THE EFFECT OF TAX REFORMS ON CORPORATE TAX COMPLIANCE TO KENYA REVENUE AUTHORITY

BY

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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I do hereby confirm that I have examined the master's dissertation of

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ABSTRACT

Taxation plays a significant role in financing public expenditure of a country. In every jurisdiction, the responsibility of collection of taxes lies with the revenue authorities and it's therefore relevant to determine their role in a country's tax system. The payment of tax is not as a result of an automatic behaviour but as a result of policies that rely on deterrence. Tax has undergone various reforms since 1986 and the challenges of fiscal budget deficits posed by KRA now are not any different from previous years. Noncompliance among firms creates poses a great challenge towards realization of revenue collection target by the revenue authorities. Recent studies on tax compliance, have been based on social and psychological theories relating to attitude and tax payer behaviour however little is known about the effect of the reforms to corporate tax payer compliance in an economic perspective highlighting a Kenyan case. The objective of this study was to analyse effect of policy, administrative and technological tax reform on corporate tax compliance. A census was done on domestic taxes department staff at KRA headquarters. Self-administered questionnaires yielded a 64% response rate. The data was subjected to descriptive and inferential analysis. Reliability and internal consistency of the measurement scale was tested using Cronbach's alpha. Analysis of Variance (ANOVA) test revealed a p value of 0.00 hence the model was a good fit. Findings revealed that tax reforms has an inverse effect to corporate tax compliance. Results confirm that the tax reforms have not have achieved the intended purpose.

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ABBREVIATIONS/ACRONYMS

SAS	-	Self Assessment System
LTO	-	Large Taxpayers Office
ITA	-	Income Tax Act
VAT	-	Value Added Tax
ETR	-	Electronic Tax Register
PIN	-	Personal Identification Number
IRS	-	International Revenue Service
HRMC	-	Her Majesty's Revenue &Customs
TMP	-	Tax Modernisation Program
KRA	-	Kenya Revenue Authority
ICPAK	-	Institute of Charted Public Accountants in Kenya
KIPPRA	-	Kenya Institute for Public Policy Research and Analysis
MTO	-	Medium Tax Payers Office
OECD	-	Organisation for Economic Co-operation and Development

DEFINITIONS OF TERMS

Tax liability information; means lifestyle, size of the family, sources of capital inflow say inheritance and handouts, expenses say capital outflow; say extended families and concludes, political activities, say abnormal donations, mortgage, if it was for business or personal, swimming pool, if business use or personal as well as use of saloon cars say for business or personal.(Bhatia,2010)

Tax treatment of expatriate staff; means leave pay, allowances and insurance premiums.(Osambo,2009)

Compensating Tax; means additional tax affecting companies and arises when the dividends paid and tax refunds, exceed dividends received and tax paid in the year.(KRA ,2015)

Losses on Tax; means losses from employment, losses in property, business losses, terminal losses, loss from farming and loss on foreign cash.(Simiyu,2003)

Incidence on imports; discourages imports as price of imports increase, or encourages consumption of locally produced goods. (OECD, 2014)

Incidence on exports; makes exports more expensive and unattractive; means killing local industries as there is no market for their goods and it worsens the balance of payments position. (Simiyu, 2003)

Drawings; Means assessment on business income for instance school fees assessable on business if Maina as a person has not treated it as Taxable income. (Simiyu, 2003)

Buoyancy of tax; means flexibility which is the responsiveness of the tax revenue due to change in the National income and discretionally changes for instance the tax laws, Provisions and scoreless.(Gituku 2011)

Elasticity; the responsiveness of the Tax revenue to change in National income revenue to change in National income discretionary changes affected through changes in tax rates as corporate tax rate, VAT rates, graduated scale etc. (Simiyu,2003)

Inelastic income tax; means for instance body corporate, tax will be inelastic since the corporate tax is constant elastic and a slight change in graduated sale rates does not have significant impact on the revenue to the government. (Bhatia, 2010)

Elastic customs and excise duty; means customs duty will be elastic as a change in customs duty rate will lead to a change in volume of imports leading to a change in revenue to government. (Bhatia, 2010)

Inelastic excise duty; means consumes will re-organize their spending in case of change in excise duty rate. (Bhatia, 2010)

Tax policy; policy established through tax reform system; to establish long-term tax objectives to stimulate economic growth and harmonize and rationalize tax rate in Kenya.(Osambo,2009)

Double Taxation Treaty/Agreement ; Meant to reduce tax liability exists between Kenya and other countries that is tax payable in that other county can be offset against tax payable in Kenya. (Simiyu, 2003)

Individual; means a natural person. (Simiyu, 2003, Osambo, 2009)

Individual rates; means the individual rates of income Tax specified in paragraph of head B of the third schedule.(Osambo,2009)

Interest (other than charged on tax); means interest payable in any manner in respect of a loan, deposit, debt, claim or other right or obligation and includes premium or discount by way of interest and commitment of service fee paid in aspect of any loan or credit.(KRA 2011)

Value added Tax (VAT); this is a consumption tax charged on Taxable goods and services. (Osambo, 2009)

Accounting for VAT; Means VAT is accounted for by; issuing tax invoices, input tax deductions and keeping of records. (Simiyu, 2003, Osambo, 2009)

Tax point; it means when tax becomes due and payable to the commissioner of VAT.(Mehrotra, 2010)

Compliance and penalties on Tax; Means that once registered, a taxpayer should avoid committing offences (the; failure to display the tax certificate, failure to issue tax invoices, declaring false returns or failure to submit/late submission of returns.(OECD, 2013)

Submission of returns; means due date for submitting returns say on or before 20th of the month following that which the sales were made for VAT. (Simiyu, 2003, Osambo, 2009)

Refunds and Remissions, Means; A taxpayer may get refund of tax on; inventory and assets held at the time of registration, tax paid in error, tax on bad debts, excess input tax arising from dealing in zero rates supplies for VAT increase on capital investments where input tax deducted is one million or more, for VAT compliance.(Osambo, 2009)

Rights and obligations on Taxation; Taxpayer is entitled to some rights say deduction of input tax, confidentiality, minimum interference, for treatment education etc. Hence she is however obliged to pay the tax charged, issue tax invoices keep records, make returns on due date among others for compliance. (Osambo, 2001)

Compliance information; directors, company record say cash book, file records, third party bank statement, treasury bills, central bank debtors and creditors; company records and third parties, capital, memorandum of association also difference between assets and liabilities.(Simiyu, 2003, Osambo, 2009)

LTU (Large Taxpayers Unit) A Unit which deals with the income tax of all business enterprises with a turnover of over Ksh 750 million and above; for instance, all banks and financial institutions, insurance companies' government corporations and non-resident enterprises.(KRA,2017)

VAT compliance; Explanations as to why VAT is based on receipts instead of invoices.(Bhatia,2010,VAT Act ,476)

ad valorem **basis** meaning that they are based on the value of the good in question, rather than being flat taxes. .(Bhatia,2010,VAT Act ,476)

CHAPTER ONE

INTRODUCTION

1.1 Chapter Overview

This chapter outlines the background information of the tax reforms and corporate compliance. It highlights the study objectives, scope and significance of the study.

1.1.1 Background of the study

Taxation plays a critical role in the country's economic development. It is a compulsory contribution by a person to the state to enable it to meet its expenses for a common cause. (Marina et al., 2002) pointed out taxation is the only practical means that governments use to fund their expenditure consumed by any citizenry. Although they are other non-tax revenue means like fines. (Moyi & Ronge, 2006) explained that, the main importance of tax is to raise sufficient revenue to fund public spending without external borrowing. Second it is used to mobilize revenue in ways that are equitable and that minimize disincentive effects on economic activities.

In Kenya the Ministry of Finance and Kenya Revenue Authority are government agencies responsible for revenue and 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. The tax collected sums up to income used by the government to provide much needed services to its citizenry like free primary education and medical treatment, education, roads, health and social security. (KRA, 2012).

In addition, it is the responsibility of the government to finance public services and therefore taxation plays a key role. Applying criteria of efficiency, fairness, and transparency to tax systems 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. (KRA, 2012). According to statistics released by the ministry of finance Kenyan website (Treasury, 2014) in the period ending June 2014 the taxman in Kenya collected Kshs. 963.8 billion and during that financial year 2013/2014, KRA exceeded its tax collection target by Ksh. 100 million.

