected using questionnaires was analyzed using descriptive statistics using SPSS (Statistical Package for Social Sciences) and be presented using tables, charts, and graphs with respective interpretation.



T-test was used to determine the degree and significance of the relationship between variables. The t-test assesses whether the means of two groups are statistically different from each other. This analysis is appropriate when comparing the means of two groups, and especially appropriate as the analysis for the posttest-only two-group randomized experimental design. The formula for the t-test is a ratio. The top part of the ratio is just the difference between the two means or averages. The bottom part is a measure of the variability or dispersion of the scores. The formula is as follows;

$$t = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{S_1^2}{N_1} + \frac{S_2^2}{N_2}}}$$

If the first mean is larger than the second, the t-value will be positive and vice versa. To test the significance, a risk level is set at an alpha level at .05. This means that five times out of a hundred you would find a statistically significant difference between the means even if there was none.

### **3.7 Operational Definition of the Variables**

Operational definition is the measurement of a variable. It is the description of the operation that will be used in measuring a variable.

**Table 3.2: Operational Definition of the Variables**

<b>Objective</b>	<b>Variables</b>	<b>Indicators</b>	<b>Instrument of analysis</b>	<b>Type of analysis</b>
To find out the extent to which employees perception has improved service delivery at KRA.	Independent Employees perception	<ul style="list-style-type: none"> <li>• Reliability and credibility</li> <li>• Security</li> <li>• Ease of use</li> <li>• Accessible</li> </ul>	Questionnaires	t-test
To find out the extent to which Internet Access has improved service delivery at KRA.	Independent Internet Access	<ul style="list-style-type: none"> <li>• Reliability</li> <li>• Accessibility</li> <li>• Reliability</li> <li>• Technical details</li> </ul>	Questionnaires Questionnaires	t-test
To find out the extent to which Technical skills has improved service delivery at KRA.	Independent Technical skills	<ul style="list-style-type: none"> <li>• Availability</li> <li>• Effectiveness</li> <li>• Reliability</li> <li>• Ease of use</li> </ul>	Questionnaires Questionnaires Questionnaires Questionnaires	t-test
Customer service delivery	Dependent	<ul style="list-style-type: none"> <li>• Accuracy</li> <li>• Potentiality</li> <li>• Efficiency</li> <li>• Reduced errors</li> </ul>	Questionnaires	t-test

## CHAPTER FOUR: DATA ANALYSIS

### 4.1 Introduction

This chapter presents analysis of the collected data, interpretation and discussion of findings. Structural Equation Model (SEM) analysis and correlation analysis were used. The section is divided into three sections; descriptive, correlation and SEM analysis. The study relied on primary data.

### 4.2 General Information

The section gives information about the respondents regarding their gender, age category, level of education attained, and work experience in KRA (Years).

#### 4.2.1 Gender of the Respondents

The study requested the respondents to provide their gender. The findings of the study are shown in the table below:

**Table 4.1: Gender of the Respondents**

	<b>Frequency</b>	<b>Valid Percent (%)</b>
Male	49	51
Female	47	49
<b>Total</b>	<b>96</b>	<b>100</b>

As shown above, 49(51%) of the respondents were male while 47(49%) of the respondents were female. Thus, a large percentage of men were involved in filling the questionnaires as compared to women indicating that majority of the KRA staff are men.

#### **4.2.2 Respondent’s Age Category**

The study asked the respondents to provide their age category. The findings of the study are shown in the table below:

**Table 4.2: Respondent’s Age Category**

<b>Age Category</b>	<b>Frequency</b>	<b>Valid Percent (%)</b>
25 - 30 Years	9	9.4
31 - 34 years	34	35.4
35 – 40 years	15	15.6
41 – 44 years	3	3.1
45 – 50 years	25	26
Over 51 years	10	10.4
<b>Total</b>	<b>96</b>	<b>100</b>

From the table above, a large proportion of the respondents 35.4% (34) are of the age category 31-34 years. This is followed by 26% (25) of the respondents who indicated that they are of age category 45-50 years while 15.6% (15) and 10.4% (10) of the respondents are of age category 35-40 years and over 51 years respectively. A small proportion of the respondents 9.4% (9) and 3.1% (3) indicated that they are of age category 25-30 years and 41-44 years respectively. Thus, the findings indicate that majority of the KRA staff are of the age category 31-34 years who are young and energetic and most of them are technologically savvy thus they can help in the successful implementation of the *iTax* system.

#### **4.2.3 Respondent’s Level of Education**

The study asked the respondents to indicate their level of education attained. The table below indicates the findings of the study:

**Table 4.3: Respondent’s Level of Education Attained**

<b>Level of Education Attained</b>	<b>Frequency</b>	<b>Valid Percent (%)</b>
Secondary	2	2.1
Technical / Vocational	3	3.1
Undergraduate	55	57.3
Postgraduate	36	37.5
<b>Total</b>	<b>96</b>	<b>100</b>

From the table above, most of the respondents 57.3% (55) are graduate degree holders while 37.5% (36) of the respondents have a postgraduate degree. A small proportion of the respondents 3.1% (3) and 2.1% (2) have attained technical and secondary education respectively. The findings indicate that majority of the KRA staff are graduate degree holders thus most of them do have basic IT knowledge that is crucial in the iTax system and service delivery.

#### 4.2.4 Respondent’s Work Experience in KRA

The respondents were also requested to provide how many years of experience they have as KRA staff. The table below gives the findings of the study:

**Table 4.4: Respondent’s Work Experience in KRA**

<b>Work experience in KRA</b>	<b>Frequency</b>	<b>Valid Percent (%)</b>
Less than 5 years	19	19.8
5-10 years	31	32.3
Over 10 years	46	47.9
<b>Total</b>	<b>96</b>	<b>100</b>

From the findings, majority of the respondents 46(47.9%) stated that they had worked in KRA for a period of over 10 years followed by respondents who have worked for KRA for a period of 5-10 year as indicated by 31(32.3%). 19(19.8%) of the respondents stated that they had worked for a period of less than 5 years.

The results indicate that most KRA staff have worked for a long duration and are thus expected to have more knowledge on matters tax system and service delivery that will guarantee the success of the *iTax* system.

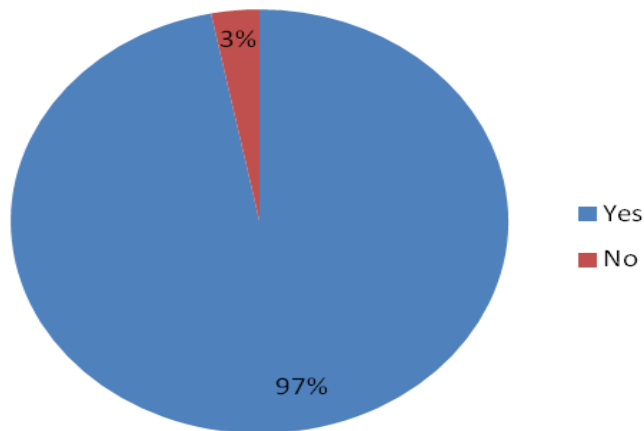
### **4.3 Factors Influencing *iTax* System and Service Delivery by KRA**

The section gives information about the respondents regarding the factors that influence *iTax* system and service delivery; employees' perception towards *iTax*, internet access, technical skills of filling returns and service delivery.

#### **4.3.1 Respondents' Awareness of *iTax* System**

The respondents were requested to provide information about their awareness of *iTax* system. The findings of the study are shown in the figure below:

**Figure 4.1: Respondents' Awareness of *iTax* System**



From the figure above 97% of the respondents are aware of the *iTax* systems operation while 3% of the respondents are not aware of the *iTax* system. This huge percentage of respondents' awareness is critical in the success of *iTax* systems and service delivery through the same platform.

### 4.3.2 Factors Related to *iTax* System as a Strategy to Collect Revenue

The study asked the respondents to state the extent to which they agreed with the following statements regarding factors related to *iTax* system as a strategy to collect revenue. The responses were rated on a five point Likert scale where: 5 -Strongly Agree, 4 - Agree, 3 -Undecided, 2 - Disagree, 1- Strongly Disagree. The mean and standard deviations were bred from SPSS and are indicated in the table 4.5

**Table 4.5: Factors Related to *iTax* System as a Strategy to Collect Revenue**

	Mean	Std. Deviation
<i>iTax</i> system is accessible and easy to use	4.28	0.879
<i>iTax</i> system fully operational	3.94	1.131
<i>iTax</i> system is reliable	4.33	0.844
<i>iTax</i> system gives accurate tax computations	4.43	0.960
<i>iTax</i> system is famous among tax payers	4.18	1.086



From the findings, majority of the respondents agreed to great extent that *iTax* system gives accurate tax computations, *iTax* system is reliable, *iTax* system is accessible and easy to use and *iTax* system is famous among employees with mean scores of 4.43, 4.33, 4.28 and 4.18 respectively. Some of the respondents were undecided that *iTax* system fully operational as indicated with a mean score of 3.94. The findings therefore suggest that majority of the KRA staff agree that *iTax* system gives accurate tax computations, *iTax* system is reliable, *iTax* system is accessible and easy to use and *iTax* system is famous among employees.

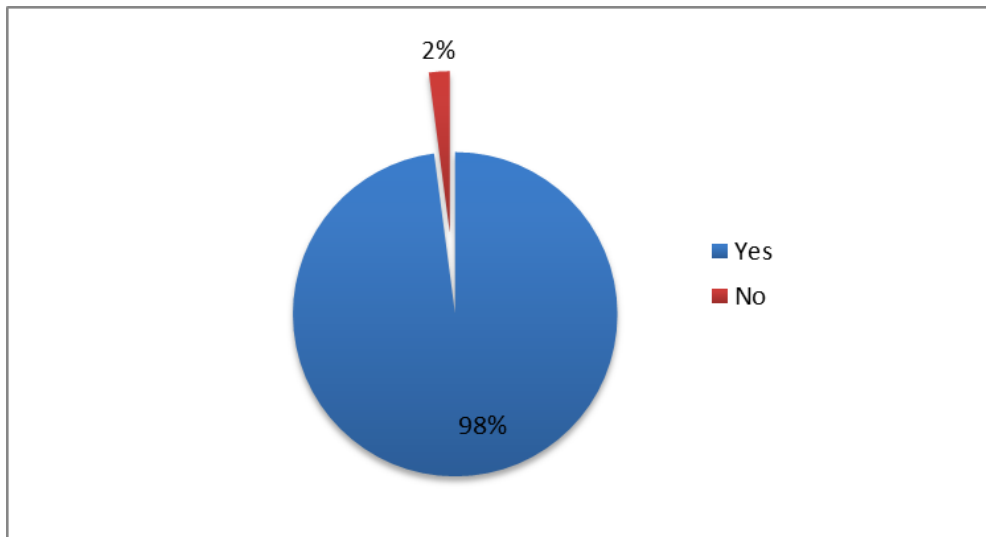
#### **4.4 Internet Access**

This section gives information about the respondents regarding taxpayer's registration as online user with KRA, challenges faced when trying to access information on tax issues and their level of agreement on the challenges experienced while accessing *iTax*.