In 2014/2015 (KRA, 2015) 1.001trillion and in the financial year 2015/2016 tax man collected Ksh 1.210 trillion which marks a 13.2 per cent increase. Tax revenues collected by Kenya Revenue Authority continue to be an important source of public finance for the Government. It is therefore evident that there has been a particular trend over the years of huge imbalance between the revenue and expenditure resulting to deficits which are financed through foreign aids. (KRA, 2015)

It's also documented that budgetary deficits is a worldwide concern and governments strive so hard to beat the soaring plague by introducing piece meal reforms to the fiscal policies one of them being the tax reforms. In India the central government fiscal deficit had expanded steadily during the eighties and had reached a peak level of 8.4% of GDP in 1990- 1991.It's for this sole reason that the reform program was initiated in June 1991 through a gradualist approach (Montek, 1995).

Over the years, the Kenya government has undertaken various revenue administration reforms aimed at enhancing revenue collection (Masinde &Makau, 2010). One of the measures that have been implemented in order to increase revenue collection in Kenya was the introduction of self-assessment systems (SAS) in 1992. The objectives of this system was to increase voluntary compliance, reduce tax authorities" burden of assessing tax returns and increase tax collection efficiency so as reduce tax collection costs. (Masinde & Makau, 2010). However despite various administrative reforms, levels of tax compliance have remained quite low. According to a study done by (Mullei & Bokea, 1999), in the fiscal year 1999/2000 the data collected revealed that VAT payment compliance was as low as 55% while return lodgement compliance was 65%.

In addition, studies done by ICPAK (2015) based on the 2010/2011 to 2014 /2015 data revealed that there has been a steady variance in revenue targets and actual exchequer collections in the excise duty and VAT. Excise duty actual revenue in 2014/2015 was 86B and expected was 104B whilst VAT actual revenue in 2014/2015 was 185B and expected was 231B.

Tax reforms are a necessary tool to ensure that domestic revenue base is regularly protected and nurtured. The reforms ensure that tax administration is efficient and increase tax payer compliance the tax reforms are aimed to reduce the incidence of tax evasion by both individuals and business entities. In addition it can be noted that the reforms are not only geared for KRA tax administration but to build trust among taxpayers especially through the various seminars the Revenue Authority officials hold with the stakeholders (ICPAK,2011)

1.1.2 Tax Reforms

Tax Modernization Program (TMP) were initiated in 1986, as part of the Structural Adjustment Programmes (SAP) incorporated in the economic restructuring agreement between the Government of Kenya and the International Financial Institutions such as World Bank and IMF. A country may decide to contend with the plague or on the flip side other may decide to change the fiscal policies which one of them include taxation reforms .The reforms aim at increasing the voluntary compliance as a result of deterrent policies and foster effective tax administration. (Fjeldstad & Rakner, 2001)

In addition, the main tax reform in Kenya occurred under the tax modernization programme (TMP) that started in the late 1980s. The tax reforms strategies adopted in Kenya took a piecemeal mode of transition in order to curb the soaring plague of budget deficits increase compliance levels among taxpayers. Currently, Kenya has adopted the various tax reform strategies of which took effect in the following dimension: The administrative tax reforms, policy tax reforms and technological tax reforms. (Karingi & Wanjala, 2005)

1.1.3 Administrative tax reforms

Tax administration actually refers to the implementation aspect of “how to do it” in respect of a tax system. It is the available mechanisms for the attainment of “what to do” in respect of the various taxes. It is therefore clear from the various initiatives that the government has involved itself more with the development and introduction of gadgets to deal with tax administration. (Hardler, 2000)

Self-assessment System (SAS) and in this way the tax payer is able to remit taxes without involvement or coercion by tax agents. This is made possible through the introduction of the Personal Identification Number (PIN) or Taxpayer Identification Number (TIN) for proper identification and tracking of taxpayers. (KRA, 2014)

Tax clinics and seminars are forums organised by Kenya revenue authority periodically organises for tax payer education programmes in different locations to assist in tax knowledge. Tax summits are also a key component of the tax education forum in which various industry stake holders are invited to give key recommendations that will improve tax administration and the tax culture. Merger of VAT and Income tax departments to increase organisational efficiency. (ICPAK, 2015)

1.1.4 Policy tax reforms

The reforms are aimed at providing a holistic approach to the tax payer compliance related matters. Some of the policy tax reforms include:

Advalorem taxes: This actually means that tax is charged on the value of the commodity rather than on the type of the commodity. The objective being to ensure that prices were kept in line with domestic inflation and to maintain the level of revenue in real terms. The main example of such taxes is excise tax and the turn over tax for business with less than a turnover of 5million. (Bhatia, 2010, VAT Act, 476)

Introduction of the Simba system which aims to ensure modernisation of customs department to international conventional standards. The introduction of the Certificate of Tax Compliance and its requirement in dealings with government offices. Upon full implementation, every person dealing with government offices will be required to produce a Certificate of Tax Compliance. This will ensure compliance. It, however, depends on co-operation from other government offices. (KRA, 2015)

1.1.5 Technological tax reforms

I- Tax

I-Tax system launched in 2011 and implemented by Indian firm Tata, was introduced after the inefficiencies experienced by ITMS. 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. 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 out-dated 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. (KRA, 2015)

Currently, iTax allows 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 manually file tax returns or queue at KRA offices for registration, the new system sends a user confirmation upon successful payment registration, electronic return filing and actual tax payments. (KRA, 2016)

Electronic Tax Register

ETRs were first introduced to Kenya in 2004, through a gazette notice no. 47 issued in October 22, 2004. According to this notice, electronic tax register or printer is defined as any device approved by the government to record and issue fiscal data of goods and services (KRA 2004). Today, the law makes it mandatory for businesses registered for VAT to issue tax invoices and/or cash sale receipts which must be ETR generated or supported by ETR receipts. The VAT act Cap 476 (Laws of Kenya), requires that once a tax payer is registered, should always display VAT certificate, issue ETR generated receipts, declare correct returns and submit returns on time. Failure to adhere to these requirements attracts heavy fines and penalties. (VAT Act,476)

1.1.6 Corporate Taxpayer Compliance

The Organization for Economic Cooperation and Development (2001) advocates that "Compliance" is divided into categories, considering the definition of tax compliance. These categories are administrative compliance, policy compliance and technical compliance.

(Marcelo, 2003) highlighted that the state plays a larger role in collection of taxes as without voluntary compliance is rarely an automatic behaviour but as result of policies that rely on deterrence. Tax compliance can be described as the degree to which a taxpayer obliges to tax rules and regulations. According to (Cobham, 2005) tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority and is any contribution imposed by government whether under the name of toll, tribute, tallage, gabel, impost, duty, custom, excise, subsidy, aid, supply, or other name. By virtue that tax is a not a voluntary contribution and neither are their direct benefits accrued to an individual which in totality affects morality, personality and tax culture. (ibid)

The problem of tax non-compliance is as old as taxes themselves. Tax non-compliance and tax evasion exists in every country and Kenya is no exception. Tax noncompliance is a substantive universal phenomenon that transcends cultural and political boundaries and takes place in all societies and economic systems. Tax payers are more prone to tax non-compliance where the systems are complex. A report by 1RS (International Revenue Service), the arm of the government mandated to collect taxes in the U.S indicated that in the United States (U.S.) alone, non-compliance is estimated to cost the federal government over $300 billion annually.

The 1RS (International Revenue Service) estimates that the total revenue loss to the U.S. government as a result of tax noncompliance was over $90 billion in 1981, substantially more than the Federal deficit of 57.9 $ billion in that year. Further, IRS (International Revenue Service) estimates that the revenue loss as a result of non-compliance increased at an average annual rate of more than 14 per cent in the 1973 to 1981 period, a rate substantially higher than the 10 percent growth rate for GNP during the period as highlighted by (Ann &Diane, 1985).

Non-compliance among firms is critical issue according to Webley et al. (2002) and therefore the greatest challenge towards realization of revenue collection targets by tax authorities. It is difficult to get the actual picture, but it is clear from few studies that have been published that noncompliance is widespread and involves large revenue loses, though the extent varies considerably across countries. Tax avoidance is legal while tax evasion is not, although tax evasion and tax avoidance have similar effect on revenue collection and from the legal point of view tax avoidance doesn‘t amount to noncompliance (Myles, 1995).

(Spicer & Becker, 1980) had a conclusion that tax noncompliance of tax payers will significantly increase when they perceive themselves as victims of tax equity. The morale of tax payers increases when tax agents treat them with respect.