##### **4.4.1 Taxpayers Registered as Online User with KRA**

The respondents were requested to provide information on whether taxpayers have registered as online user with KRA. Figure 4.2 shows the findings of the study:

**Figure 4.2: Have taxpayers registered as online user with KRA?**

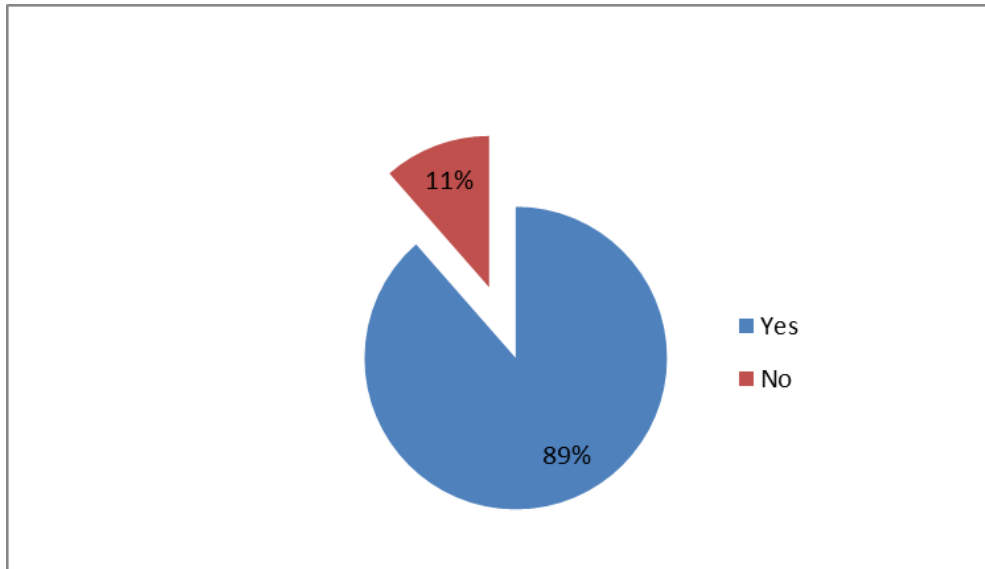


As shown by the figure above 98% of the respondents acknowledged that taxpayers have registered as online users with KRA as compared to 2% of the respondents with a contrary opinion on taxpayers registration as online users with KRA. The findings indicate that majority of the taxpayers are *iTax* users.

#### **4.4.2 Challenges Faced when Trying to Access Information on Tax Issues**

The respondents were also requested to provide information on whether they do face challenges when trying to access information on tax issues. Figure 4.3 gives the findings of the study:

**Figure 4.3: Do you face any challenges in trying to access information on tax issues?**



The figure above indicates that 89% of the respondents have faced challenges in trying to access information on tax issues while 11% of the respondents have not. This ain't a good indicator regarding the *iTax* system and service delivery as it may be constraining its succes.

#### **4.4.3 Challenges experienced while accessing *iTax***

The study asked the respondents to state the extent to which they agreed with the following statements regarding challenges experienced while accessing *iTax*. The responses were rated on a five point Likert scale where: 5 -Strongly Agree, 4 - Agree, 3 - Undecided, 2 - Disagree, 1- Strongly Disagree. The mean and standard deviations were bred from SPSS and are indicated in table 4.6.

**Table 4.6: Challenges experienced while accessing iTax**

	<b>Mean</b>	<b>Std. Deviation</b>
Conflicting information from different sources	2.86	1.058
KRA website lack enough information on various tax procedures	3.09	3.254
System slow / not functioning	2.85	1.091
Long queues in gaining access to KRA offices	3.02	0.945
Technical details on brochures and tax Acts that I don't understand	3.11	0.961
Delay in receiving feedback on queries raised	2.92	1.033
Lack of internet to download forms for filling returns	2.82	1.161
High fees charged by tax consultants and other professionals	2.97	1.147

The findings above indicate that the respondents were undecided about technical details on brochures and tax Acts and KRA website lacking enough information on various tax procedures as indicated by the mean scores of 3.11 and 3.02 respectively.

Majority of the respondents disagreed that high fees charged by tax consultants and other professionals, delay in receiving feedback on queries raised, conflicting information from different sources, slow/not functioning system, and lack of internet to download forms for filing returns as challenges experienced while accessing *iTax* as indicated by mean scores of 2.97, 2.92, 2.86, 2.85 and 2.82 respectively.

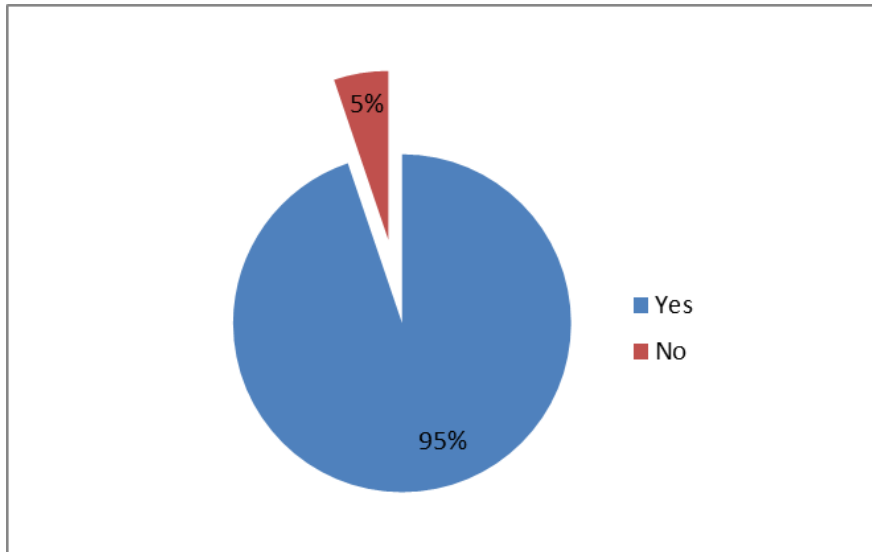
## **4.5 Technical Skills of Filing Returns**

In this section information on whether electronic filling of returns and keeping of records has enhanced revenue collection for their station, relevance of proper record keeping such as electronic filing of tax returns in enhancing revenue and fully computerization of KRA procedures will make it easier for users to be more tax compliant.

### **4.5.1 Has Electronic Filing of Returns and Keeping of Records Enhanced Revenue Collection**

The respondents were asked to provide information on whether electronic filling of returns and keeping of records has enhanced revenue collection for their station. The findings of the study are summarized in figure 4.4

**Figure 4.4: Has Electronic Filing of Returns and Keeping of Records Enhanced Revenue collection**



From the figure above 95% of the respondents are of the opinion that electronic filing of returns and records is key to enhancing revenue collection while 5% of the respondents think otherwise. This respondents' perception is key in the success of *iTax* system and service delivery as majority of the respondents are optimistic that it will enhance revenue collection thus minimizing revenue loss.