(Moyi & Mriithi, 2003) highlighted that in Kenya following the ascendancy into power of different governments, taxation has increased. The reason for increasing tax rates especially VAT Value Added Tax of certain commodities was that the government needs more funds to finance service delivery. Measures of this nature have seen Kenya increase the tax burden on its citizens, and in the process made the country among those with the highest tax burdens. Despite the growing demands for additional revenue, the Kenyan citizenry do not wholly embrace the idea of taxation. (ibid)

This is clear based on the notion that tax culture in Kenya remains discouraging when compared against its peers.(Lumumba, et al. 2010) pointed out that the politicians who weld economic power and yet don't champion taxation matters. On the flip side vast of Kenyans lack both the political and the economic power. The latter cadre of the citizens perhaps feel the tax burden and are unwilling to remit their taxes due to the difficulties they face.

Based on this realisation, it is evident that nobody enjoys paying taxes. The mere fact that people do not enjoy paying taxes implies that those charged with the task of tax collection will face difficult times when executing their duties. The taxpayers and the tax collectors develop mutual mistrust as a result. In this relationship, tax collectors view taxpayers as criminals while the latter perceive the former as State exploitation agents (KRA, 2004).

Even the Organisation for Economic Co-operation and Development, (2004) considers business owners a high-risk group in terms of tax compliance. In many cases it is impossible to prove non-compliance. For example, the US Internal Revenue Service estimates that only half of corporate non-compliance is detected (Webley, 2004), and that tax audits are generally a costly matter.

Tax compliance is a state function as long as they ensure implementation is consistent and continual process with deterrence costs. It has been a subject of interest to individuals charged in agencies with raising revenue .However the topic has recently attracted the attention of the general public as budget deficits have grown and tales of huge growing un taxed economy have been widely published. In Kenya the ministry of finance has been facing the same challenges of budget deficits for over the years up to now. (OECD, 2004)

In Kenya targets are set by the Ministry of Finance but KRA miss the target which forces the government to borrow heavily to finance public expenditures like on education, health and infrastructure. Therefore the issue of non-compliance becomes a key problem in taxation (Frey & Feld, 2006).

A good example is the 2012/2013 fiscal year the tax man collected 737 billion and the budgeted expenditure was 1.200 trillion marking a 6% drop .In 2014 /2015 the taxman collected 1.001 trillion as opposed to the budgeted expenditure of 1.77 trillion marking a 28% drop. In the 2015/2016 fiscal year the taxman missed the target by 31% drop. (Treasury, 2015)

Kenya's budget deficit for the fiscal year 2016/17 is likely to be more than 9 percent of gross domestic product (GDP), based on a forecast given by its finance minister (Business Daily ,8 th June 2016). Tax noncompliance is a widespread problem that costs governments, billions of dollars each year. (Treasury, 2016)

1.2 Statement of the Problem

Taxation reforms have been in existence since 1986 but, there has been a tax gap of actual and potential tax revenue raising issues on whether tax reforms have an effect on corporate compliance making it an urgent issue. Studies which have been done on taxation have not comprehensively covered the issue of corporate tax payer compliance in relation to tax reforms introduced.

Francis, (2011) and Kanyi,(2014) focused on tax reforms and revenue productivity for the period 1990-2013 using the elasticity and buoyancy models .The study revealed that the Kenyan tax system was in general not productive despite the several reforms measures taken. However the studies did not include corporate tax compliance.

Tax noncompliance not only pose a serious threat to effective tax and voluntary compliance; it also has a negative impact on the economy. In 2008/2009, Her Majesty's Revenue and Customs (HMRC) estimated the United Kingdom tax gap to be around £42 billion, and of this, £15 billion was due to tax fraud, evasion and some criminal activities (HMRC, 2010).

Mills, (1996) highlighted that existing descriptive research emphasizes the social cost burden of such compliance cost in relation to taxes paid and it was reported that companies are concerned with reputational risks than technical tax risk. It is for this reason that firms in Argentina avoided taxes with planning and research costs.

Lumumba et.al (2011) focused on taxpayer attitudes and tax compliance behaviour among SME s in Kerugoya and the results were that taxpayer attitude does not affect compliance among SMEs. On the same Muturi et.al (2012) focused on the online tax system on compliance by SMEs in Meru and the conclusion was online tax system does not affect compliance.

Former studies on tax compliance have focused on physiological attributes and SMEs compliance however; little is known if the various taxation reforms affect corporate compliance.

This gap has not been extensively covered by other studies which have been carried out in Kenya. Therefore addressing this knowledge gap is the primary purpose of this study. It is for this reason that the study seeks investigate the effect of tax reforms on corporate compliance.

1.2.2 General Objective

To investigate the effects of tax reforms on corporate tax compliance to the Kenya Revenue Authority.

1.2.3 Specific research objectives

1. To determine the effect of administrative tax reforms on corporate tax compliance.
2. To assess the effect of policy tax reforms on corporate tax compliance.
3. To establish the cost of technological tax reforms on corporate tax compliance.

1.3 Research questions

The study's main research questions focus on the effect of tax payer reforms on corporate tax compliance. Hence, the study addressed the following questions.

1. Does administrative tax reforms have an effect on corporate tax compliance?

2. What is the effect of policy tax reforms on corporate tax compliance?

3. Does the cost of technological tax reforms affect corporate tax compliance?

1.4 Justification of Study

The study contributes to the existing literature on tax reforms experience in Kenya .The study further contributes to the body of knowledge gap in understanding the compliance trends and how they relate to the current programmes and initiatives developed by governments.

The immense knowledge gathered in this study will assist Revenue Authorities such as KRA to gain a better understanding of the issues or emerging trends in non-compliance which need close attention the external level and aid in formulation of policies / reforms that will stimulate tax culture hence promoting economic development.

The study will also shed some insights on the reform areas that need improvements and this will help management of Kenya Revenue Authority, overcome the purported lack of knowledge with regard to assessing its success or effectiveness of their acquired systems and related technologies.

The study will also highlight areas in taxation framework that need reforms and this will go a long way in achieving the Millennium Development Goals in achieving sustainable economic development.

Finally the study results and recommendations may provide useful information to scholars keen on carrying out research in matters pertaining to taxation and tax culture.

1.5 Scope of the Study

The research study was done at Kenya revenue authority headquarters in Nairobi. The target population comprised of self-administered questionnaires with KRA staff who deal with corporate compliance in Medium Tax Payers Office and Large Tax Payers offices. The problem of tax compliance affects the revenue authority of a particular country. The revenue authority instigates measures/ reforms to ensure that revenue collection is maximised and enforces compliance among various taxpayer groups.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides background information about the tax reforms and tax compliance and its evolution. It reviews empirical literature on the past studies in this area and gives a critical evaluation of the research framework used in the study, highlighting the conceptual framework of the study.

2.2.1 Theoretical Review

This chapter examines some related literature on previous works done on related studies that will help one understand the problem and also integrate the views from the other researchers. In developing countries, tax non-compliance pose a serious challenge facing tax administration and hindering tax revenue performance. Despite the various tax reforms undertaken by governments to increase tax revenue over the years, prior statistical evidence has proven that the contribution of income taxes to the government's total revenue remained consistently low and is relatively shrinking (Alabede et al., 2011).

However, from all the taxes, corporate income tax has remained the most disappointing, inefficient, unproductive and problematic tax system (Kiabel & Nwokah, 2009). Worldwide no single tax structure can possibly meet the requirements of every country. The best system for any country should be determined taking into account its economic structure its capacity to administer taxes, its public service needs and many other factors.

Many low income countries face a dilemma with respect to taxation (Fjeldstad&Rakner, 2003) and there is an obvious need for more revenues to enable resource poor states to provide and maintain even the most basic public services. Tax reform measures are mainly undertaken in order to restore buoyancy to revenues, strengthen modern taxes, and drastically reduce the complexity and lack of transparency of the system. (World Bank, 1990).

The main factors contributing to an improved revenue performance are changes in tax legislation, tax administration and minimal tax evasion (Morrisset and Izquierdo, 1993). It is prudent for a country to implement taxation reforms in a piece meal and progressive manner in order to make an adjustment process that is less painful. (Sira et.al 2010). The comprehensiveness of the reforms are hardly evident at the beginning but as reforms proceeded in scope and coverage the reform effort was more clearly outlined. (ibid)

2.3 Review of theories on tax compliance

The main theories of the study were identified as per the objectives and literature relevant to them sought as itemized.

2.3.1 The Allingham and Sandmo "Portfolio" Theory

This portfolio theory was developed by Allingham and Sandmo whereby the approach gives the plausible and productive result that compliance depends upon audit rates and fine rates. Indeed, the central point of this approach is that an individual pays taxes because of this fear of detection and punishment. (Allingham & Sandmo 1972).

However, this approach also concludes that an individual pays taxes only because of the economic consequences of detection and punishment. The many extensions of this portfolio approach considerably complicate the theoretical analyses, and generally render clear-cut analytical results impossible. Nevertheless, these extensions retain the basic approach and the basic result: individuals focus exclusively on the financial incentives of the evasion gamble, and individuals pay taxes only because they fear detection and punishment. (Allingham & Sandmo 1972).

According to Ajzen (1991) explained human behaviour in a specific context. General attitudes have been assessed with respect to organisations and institutions with regard to particular with whom a person might interact.

Although compliance varies significantly across countries (and across taxes) and is often quite low, compliance seldom falls to a level predicted by the standard economic theory of compliance. It seems implausible that government enforcement activities alone can account for these levels of compliance.(Allingham & Sandmo 1972).

2.3.2 The economic deterrence theory

The economic deterrence theory were first discovered in the late 1960s from the work of Becker, who analysed illegal behaviour using an economic states that taxpayer‘s behavior is influenced by factors such as the tax rate determining the benefits of evasion, and the probability of detection and penalties for fraud which determine the costs. This implies that if detection is likely and penalties are severe, few people will evade taxes. Deterrence can be achieved through a number of approaches, punitive and persuasive. (Becker, 1968)

In contrast, under low audit probabilities and low penalties, the expected return to evasion is high. The model then predicts substantial noncompliance. For example, the fear of getting caught, or the probability of detection, has been found in some contexts to be an effective strategy to induce truthful behavior. The theoretical principles of economic deterrence have also been widely adopted by tax administrations when developing enforcement strategies that rely principally on penalties and the fear of getting caught. (Sandmo, 2005)

2.3.3 Fiscal Exchange Theory

The theory was developed by Alm in 1995 This concept of the theory is based on the assumption that taxpayers have separate views with respect to looking after their self-interest as opposed to contributing to community interests. In this regard, the more positive a taxpayer's attitude towards paying tax and working with the tax authorities, the greater their willingness to pay tax.(Alm,1995)

The fiscal exchange theory suggests that the presence of government expenditures may motivate compliance and that governments can increase compliance by providing goods that citizens demand in a more efficient and accessible manner (Moore ,2004).

Individuals may pay taxes because they value the goods provided by the government, recognizing that their payments are necessary both to help finance the goods and services and to get others to contribute. The existence of positive benefits may increase the probability that taxpayers will comply voluntarily, without direct coercion. Although most taxpayers cannot assess the exact value of what they receive in return for taxes paid, it can be argued that they have general impressions and attitudes concerning their own and others' terms of trade with the government (ibid).

According to Ritsema,(2003), tax compliance decision depends on income level of an individual taxpayer, inspection (audit) by tax authorities and deterrent measures put in place.

Compliance increases with (perceptions of) the availability of public goods and services. Accordingly, the main concern of taxpayers is what they get directly in return for their tax payments in the form of public services (quid pro quo). In this perspective, taxation and the provision of public goods and services are interpreted as a contractual relationship between taxpayers and the government.(Alm et al. 1992)

2.4 Empirical Review

It highlights literature done by different scholars on the subject matter as sought below.

2.4.1 Empirical review on tax administrative reforms and corporate tax compliance

As explained earlier the administrative reforms refers to the aspect of implementation of tax system. In developing countries. It has been the trend since the introduction of tax reforms in 1986 that revenue authorities introduce semi-autonomous departments or agencies to replace offices mandated with the collection of taxes. (Hardler, 2000)

Hardler holds the view that though autonomous revenue agencies were perceived as a means to sustained revenue improvement, there is little sign that their creation has actually increased public revenues.(ibid)

Eissa and Jack, (2009) also note that KRA created a Large Taxpayer Office (LTO) to specifically monitor and provide services to taxpayers that contribute the bulk of revenues. The eligibility criterion to be subject to LTO control is an annual turnover of Ksh.1 billion, and firms in certain lines of business like financial institutions, regardless of turnover. Government agencies are also included. One problem that arises is that revenue from these companies is no longer collected through the relevant branch office or station, which meets some resistance from the said station.

Silvani, (2009) highlighted that the main goals of the tax administration reform strategy would depend on the size of the tax gap. The main goals are to maintain the existing compliance level while reducing the cost of compliance and tax collection; to obtain gains in compliance by improving key procedures; to obtain significant gains in compliance by considerably modifying the approach to tax administration.

In developing countries, the cost of tax collection may be substantially higher. Other costs include the compliance costs and administration cost that taxpayers and collectors incur over and above the actual payment of tax. In many cases, administration costs are reduced when compliance costs are increased. For instance, when taxpayers are required to provide more information, they incur more costs, but tax administration gets easier and less costly (Sandford, 1995).

Third world countries incur heavier compliance costs (financial and time) of complying with the tax law. The costs manifest when acquiring the knowledge and information needed to comply, setting up required accounting systems, obtaining and transmitting the required data, and payments to professional advisors. A study by Chattopay and Gupta, (2002) in India suggests that compliance costs may be as much or more than ten times higher than in developed countries. In Kenya the self-assessment system in business scenario is via electronic filling. Small business owners are responsible for collecting as well as for remitting taxes.

Tax compliance costs are those costs incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given structure and level of tax. There is uncertainty about what should be included in the measurement of taxation compliance costs. (Bernadette et al, 2012) highlights the main characteristics of small business owners' tax situation emerged: due to self-reporting and limited control over underlying money flows, they have the opportunity for non-compliance; due to the need for self-reporting and facing different taxes, they require substantial knowledge in order to understand the rules and comply; and due to receiving gross sums that then have to be partly passed on to tax authorities, they face differential possibilities for framing taxes.

2.4.2 Empirical review on policy tax reforms and corporate tax compliance

According to Silvani and Baer, (1997) tax policy reform in developing countries is part of a broader fiscal reform effort aimed at restoring macroeconomic stability and at restructuring tax systems so that taxes are more efficient, less distortionary of market forces and easier to administer. Roberts, (1994) explains that the complexity of the tax laws and tax system influence the decision to comply or to evade taxes .In the same vein an inefficient fiscal policy mirrored in squandering of public funds and low quality of public goods will make taxpayers to think twice before paying their tax liabilities.

Taxpayer's compliance decision is equated as portfolio problem in which the tax payer chooses the amount of income to report to the tax authority. The results of the taxpayer's compliance decision are uncertain because the tax authority, through its compliance activities, may discover the unreported income and impose various penalties on the tax payer, or the tax agency may take no action (i.e., non-compliance is successful). (Wright, 1985)

This portfolio approach gives the plausible and productive result that compliance depends upon audit rates and fine rates. Indeed, the central point of this approach is that an individual pays taxes because of this fear of detection and punishment. (Allingham & Sandmo, 1972).

Non-compliance is the intentional failure by citizens to declare their taxable activities. It takes several forms such as concealing taxable activities, filling false returns and generally failing to adhere to the laid regulations concerning declaration and submission of returns. Noncompliance is closely linked to tax evasion except that it incorporates, apart from evading taxes, the aspect of complying with other income tax rules and regulations such as deadlines for submission of tax returns (Myles, 1995).

Information available indicates that noncompliance among business firms is critical and therefore the greatest challenge towards realization of revenue collection targets by tax authorities. It is difficult to get the actual picture, but it is clear from few studies that have been published that noncompliance is widespread and involves large revenue loses, though the extent varies considerably across countries (Webley et al, 2002).

The perceived fairness of a tax system is important both to its acceptability and smooth functioning. According to De Mello, (2008) tax can be seen as unfair if those of similar incomes are taxed differently.

A recent work by Adams, (1996)shows that perceived inequity in the taxation system was found to be the most important variable predicting non-compliance in those running small businesses in Holland. Gilligan & Grant,(2005) assert that the perception of tax fairness is one of the most important variables that can influence tax compliance behavior. Public perception that the tax system is fair and equitable is important if that system relies for its success on significant degree of voluntary tax compliance, which of course the contemporary reality for many jurisdictions.

2.4.3 Empirical Review on Technological Tax Reforms and corporate tax compliance

The use of information technology (IT) has grown extensively and can be categorized by the applications and target users. The main purpose of this tax policy is the government provides reporting of electronically via the media of internet communication to Taxpayers.