#### **4.5.2 Relevance of Proper Record Keeping Such as Electronic Filing of Tax Returns in Enhancing Revenue**

The study requested the respondents to state the extent to which they agreed with the following statements regarding the relevance of proper record keeping such as electronic filing of tax returns in enhancing revenue.

The responses were rated on a five point Likert scale where: 5 -Strongly Agree, 4 - Agree, 3 -Undecided, 2 - Disagree, 1- Strongly Disagree. The mean and standard deviations were bred from SPSS and are indicated in the table below.

**Table 4.7: Relevance of Proper Record Keeping Such as Electronic Filing of Tax Returns in Enhancing Revenue**

	<b>Mean</b>	<b>Std. Deviation</b>
The online tax system is famous among taxpayers	3.92	0.970
There is an increase in the number of tax returns filed online	4.54	0.780
Taxpayers seek clarifications on tax issues online	4.30	0.942
Tax declarations and computations are accurate	4.47	0.882
E slip is generated online	4.63	0.653
Increased Tax payments through CCRS	4.40	0.946

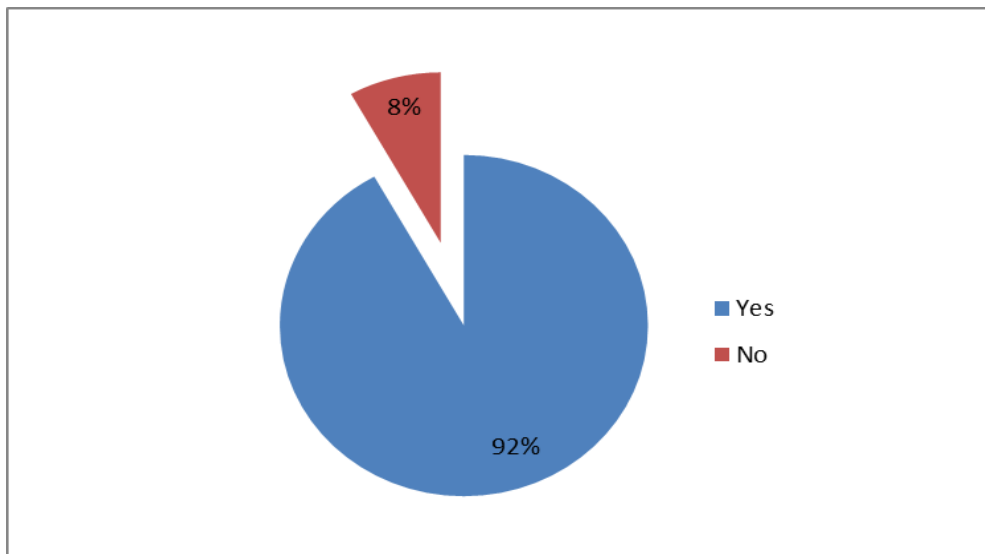
From the table above majority of the respondents agree that proper record keeping such as electronic filing of tax returns is relevant because E slip are generated online, there is an increase in the number of tax returns filed online, tax declarations and computations are accurate, there is increase in tax payments through CCRS and taxpayers seek clarifications on tax issues online as indicated by mean scores of 4.63, 4.54, 4.47, 4.40 and 4.30 respectively. On the other hand a small proportion of the respondents were undecided on whether online tax system is famous among taxpayers as indicated by a mean score of 3.92. Therefore, the findings indicate that majority of the respondents are of the opinion that proper record keeping such as electronic filling are relevant in enhancing revenue collection.

#### **4.5.3 Fully computerization of KRA procedures in making it easier for users to be more tax compliant**

The respondents were asked to indicate whether fully computerization of KRA procedures would make it easier for users to be more tax compliant. The findings of the study are summarized in figure 4.5



**Figure 4.5: Does fully computerization of KRA procedures make it easier for users to be more tax compliant**



From the figure above 92% of the respondents acknowledged that fully computerization of KRA procedures make it easier for users to be more tax compliant while 8% of the respondents thought otherwise. The findings indicate that fully computerization of the KRA procedures would make it easier for users to be tax compliant thus enhancing revenue collection.

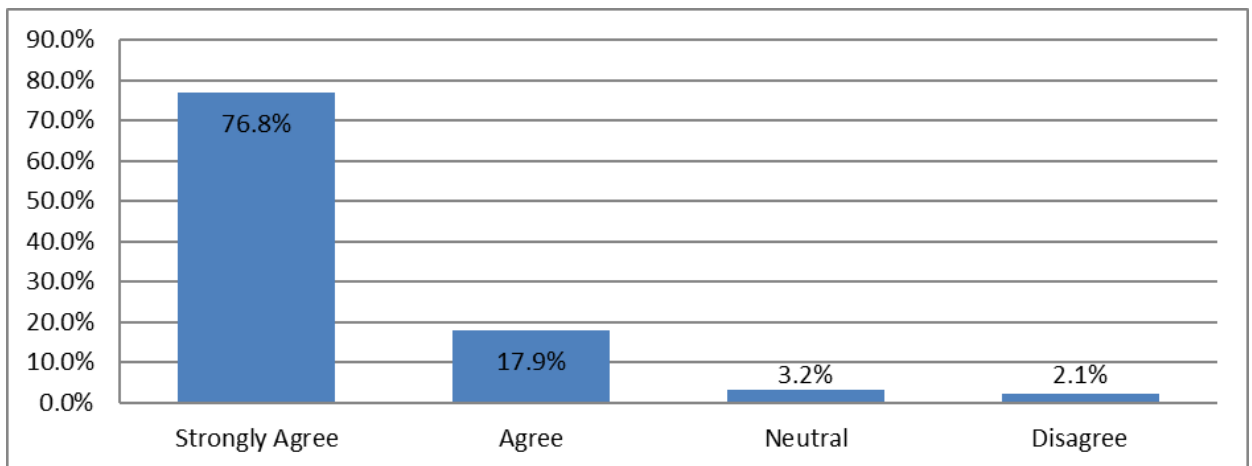
#### **4.6 Service Delivery**

This section gives respondents' information as regards to the extent *iTax* system affects service delivery at KRA in Nairobi Station, whether *iTax* services delivery via the Internet would hinder taxpayers who do not have access to internet services, their level of agreement or disagreement in regard to service delivery, and to what extent they agree that *iTax* achieves high standards of effectiveness while at the same time also meeting efficiency objectives, both from the viewpoint of the revenue body and taxpayers at large.

#### 4.6.1 The extent *i*Tax system affect service delivery at KRA in Nairobi Station

The respondents were asked to indicate to what extent they agree or disagree as regards to the following statements about the extent *i*Tax system affect service delivery at KRA in Nairobi Station. The responses were rated on a five point Likert scale where: 5 - Strongly Agree, 4 - Agree, 3 -Neutral, 2 - Disagree, 1- Strongly Disagree. The mean and standard deviations were bred from SPSS and are indicated in the graph below.

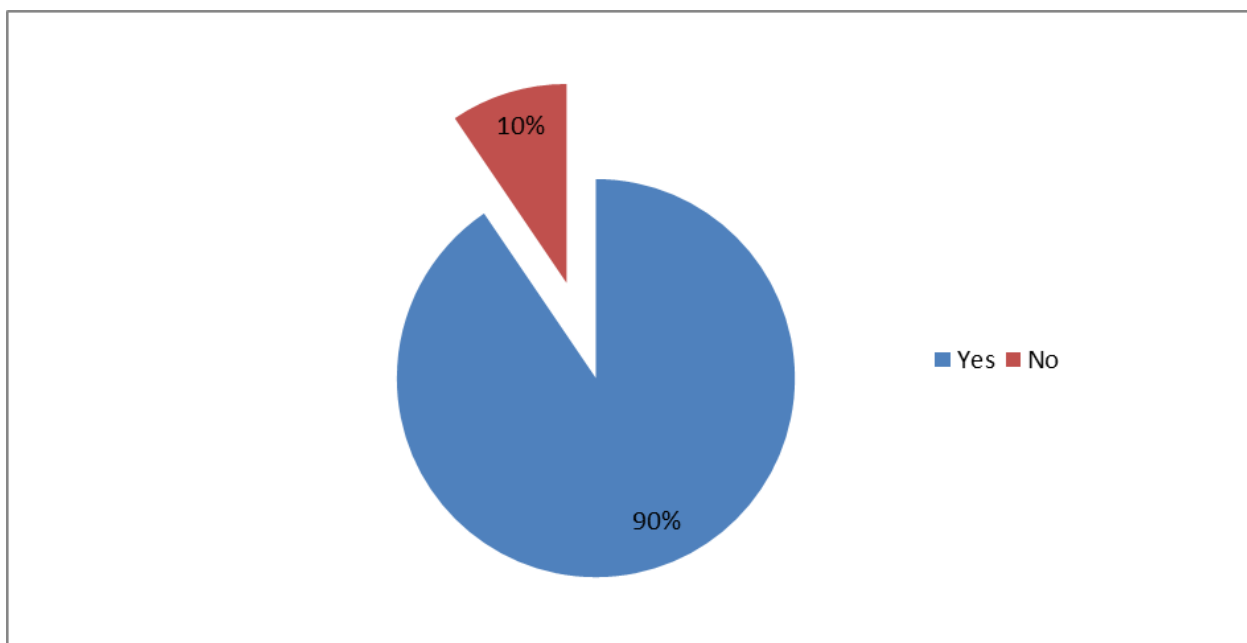
**Figure 4.6: The extent *i*Tax system affects service delivery**



#### 4.6.2 *i*Tax services delivery via the Internet and taxpayers access to internet

The respondents were requested to indicate whether *i*Tax service delivery via the Internet would hinder taxpayers who do not have access to Internet services. The findings of the study are as shown below.

**Figure 4.7: *i*Tax services delivery via the Internet and taxpayers access to internet**



As per the figure above 90% of the respondents indicated that *i*Tax services delivery via the internet would hinder taxpayers who do not have access to internet services while 10% of the respondents indicated that it would not be hindrance. The findings clearly show that internet access is very important in the delivery of *i*Tax services.

### 4.6.3 Level of Agreement or Disagreement in Regard to Service Delivery

The study requested the respondents to state the extent to which they agreed with the following statements in regard to service delivery. The responses were rated on a five point Likert scale where: 5 -Strongly Agree, 4 - Agree, 3 -Undecided, 2 - Disagree, 1- Strongly Disagree. The mean and standard deviations were bred from SPSS and are indicated in the table below.