By reporting taxes electronically would help reduce the cost and time required by taxpayers to prepare, process, and reported taxes to the tax office in a right and proper time. On the other hand, reporting annual-tax-report electronically is also giving support to the government in terms of the acceptance, the minimization of administration, the accuracy of the data, the distribution and filling of tax. (Diah, 2014)

Although e-filling facility tax system provides a lot of convenience to taxpayers, the usage of this system is still not optimal, since its development not comparable with the development of internet use since this facility introduced and implemented in 2004 until 2008.(ibid)

Automation is not an end in itself, but a crucial component of taxation reforms, which aims at modernizing tax administrations and aligning the legal framework and procedures with international standards and best practices. Automation facilitates the clearance of legitimate trade, improves the efficiency of taxation controls and secures revenue collection. In addition, it helps address expectations of traders and transport operators regarding transparency, predictability and reliability, as well as the simplification of border-crossing and administrative procedures (Peha, 1999)

Adams & Webley, (2001) who conducted a qualitative study on VAT among small businessmen and women observed that the more egoistic an individual is, the less likely he or she will be to comply with rules and laws when compliance conflicts with his/ her interests. Dissatisfaction with the tax authorities has also been suggested by a number of investigators as motivators to avoid taxation.

Elffers, (1991) found that believing the system to be inefficient correlates positively with propensity to evade tax. How business people think about the VAT money they collect may also influence their behavior towards it (the notion of mental accounting). Mental accounting is often described as a psychological mechanism whereby income is framed in respect of personal finance, that people have a number of mental accounts that operate independently of one another.

What is interesting in the current context is whether businessmen and women psychologically separate monies owed to VAT into a separate mental account from that of business turnover. If they do not, then they may be more likely to evade VAT as a result of seeing it as “their “ money.

Jenkins and Kou, (1993) recommend that if governments of developing countries want to rely on VAT over time, they must move aggressively to broaden the base and enhance compliance as part of necessary reforms. He further suggests that governments of these countries should take different types of measures to improve the compliance level of VAT and thereby fully reap the benefits of more revenue from it. As a result, many countries including Ethiopia had taken different measures to curb the problems of non-compliance of VAT. One of the methods of enhancing high compliance is to demand all VAT registered taxpayers to use ETRs (electronic tax register) machines to produce receipts

Among various e-government programs, the introduction of electronic tax administration including electronic tax filing (e-filing) has been the largest – in terms of citizens affected – e-government initiatives .In the United States in the 1980s period a partnership between the Internal Revenue Service (IRS) and the tax preparer H&R Block. The program was developed through a successful public-private partnership. In fact, the IRS has been described as one of the most efficient tax collection agencies in the world (Fletcher,2003)

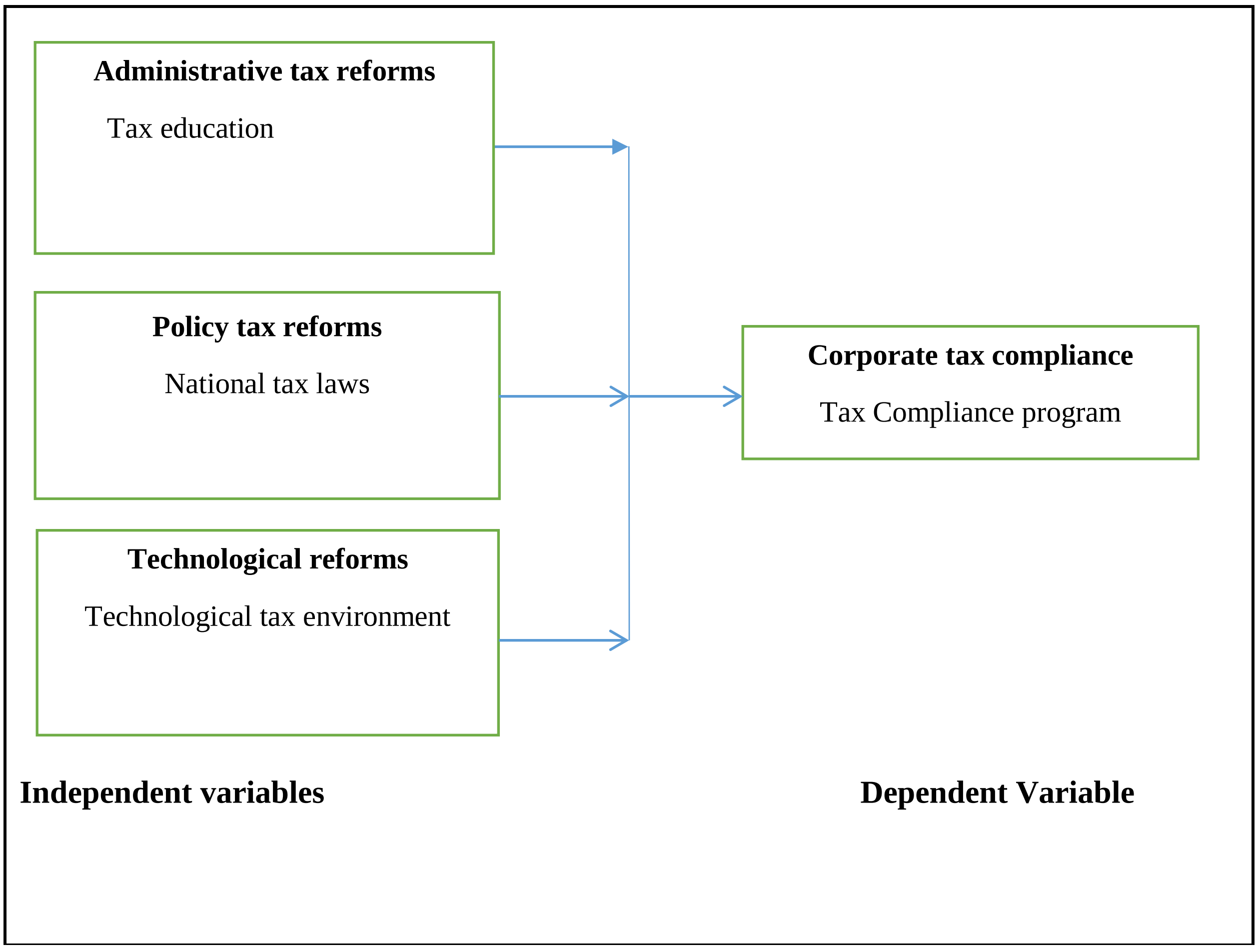
Silvani and Baer, (1997) posit that computerization is an essential element for modernizing tax administration. The tax administration must keep up with the pace of computerization in major economic sectors, including banking, trade and communications. Unfortunately, the pace of computerization in tax administration in many countries has been slow.

2.5 Conceptual Framework

The research adopted a conceptual framework where forms of tax reforms will be taken as an independent variable while corporate compliance was itemised as dependent variable as illustrated in the Conceptual figure 2.5 .

FIGURE 2.1

Conceptual framework on the effect of tax reforms on corporate tax compliance



Source: Author 2017

TABLE 2.1

Operationalization of variables

Objectives	**Variable indicator**	**Type of variable**	**Scale**	**Tools of Analysis**	**Type of Analysis**
To determine the effect of administrative tax reforms on corporate tax compliance	-Tax education -Availability of tax information. Level of awareness	Independent	Ordinal	Median, variance & percentages	Descriptive statistics
To assess the effect of policy tax reforms on corporate tax compliance	-National Tax laws -Fines& Penalties	Independent	Ordinal	Median, variance & percentages	Descriptive statistics
To establish the cost of technological tax reforms on corporate tax compliance	-Technological tax environment. -I tax training Cost of technology	Independent	Ordinal	Mean, mode & percentages	Descriptive statistics
Corporate tax compliance	Tax compliance programs	Dependent	Ordinal	Central tendencies	Descriptive statistics

Source Author 2017

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the methodology that was carried out on the study. It outlines the research design, population, sampling procedures to be used, the methodology of data collection and instruments, how data was analyzed statistically and the expected output of the study outlined.

3.2 Research design

Research design is a series of steps undertaken aimed at solving the research problem systematically in order to give a more convincing solution. The major purpose of this study is to examine the effect on tax reforms on corporate tax compliance. Descriptive case survey research design has been chosen for this study, since descriptive designs explain phenomena as they exist and are after used to obtain information on the characteristic of the particular problem. (Mugenda, 2008)

3.3 Target population

The target population for this study did constitute the KRA senior staff in Domestic taxes departments at the KRA headquarters. The main reason for choosing senior staff at Domestic tax department (DTD) was because they are directly involved in policy and administrative issues that pertain to corporate compliance. The managers and supervisors directly report to the Commissioners and they are responsible for managing corporate compliance in their corporate units.

According to the head of DTD the number of senior level managers constitute of ; manager, assistant manager and the supervisor. There were a total of 45 staff holding this rank. Table 3.0 shows the number of staff holding this rank per unit.