**Table 4.8: Level of Agreement or Disagreement in Regard to Service Delivery**

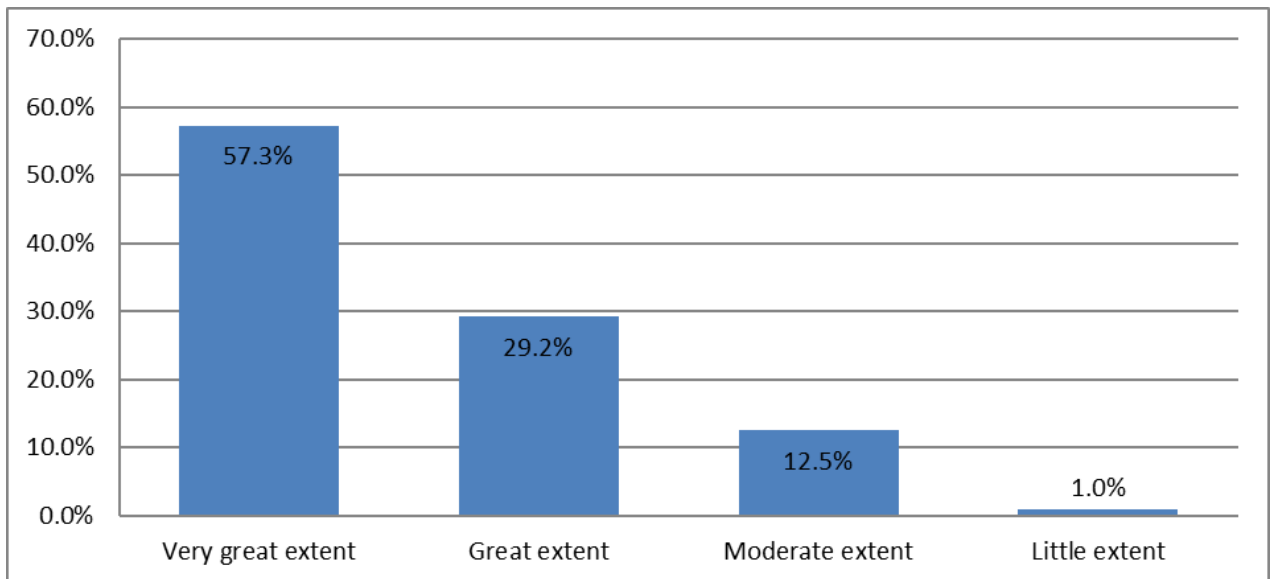
	<b>Mean</b>	<b>Std. Deviation</b>
Paying tax online is more accurate	4.27	1.198
iTax has the potential to help modernize the administrative processes.	4.53	0.770
iTax system comply with the client's requirements while considering the existing institutional framework.	4.28	0.859
iTax facilitate taxpayers in complying with tax regulations.	4.36	1.020
iTax increase multi-tasking levels of tax officers.	4.02	0.927
iTax reduces and improves efficiency and reduce errors in procedures	4.56	0.808

The findings above indicate that all the respondents agreed to all the above statements as regards to service delivery as indicated by the respective mean scores. Therefore, the findings indicate that *iTax* improves accuracy in payment of tax, modernizes administrative processes, facilitates compliance, enhances multi-tasking, and improves efficiency.

#### 4.6.4 *iTax* and high standards of effectiveness and efficiency objectives

The respondents were further requested to provide their level of agreement in regard to the following statement that *iTax* achieves high standards of effectiveness while at the same time also meeting efficiency objectives, both from the viewpoint of the revenue body and taxpayers at large. The findings of the study are in the figure below.

**Figure 4.8: *iTax* and high standards of effectiveness and efficiency objectives**



As shown by the figure above 57.3% of the respondents agreed largely that that *i*Tax achieves high standards of effectiveness while at the same time also meeting efficiency objectives, both from the viewpoint of the revenue body and taxpayers at large. 29.2% and 12.5% of the respondents agreed to a great extent and moderate extent that *i*Tax achieves high standards of effectiveness while at the same time also meeting efficiency objectives. Only 1% of the respondents agreed to a little extent with the above statement. The findings do indicate that *i*Tax is pivotal in enhancing high standards of effectiveness and efficiency objectives.

## 4.7 T-Test Analysis

### 4.7.1 Descriptive Statistics

The descriptive statistics of the variables under study are discussed in this section. The table below presents the findings of the study:

**Table 4.9: Descriptive Statistics for the Averages of Variables**

	Mean	Std. Deviation	N
Customer Service Delivery	4.2847	0.8587	96
Employees' perception towards technology (i-Tax)	4.2208	0.8428	96
Internet Access	2.9062	0.7548	96
Technical skills of filing returns	4.3681	0.6958	96

As per the table above, there were 96 observations that were used for this study for all the variables. Mean score for the dependent variable (Customer Service Delivery) was 4.2847. Mean scores for independent variables, Employees' perception towards technology (iTax), Internet Access and Technical skills of filing returns were 4.2208, 2.9062 and 4.3681 respectively.

The mean for Customer Service Delivery shows that over the period under study, Customer Service Delivery was averaging at 4.2847. The mean for Employees' perception towards technology (iTax) explains the average measures from each of the employees' perception towards technology (iTax). The descriptive statistics for internet access explains that average customer service delivery as a result of internet access under study was ranging at 2.9062. Mean score for technical skills of filling returns that was at 4.3681, explains how the knowledge and understanding of taxation system affects customer service delivery.

#### **4.7.2 One-Sample Test**

The study conducted t-test analysis to compare the values of the means from two samples. T-test results explain if the Means for the two groups are significantly different or if they are relatively the same. The findings are shown in table 4.10.

**Table 4.10: One Sample Test**

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Customer Service Delivery	48.889	95	.000	4.28472	4.1107	4.4587
Employees' perception towards technology (i-Tax)	49.070	95	.000	4.22083	4.0501	4.3916
Internet Access	37.725	95	.000	2.90625	2.7533	3.0592
Technical skills of filing returns	61.508	95	.000	4.36806	4.2271	4.5090

Under t-test, if the Sig. value is less than or equal to 0.05, the variability in the two conditions is significantly different and vice versa. From the findings, the t-test value is 48.889, 49.07, 37.725 and 61.508 for Customer Service Delivery, Employees' perception towards technology (iTax), internet access and Technical skills of filing returns significantly at 95 degrees of freedom. The 2-tailed p value (significance) is 0.000 for all the variables. This value is less than 0.05 at 5% significance level.

The findings indicates that there is a statistically significant difference between the mean number of Customer Service Delivery and Employees' perception towards technology (iTax); Customer Service Delivery and internet access; and Customer Service Delivery and Technical skills of filing returns.



The positive employees' perception towards technology (iTax) increases customer service delivery at KRA, access to internet has a positive influence of customer service delivery and KRA and technical skills of filing returns has a significant influence of customer service delivery at KRA.

#### **4.8 Discussion of Findings**

The study found that there is a statistically significant difference between the predictor's variables (employees' perception towards technology (iTax), internet access and technical skills of filing returns) and response variable (customer service delivery). It found that employees' perception towards technology (iTax) has a significant relationship with customer service delivery at KRA. The findings of a statistically significant relationship between customer service delivery and employees' perception towards technology (iTax) concurs with the findings of Makanga (2010) on the adoption of technology as a strategic tool for enhancing tax compliance in Kenya who indicates that technology is part and parcel on any business growth.

In the fast changing business world, technology has become part and parcel of any business growth. Both KRA and taxpayers must embrace modern technology to enhance efficiency in tax compliance. It found that technical skills of filing returns have a significant relationship with customer service delivery. The findings on the relationship between customer service delivery and technical skills of filing returns were found to be statistically significant.

This clearly indicates that KRA should put in place mechanisms that will ensure that its employees have the necessary technical skills if they are to enhance customer service delivery. This concurs with Maede (2002) findings that lack of users skills led to little success in the implementation of the online tax system. In South Korea and Turkey, Lee et al. (2013) found that While Turkey had a complex online system, to the contrary Turkish users did not find tax filing system difficult to use and that was attributable to the fact that they relied on accounting professionals to do their tax returns online. On the other hand, South Korean system was considered less complex but few taxpayers were using it as expected. Having in place an electronic tax filing system is one thing, but being able to be used by taxpayers is another thing.

The study found that iTax improves accuracy in payment of tax, modernizes administrative processes, facilitates compliance, enhances multi-tasking, and improves efficiency. It found that iTax is pivotal in enhancing high standards of effectiveness and efficiency objectives. The findings also show a negative correlation between customer service delivery and internet access with a correlation of -0.354. This implies that the challenges faced when accessing the internet negatively impact on customer service delivery. Aminuzzaman (2010) found that some of the critical institutional challenges facing public service delivery include limited manpower and resources. Sarshar and Moores (2006) conducted a study in the UK and found that lack of strategic awareness, lack of capacity, poor performance monitoring and poor coordination processes were major challenges that hindered public service delivery.

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

### **5.1 Introduction**

This chapter presents the summary of findings of the research, conclusions and the recommendations. The study also gives suggestions for further research.

### **5.2 Summary of Findings**

The findings show that employees' perception towards technology (iTax) has a significant influence on customer service delivery hence technology is pivotal in enhancing customer service delivery. The study also found that a better understanding and knowledge of the tax system do improve customer service delivery significantly and that technical skills of filing returns has a significant relationship with customer service delivery.

The study found that there was a high level of awareness of iTax which is critical in the success of iTax system and service delivery. Majority of the KRA staff agree that iTax system gives accurate tax computations, iTax system is reliable, iTax system is accessible and easy to use and iTax system is famous among taxpayers. The study found that most taxpayers are registered users of iTax but face various challenges when trying to access the system. This isn't a good indicator regarding the iTax system and service delivery as it may be constraining its success.

Majority of the respondents disagreed that high fees charged by tax consultants and other professionals, delay in receiving feedback on queries raised, conflicting information from different sources, slow/not functioning system, and lack of internet to download forms for filling returns as challenges experienced while accessing iTax. The study found that respondents' perception is key in the success of iTax system and service delivery as majority of the respondents are optimistic that it will enhance revenue collection thus minimizing revenue loss. Proper record keeping such as electronic filing of tax returns is relevant because E slip are generated online, there is an increase in the number of tax returns filed online, tax declarations and computations are accurate, there is increase in tax payments through CCRS and taxpayers seek clarifications on tax issues online. It found that that fully computerization of the KRA operations and procedures would make it easier for users to be tax compliant thus enhancing revenue collection.

The study found that iTax system affect service delivery on a high extent. Internet access is very important in the delivery of iTax services and that iTax improves accuracy in payment of tax, modernizes administrative processes, facilitates compliance, enhances multi-tasking, and improves efficiency. iTax is pivotal in enhancing high standards of effectiveness and efficiency objectives.

### **5.3 Conclusion**

The study concludes that iTax system is pivotal in enhancing customer service delivery given its strong positive influence on customer service delivery. It concludes that a better understanding and knowledge of the tax system do improve customer service delivery significantly. However, challenges faced when accessing the internet negatively impacts customer service delivery. Employees' perception towards technology (iTax), Internet Access and Technical skills of filing returns explains 61.8% only of Customer Service Delivery.

High level of awareness of iTax is critical in the success of iTax system and service delivery. iTax system gives accurate tax computations, it is reliable, is accessible and easy to use and is famous among taxpayers. There are challenges when accessing the system which is not a good indicator regarding the iTax system and service delivery. High fees charged by tax consultants and other professionals, delay in receiving feedback on queries raised, conflicting information from different sources, slow/not functioning system, and lack of internet to download forms for filling returns are challenges experienced while accessing iTax. Proper record keeping such as electronic filing of tax returns is relevant because e-slip are generated online, there is an increase in the number of tax returns filed online, tax declarations and computations are accurate, there is increase in tax payments through CCRS and taxpayers seek clarifications on tax issues online.

## **5.4 Recommendations**

The study found that there are challenges when trying to use iTax system. The study recommends that KRA should find a way of training users on how to use the system and overcome the challenges of iTax system.

It is evident from the findings that there is a statistically significant relationship between customer service delivery and internet access. The government should ensure that knowledge on how to use internet is given to the users in rural areas. The government should also ensure there is internet in all parts of the country for easy access of iTax system by users.

## **5.5 Suggestion for further research**

The study found that there are challenges in the use iTax system. The specifics of the challenges experienced by various users of iTax system were not identified by this study. There is need therefore to carry out a study on the challenges experienced with the use of iTax system in order to overcome and improve the system as a whole which will enhance even further the delivery of services by the revenue authority. Further research could also be extended to other Kenya Revenue Authority stations outside Nairobi where internet access is a challenge

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE QUESTIONNAIRE FOR iTAX SYSTEM AND SERVICE DELIVERY BY KENYA REVENUE AUTHORITY, NAIROBI STATIONS

#### Instructions

This questionnaire is designed to collect information on iTax system and service delivery by Kenya revenue authority, Nairobi stations. The information obtained will only be used for academic purposes and shall be treated in utmost confidence. You are requested to complete this questionnaire as honestly and objectively as possible. Please tick in the appropriate box and also fill in the blank spaces provided for those questions where elaborate answers are required. Use the space at the back of this questionnaire if you need more space for your responses.