TABLE 3.1

Senior Staff at DTD

Unit at DTD	**Number of senior level staff**
Construction	3
Services	4
Agriculture	3
Excise	2
Manufacturing foods	3
Insurance	2
Wholesalers	3
Telecommunications &Media	2
Banking	3
Transport &Storage	4
Other manufacturers	4
Energy	3
Oil and mining	3
Refunds	2
Taxpayer services	2
Debts	2
Total	**45**

Source: KRA, 2017

3.4 Sampling Procedure

For the purpose of the study, a stratified random sampling technique is adopted where by the population is divided into different strata. Here each population is selected individually, and the population can also be divided into groups of elements with some groups randomly selected for study. Further, cluster sampling is used, as the population is chosen also divided into many sub-groups each with a few elements in it. The sub-groups are selected according to some criterion of each or availability in data collection. Heterogeneity is secured within subgroups and homogeneity between subgroups, through the reverse is used. Further, we randomly choose a number of the subgroups which we then typically study in depth (Cooper and Schindler, 2012).

Gay (1992) suggests that for descriptive studies ten percent of the accessible population is enough. The study did not conduct sampling since the population was not large and the structures were well organized where respondents were easily found. The researcher conducted a census hence no need for sampling. As such, all the 45 staff were include in the sample.

3.5 Data Collection Procedures

Data collection method can be qualitative or quantitative depending on the purpose of this study. The researcher adopted the quantitative methods to quantify the problem by way of generating numerical data. The study employed primary data collection from senior staff. This study collected data by way of using a structured questionnaire which was approved by the KRA as shown in (Appendix 1). The questionnaires were distributed by the researcher to the respective units and collected after a week.

3.6 Measurement of Compliance

The dependant variable corporate tax compliance will be measured using Tax Compliance Program (TCP) is a model for reporting compliance amongst taxpayers. TCP for individual income tax returns is a program of intensive audits and in-depth investigations conducted on tax payers by the revenue authority of a country. It is widely believed that the most reliable information on tax compliance originates from TCP program of the Revenue Authority.(Brown,2003;Andreoni et.al,1998)

3.6.1 Data Validity

Data Validity can be described as the extent study can replicated to produce similar results. Internal validity describes the extent to which the researcher has demonstrated a causal relationship between two factors by showing that other plausible factors could not explain the relationship. External validity on the other hand describes the extent to which the findings are generalizable from a sample to the population. Validity is the degree in which an instrument measures what it purports to measure (Mugenda, 2008).

3.7 Data Reliability

Data reliability measures extent to which measures used are free from sampling errors. Reliability ensures that the measures used produce similar scores over time different methods and across multiple measure. (Mugenda, 2008).The reliability test that was adopted for the study was Cronbach's alpha test.

3.8 Data Analysis

Data from completed questionnaires was checked for errors, edited, coded and entered into a spreadsheet ready for analysis. The data was then analyzed using SPSS. First, descriptive analysis was used to describe the data in terms of mean scores and standard deviations among other descriptive statistics. Secondly inferential statistics was done where by, regression analysis was used to explore the relationship between dependent variable (corporate tax compliance) and independent variable (tax reforms). The regression analysis model was also adopted by Kanyi & Kalui (2014) in studying the effects of tax policy reforms on tax revenue. In empirical analysis, the following regression equation was fitted.

The relationship equation was as shown below-

$$\mathbf{Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \pi}$$

Where:

Y = Corporate tax compliance

β0- β3=regression coefficient of independent variable

β0 = Constant

X1= is the data collected from administrative tax reforms as captured by the questionnaire and respondent observations measured through a five-point Likert .

X2= is the data collected from policy tax reforms as captured by the questionnaire and respondent observations measured through a five-point Likert.

X3=is the data collected technological tax reforms as captured by the questionnaire and respondent observations measured through a five-point Likert.

π= Error term, it accounts for the possible factors that could influence the dependent variable that were not captured in the model

3.9 Normality Tests

The statistical procedures including; correlation, regression, correlation and Analysis of Variance namely parametric tests are normally distributed are based on the assumption that the data collected is assumed to be normal distributed population unless a test is done to confirm normality. Shapiro –wilk test is based on correlation between the data and corresponding normal values. To test for skewedness and kurtosis of the data, the researcher used Kolmogorov-Smirnove (K-S) and Shapiro wilk tests. Since the tests are highly recommended for sample sizes less than 50. (Ghasemi, 2012)

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. The purpose of the study was to investigate the effects of tax reforms on corporate tax compliance with focus being on the various corporate taxpayers as registered by KRA. Data was collated and reported through tables and figures and qualitative analysis done in continuous prose.

4.2 Response rate

The study targeted 45 staff from domestic tax department at the KRA headquarters and out of 45 staff only 29 staff filled and returned the questionnaires which represents a response rate of 64%. This was attributed by the political climate as most officers were on annual leave and election break. This is a reliable response rate for data analysis as Mugenda and Mugenda, (2003) pointed that for generalization a response rate of 50% is adequate for analysis and reporting, 60% is good and a response rate of 70% and over is excellent. However, 36% of the respondents didn't return the questionnaires that were issued to them. Nevertheless, the satisfactory response rate demonstrates willingness of the respondents' to partake in the survey that the study sought.

TABLE 4.1

Response Rate

Response	**Frequency**	**Percentage (%)**
Filled in questionnaires	29	64%
Un returned questionnaires	16	36%
Total	**45**	**100%**

Source: Primary data 2017

4.3 Demographic Characteristics of the respondent

As part of the general information, the researcher requested the respondents to indicate the position ,deparment and number of year worked.

4.3.1 Position of the respondent

The study aimed to investigate the position held by the respondents within their unit at DTD, it was observed that 58.6% were supervisors while 24.1 % were managers and assistant manager representing 6.9 % were among the respondents who participated in the study. Table 4.3 below shows the position held by the respondents in their respective units.

TABLE 4.2

Position of respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Account manager	1	3.4	3.4	3.4
	Assistant manager	2	6.9	6.9	10.3
	Assistant Manager	1	3.4	3.4	13.8
	Manager	7	24.1	24.1	37.9
	Officer	1	3.4	3.4	41.4
	Supervisor	17	58.6	58.6	100.0
	Total	29	100.0	100.0	

Source: Primary data 2017

4.3.2 Department of the respondent

According to table 4.4 majority of the respondents were from tax payer services representing a 10.3% while the least were telecommunications and excise departments which were represented by 3.4%.The fifteen units are the specific departmental units under the domestic tax department.

TABLE 4.3

Details the specific departmental unit of the respondent

Department

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	DT-Agriculture	2	6.9	6.9	6.9
	DT-Banking	2	6.9	6.9	13.8
	DT-Construction	2	6.9	6.9	20.7
	DT-energy	2	6.9	6.9	27.6
	DT-Excise dept	1	3.4	3.4	31.0
	DT-Insurance	2	6.9	6.9	37.9
	DT-Manufacturing foods	2	6.9	6.9	44.8
	DT-Oil mining	2	6.9	6.9	51.7
	DT-other Manufacturers	2	6.9	6.9	58.6
	DT-refunds	2	6.9	6.9	65.5
	DT-services	2	6.9	6.9	72.4
	DT-Taxpayer services	3	10.3	10.3	82.8
	DT-Telecommunications	1	3.4	3.4	86.2
	DT-transport	2	6.9	6.9	93.1
	DT-wholesale dept	2	6.9	6.9	100.0
	Total	29	100.0	100.0	

Source: Primary data 2017

4.3.3 Number of years worked

Majority of the respondents indicated the number of years worked this is represented by 58.6% of the respondents while 41.4% did not indicate the number of years. 17.2% of the respondents have worked for ten years .Table 4.4 represents the number of years worked.

TABLE 4.4

Number of years worked

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	2	6.9	11.8	11.8
	6	1	3.4	5.9	17.6
	7	2	6.9	11.8	29.4
	8	1	3.4	5.9	35.3
	10	5	17.2	29.4	64.7
	11	1	3.4	5.9	70.6
	15	1	3.4	5.9	76.5
	20	1	3.4	5.9	82.4
	25	2	6.9	11.8	94.1
	26	1	3.4	5.9	100.0
	Total	17	58.6	100.0	
Missing	System	12	41.4		
Total		29	100.0		

Source: Primary data 2017

4.4 Independent study variables

In this section, the data collected on study variables is discussed in detail. The researcher used a five point likert scale (1=strongly agree, 2=agree, 3= moderate, 4=disagree, 5=strongly disagree) to collect information pertinent to constructs of each variable.

4.4.1 Administrative tax reforms and Corporate tax Compliance

Table 4.5 shows the findings from the study on the level of agreements on the various attributes used to measure the effect of administrative tax reforms on corporate tax compliance. The findings indicate that, respondents agree that the introduction of PIN and increased tax payer knowledge on tax by corporate tax payers have assisted KRA in the tax collection as indicated by the mean of 1.38 and 1.45 respectively. In addition, respondents moderately agreed that self-assessment system has reduced fines and refunds, as indicated by a mean of 3.03.

TABLE 4.5

Administrative tax reforms and corporate compliance

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Self assessment system has reduced fines and penalties	29	1	5	3.03	.981
PIN assists in tax collection	29	1	2	1.38	.494
KRA autonomy enhances compliance	29	1	2	1.66	.484
Tax reforms increased taxpayer knowledge	29	1	2	1.45	.506
Valid N (listwise)	29				

Source: Primary data 2017

4.4.2 Policy tax reforms and corporate tax compliance

Table 4.6 shows the findings on level of agreement on the attributes used to measure policy tax reforms and corporate tax compliance. The findings indicate that, the introduction of tax laws have increased corporate tax compliance as indicated by the mean of 1.62.In addition, the tax laws have reduced in-depth audits occasioned by fraud related incidences. This is indicated by the mean of 2.24.

TABLE 4.6

Policy tax reforms and corporate tax compliance

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tax laws increased corporate compliance	29	1	3	1.62	.561
Tax laws increased corporate report integrity	29	1	4	1.97	.778
Tax law reduced indepth audities in companies	29	1	4	2.24	.830
Tax reforms has reduced corporate fines and penalties	29	1	3	2.24	.689
Valid N (listwise)	29				

Source: Primary data 2017

4.4.3 Technological tax reforms and corporate tax compliance

Table 4.7 shows the findings on level of agreement on various attributes used to measure technological tax reforms on corporate compliance. The findings indicate that technological reforms have increased corporate compliance and the average score for this was 1.48 .An indication that the various technology introduced for revenue collection have an impact on corporate compliance.

TABLE 4.7

Technological tax reforms and corporate tax compliance

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Technological reforms has increased corporate compliance	29	1	2	1.48	.509
Itax has reduced penalties and tax refunds	29	1	4	2.41	.825
ETR, Simba system & Itax has led to filling of accurate taxpayer returns	29	1	3	2.17	.602
ETR has reduced tax liability and refunds	29	2	5	3.21	1.013
Technological reforms have enhanced revenue collection	29	1	3	1.55	.632
Valid N (listwise)	29				

Source: Primary data 2017

4.5 Dependent variable: Corporate tax compliance

Corporate tax compliance was the dependent variable in the study and the researcher sought to investigate the current state corporate tax compliance after the introduction of tax reforms. The study evaluated as to whether tax reforms have reduced the evasion of tax by tax payers. The average score for this was 1.97 which indicate that tax reforms have helped to curb tax evasion by tax payers. It is also evident that tax reforms has helped to improve revenue collection as indicated by the average score of 1.59. Table 4.8 shows the findings on the dependent variable.

TABLE 4.8

Corporate tax compliance

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tax reforms reduced tax evasion	29	1	4	1.97	.680
Tax reforms has reduced Fines and indepth audit	29	1	4	1.97	.626
Tax reforms has enhanced tax compliance	29	1	5	1.66	.814
Tax reforms has improved revenue collection	29	1	5	1.59	.825
Valid N (listwise)	29				

Source: Primary data 2017

4.6 Reliability Analysis

Data reliability measures extent to which measures used are free from sampling errors. Reliability ensures that the measures used produce similar scores over time different methods and across multiple measure. (Mugenda, 2008).The reliability test that the study adopted was Cronbach's alpha test which was computed using SPSS. The findings of the reliability tests on all independent variables was 0.72 which indicates that the internal consistency of the research instrument was acceptable as shown in table 4.9 ,below;

TABLE 4.9

Reliability analysis

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.8233	.7214	29.0

Source: Primary data 2017

4.7 Correlation Analysis

The purpose of the study was to investigate the effect of the various tax reforms on corporate tax compliance. Pearson correlation was calculated using SPSS to evaluate the relationship between tax reforms and corporate tax compliance.

4.7.1 Pearson correlation between Administrative tax reforms and corporate tax compliance.

The analysis showed a moderate positive Pearson correlation of 0.518* and a p value of 0.04 which was significant at the level r = 0.01.The correlation shows that there is a moderate positive relationship between administrative tax reforms and corporate tax compliance. The moderate positive relationship shows that the introduction of the various administrative reforms has potential significance in enhancing corporate tax compliance levels.

4.7.8 Pearson correlation between policy tax reforms and corporate compliance.

The Pearson correlation showed -0.868* relationships and the significant level was 0.00 .The relationship indicates that there is a strong inverse relationship between policy tax reforms and corporate tax compliance .This indicates that while introduction of policy tax reforms are a key factor in fostering corporate tax compliance, its effects are not significant to influence corporate compliance.

4.7.9 Pearson correlation of Technological tax reforms and corporate compliance

The Pearson correlation showed -0.118* relationships and the significant level was 0.544.The relationship shows that there is a weak inverse relationship between technological tax reforms and corporate tax compliance .This shows that while technological reforms is a key factor in enhancing corporate tax compliance its effect is far so weak to influence corporate tax compliance.

Pearson correlation coefficient between the independent variable and dependant variable was calculated and the results shown below as per table 4.10.

TABLE 4.10

Pearson correlation analysis

Correlations

		Corporate tax compliance	Administrative tax reforms	Policy tax reforms	Technological reforms
Corporate tax compliance	Pearson Correlation	1	.518**	-.868**	-.118
	Sig. (2-tailed)	.	.004	.000	.544
	N	29	29	29	29
Administrative tax reforms	Pearson Correlation	.518**	1	-.858**	-.047
	Sig. (2-tailed)	.004	.	.000	.807
	N	29	29	29	29
Policy tax reforms	Pearson Correlation	-.868**	-.858**	1	.088
	Sig. (2-tailed)	.000	.000	.	.651
	N	29	29	29	29
Technological reforms	Pearson Correlation	-.118	-.047	.088	1
	Sig. (2-tailed)	.544	.807	.651	.
	N	29	29	29	29

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data 2017

4.8 Model of Goodness fit

Referring to table 4.11, the three independent variables that were studied; administrative tax reforms, policy tax reforms and technological reforms they explain 94.5 % of influence tax reforms on corporate tax compliance as represented by the R^2.This therefore means that the other factors not studied in this research contribute to 6.5 % of the influence of tax reforms on corporate compliance. The model is a good fit as indicated by the R^2.

TABLE 4.11

Model of Goodness fit

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.972[a]	.945	.939	.04384	.945	144.148	3	25	.000

a. Predictors: (Constant), Technological reforms , Administrative tax reforms , Policy tax reforms

Source: Primary data 2017

4.9 Analysis of Variance (ANOVA)

Table 5.2 shows the significance value is 0.00 which is less than 0.05 which therefore indicates that the model was statistically significant in predicting how tax reforms influence corporate compliance. The results show that F (3, 25) = 144.148 and a p value <0.001 which indicates that the regression model was significant.

TABLE 4.12

ANOVA

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.831	3	.277	144.148	.000[a]
	Residual	.048	25	.002		
	Total	.879	28			

a. Predictors: (Constant), Technological reforms , Administrative tax reforms , Policy tax reforms

b. Dependent Variable: Corporate tax compliance

Source: Primary data 2017

4.9.1 Regression Analysis

Regression analysis was done in order to further quantify the relationship between the result to a change of independent variables and the dependent variable. Table 4.13 below shows the results of regression analysis.

TABLE 4.13

Regression output

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.362	.162		26.958	.000
	Administrative tax reforms	-.214	.023	-.851	-9.348	.000
	Policy tax reforms	-1.067	.061	-1.596	-17.482	.000
	Technological reforms	-.005	.013	-.018	-.380	.707

a. Dependent Variable: Corporate tax compliance

Source: Primary data 2017

The table 4.13 also shows the significance of each independent variable compared to the dependant variable. The findings also show that a unit decrease change in administrative tax reforms will result to 0.214 change in the level of dependant variable corporate tax compliance. A unit decrease change in policy tax reforms will result to 1.067 change in the level of dependent variable tax compliance. A unit decrease change in technological tax reforms will result to 0.05 change in the tax compliance. It then follows that there is a negative relationship between independent variables and the dependent variables as shown by the beta coefficients hence if one variable is increased in isolation then the others decrease. It is also evident that administrative tax reforms and policy tax reforms have a significant relationship to tax compliance as demonstrated by the significance values of 0.000.Technological tax reforms has no significant relationship to tax compliance as the p value is 0.7 which is supposed to show > 0.05. The regression equation is illustrated below:

$Y = 4.362 - 0.214 X_1 - 1.067 X_2 - 0.005 X_3$

Y= corporate tax compliance

$X_{1} = -0.214$ (Administrative tax reforms)

$X_{2} = -1.067$ (Policy tax reforms)

$X_{3} = -0.005$ (Technological tax reforms)

4.9.2 Tests on Normality

Shapiro –wilk test is based on correlation between the data and corresponding normal values. The K-S tests is an empirical distribution function in which the cumulative distribution function is contrasted with the function.