#### SECTION A: GENERAL INFORMATION

1. Kindly indicate your gender: Male  Female
  
2. Kindly indicate your age category:  

25 - 30 Years	<input type="checkbox"/>	31 - 34 years	<input type="checkbox"/>	35 – 40 years	<input type="checkbox"/>
41 – 44 years	<input type="checkbox"/>	45 – 50 years	<input type="checkbox"/>	Over 51 years	<input type="checkbox"/>
  
3. Level of Education Attained  
Primary   
Secondary   
Technical / Vocational   
Undergraduate   
Postgraduate
  
4. Work experience in KRA (Years)  
Less than 5 years   
5-10 years   
Over 10 years

**SECTION B: FACTORS INFLUENCING iTAX SYSTEM AND SERVICE DELIVERY BY KENYA REVENUE AUTHORITY**

**1. EMPLOYEES PERCEPTION**

5. Are you aware of iTax system?

Yes [ ] No [ ]

6. Do you think iTax system has improved service delivery?

Yes [ ] No [ ]

If yes, why?

.....  
 .....  
 .....

7. The table below lists the factors related to iTax system as a strategy to collect revenue. Please indicate by ticking your level of agreement on the factors; 5 - Strongly Agree, 4 - Agree, 3 -Undecided, 2 - Disagree, 1- Strongly Disagree.

	1	2	3	4	5
iTax system is accessible and easy to use					
iTax system is fully operational					
iTax system is reliable					
iTax system gives accurate tax computations					
iTax system is famous among tax payers					

**2. INTERNET ACCESS**

8. Have taxpayers registered as online user with KRA?

Yes  No

9. Do you face any challenges in trying to access information on tax payer issues?

Yes  No

10. Do you agree with the following challenges experienced while accessing *iTax*?

Please indicate by ticking your level of agreement on the factors; 5 -Strongly Agree, 4 - Agree, 3 -Undecided, 2 - Disagree, 1- Strongly Disagree

<b>Problem/ Hindrance</b>	1	2	3	4	5
Conflicting information from different sources					
KRA website lack enough information on various tax procedures					
System slow / not functioning					
Long queues in gaining access to KRA offices					
Technical details on brochures and tax Acts that taxpayers don't understand					
Delay in receiving feedback on queries raised					
Lack of internet to download forms for filling returns					
High fees charged by tax consultants and other professionals					

**3. TECHNICAL SKILLS**

**11.** Do you think that electronic filing of returns and keeping of records has enhanced revenue collection for your station?

Yes [ ] No [ ]

**12.** The table below lists the elements indicating the relevance of proper record keeping such as electronic filing of tax returns in enhancing revenue. Please indicate by ticking your level of agreement of factors; 5 -Strongly Agree, 4 - Agree, 3 - Undecided, 2 - Disagree, 1- Strongly Disagree.

<b>How electronic record keeping has enhanced revenue</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The online tax system is famous among taxpayers					
There is an increase in the number of tax returns filed online					
Taxpayers seek clarifications on tax issues online					
Tax declarations and computations are accurate					
E slip is generated online					
Increased Tax payments through CCRS (computerized cash receipting system)					

**13.** Do you think if KRA fully computerizes its operations and procedures it will make it easier for users to be more tax compliant?

.....

.....

.....

.....

**4. SERVICE DELIVERY**

**14.** To what extent do you agree that *iTax* system affects service delivery at Kenya Revenue Authority in Nairobi Stations?

- Strongly Agree [ ]
- Agree [ ]
- Neutral [ ]
- Disagree [ ]
- Strongly Disagree [ ]

**15.** Do you think *iTax* services delivery via the Internet will hinder taxpayers who do not have access to Internet services?

- Yes [ ]
- No [ ]

**16.** Kindly state your level of agreement or disagreement with the following statements in regard to service delivery. Indicate by ticking your level of agreement of factors; 5 -Strongly Agree, 4 - Agree, 3 -Undecided, 2 - Disagree, 1- Strongly Disagree.

<b>Service delivery</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Paying tax online is more accurate					
<i>iTax</i> has the potential to help modernize the administrative processes.					
<i>iTax</i> system comply with the client’s requirements while considering the existing institutional framework.					
<i>iTax</i> facilitate taxpayers in complying with tax regulations.					
<i>iTax</i> increase multi-tasking levels of tax officers.					
<i>iTax</i> reduces and improves efficiency and reduce errors in procedures					



**17.** To what level of extent do you agree with the statement that *iTax* achieves high standards of effectiveness while at the same time also meeting efficiency objectives, both from the viewpoint of the revenue body and taxpayers at large.

Very great extent      [   ]

Great extent            [   ]

Moderate extent        [   ]

Little extent            [   ]

Very little extent      [   ]

## APPENDIX II: LETTER OF INTRODUCTION



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAMME**

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22093 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE 02/9/15

**TO WHOM IT MAY CONCERN**

The bearer of this letter CHEVUYOT WALTER .K

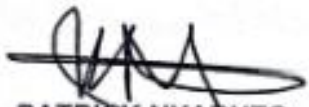
Registration No. D61/76985/2014

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

  
**PATRICK NYABUTO**  
**MBA ADMINISTRATOR**  
**SCHOOL OF BUSINESS**



## APPENDIX III: LETTER OF AUTHORIZATION



**Ref: 8270**

**7<sup>th</sup> September 2015**

**Walter Cheruiyot  
Domestic Taxes Department - MST  
NAIROBI**

**Dear Sir.**

**RE: REQUEST TO CONDUCT RESEARCH**

Your request to conduct research vide your letter dated 4<sup>th</sup> September 2015 has been approved

The research shall be administered through questionnaires only.

Please treat the information gathered with uttermost confidentiality.

Kindly favour us with a copy of the project for our retention once the research is complete.

Yours Faithfully,

  
**Elijah M. Nyaribo.  
For: Deputy Commissioner – HR.**

*“Tutaye Ukwere, Tugitegeme!”*

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