The data was tested for normality using the K-S tests and ShapiroWilk and the results were as tabulated in table 4.14

TABLE 4.14

Normality tests

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Corporate tax compliance	.344	29	.388	.699	29	.062
Administrative tax reforms	.368	29	.515	.664	29	.593
Policy tax reforms	.296	29	.320	.746	29	.073
Technological reforms	.217	29	.117	.838	29	.431

a. Lilliefors Significance Correction

Source: Primary data 2017

For data to be considered as normally distributed, the p values should be greater than 0.05.From the table above, policy tax reforms ,administrative tax reforms and corporate tax compliance have a p value which greater than 0.05.

Skewedness

The skewedness and kurtosis of the data was computed using the SPSS and the values obtained as below.

TABLE 4.15

Skewedness and Kurtosis

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Corporate tax compliance	29	-.134	.434	-.047	.845
Administrative tax reforms	29	.286	.434	-.199	.845
Policy tax reforms	29	-.552	.434	-.404	.845
Technological reforms	29	.451	.434	-.350	.845
Valid N (listwise)	29				

Source: Primary data 2017

The data to be considered as normally distributed population then skewedness and kurtosis values are less than + or – 1. The values in table 5.5 reflect that the population is normally distributed as the values lie between less than +or -1.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter addresses the discussions of the data findings on effect of tax reforms on corporate compliance to the Kenya Revenue Authority. The conclusion and recommendations are discussed in detail and recommendation for further research outlined.

5.2 Summary of findings.

From the study the researcher was able to cover a majority of corporate tax payers from the various sectors of the economy.

5.2.1 Administrative tax reforms and corporate tax compliance

From the descriptive analysis, it indicates that the autonomy of departments at the KRA has helped enhance compliance to corporate tax payers as indicated by a mean of 1.66. This implies that KRA has improved on its organisational efficiency and in return increasing voluntary corporate compliance. Respondents are also in agreement that administrative tax reforms have increased tax payer knowledge as indicated by a mean of 1.45 which therefore implies that the various tax clinics which have held in different parts of the country have an effect to fostering corporate tax compliance. However there is a small level of concurrence that self-assessment system has reduced fines and tax refunds. This was mainly attributed to the fact that fines were easily detectable through the new system but refunds were increasing due to the withholding of tax and late remittance of tax. Similarly, Pearson correlation of 0.518* and a p value of 0.004 shows that there is a moderate positive relationship between administrative tax reforms and corporate tax compliance. The regression analysis revealed that a unit decrease change in administrative tax reforms will lead to a change in corporate tax compliance.

5.2.2 Policy tax reforms and corporate tax compliance

The variable was designed to find out the extent with which policy tax reforms were contributing to corporate tax compliance .From the descriptive analysis the researcher was able to establish that the introduction of new tax laws was able to foster corporate tax compliance as indicated by a mean of 1.62. Consequently ,the new tax laws have reduced the number of in-depth audits done by KRA due to fraud related cases .This is indicated by a mean of 2.24.Pearson correlation analysis showed -0.868* and a p value of 0.00 .The relationship shows a strong inverse relationship between policy tax reforms and corporate tax compliance. Regression analysis showed that a unit decrease change in policy tax reforms will lead to a change in corporate tax compliance.

5.3.3 Technological reforms and corporate tax compliance

From the findings of the researcher, respondents agreed to technological reforms has increased corporate compliance with a mean of 1.48. In addition respondents have agreed that the introduction of the various technologies to assist inn revenue collection that is (I -tax , ETR etc.) has led to enhancing corporate tax compliance. This is evidenced by a mean of 2.17. However there is a moderate concurrence that penalties and refunds have reduced since inception of ETR as shown by a mean of 3.21.This is due to late tax remittance and the different accounting dates that are not in tandem with the KRA fiscal year. With correlation analysis of -0.118* and a p value of 0.544 indicating a weak inverse relationship. The regression analysis indicate that a unit decrease change in technological tax reforms will lead to a change in corporate tax compliance.

5.3 Conclusions

The study attempted to link the various types of reforms that is administrative tax reforms, policy tax reforms and technological tax reforms and corporate tax compliance. Revenue authorities have been taking a keen interest to understand the affairs of their tax payers to determine their tax status and therefore potential tax liabilities.

Over the years KRA has encouraged the process of voluntary disclosure by tax payers .The tax reforms strategies assist tax payers to accurately file their returns hence boosting the revenue collection. Statistically tax reforms explain up to 94.5% & of corporate tax compliance which then shows that the tax reforms are a very important to enhancing corporate tax compliance.

From the analysis, there is an inverse relationship between tax reforms and tax compliance therefore indicating that the more the tax reforms are increased the less value in corporate compliance. This actually shows that the implementation of tax reforms has not generated much success as intended.

5.4 Recommendations

From the research findings the researcher had the following recommendations;

The introduction of administrative tax reforms has increased corporate tax compliance in several ways that included the self-assessment system and voluntary compliance which has consequently reduced the number of queues at the KRA and huge savings on human resource who used to collect tax prior to the tax reforms. In addition the tax payers are also aware of their rights and obligations as tax payers. However, not all tax payers file their returns on time. In this light, other means should be deployed to curb non -compliance by corporate tax payers.

The policy reforms has to some extent increased corporate tax compliance in that new tax laws have been able to reduce tax evasion by corporate tax payers. In addition, tax payers are able to file their returns accurately and on time. However, there are some laws introduced to govern the turn over tax for small businesses which up to now suffers a huge non-compliance level of 45%. (KRA, 2017) .The laws governing TOT tax should be reviewed and criminal liability for those delinquent tax payers. The government also need to offer some support with regards to tax offenders.

The technological reforms have revolutionised corporate tax compliance .Due to I tax the tax payers are able to file their returns fast and on time without any human interaction. In addition the tax payer is able to view the ledgers and interrogate their tax issues. In this manner, corporate tax compliance has increased. However it can be noted that the electronic tax register suffers a huge non-compliance by tax payers. Since inception of ETR machines, not much has been achieved as the tax administrators don't have enough capacity and resources to monitor the ETR machines. Therefore, the introduction of ETR machines has not achieved the intended purpose. Also, in as much as companies file their return online not all companies file their correct tax liability, others manipulate their tax liability for other gains. Also, not all PINs have migrated to the KRA online platform.

5.5 Limitations of the study

The study encountered a number of limitations. First, the data included primary data from KRA headquarters at the DTD department. If all stakeholders who initiate tax reforms were included then different results would have been generated.

Secondly, the study only used three independent variables. There are other factors which might affect corporate tax compliance which were not considered in this study. Thus not all the factors were controlled for in the model.

Lastly, the scope of the study was in Kenya if the same study can be replicated in other countries then the results could form a comparison. In addition, if the study would focus on the different sector of the corporates then the results would reflect differently.

5.6 Recommendations for further research

The researcher studied the effects of tax reforms on corporate compliance at the KRA headquarters. It focused on corporates in general but a specific emphasis can be researched on the specific corporate sector. The findings could be different based on the corporate sector .It is also recommended that other studies to be done on other factors that affect corporate tax compliance.

Researchers need to carry out further studies in Kenya to establish why tax reforms are negatively related with corporate tax compliance when the reforms were meant to improve the corporate tax.

Could it be that the reforms have not been carried out well? Or is it lack or support from the government? Other methods should be used to carry out the same.

Future studies should widen the research period in order to have a longer time series data which can give more reliable results. This can be done by focusing on a period from independence (1963) to a current period.

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APPENDIX I: QUESTIONNAIRE

QUESTIONNAIRE FOR OFFICERS OF KENYA REVENUE AUTHORITY (KRA)

INTRODUCTION

My name is Gertrude Mulago. I am a Masters candidate at the KCA University. I am undertaking research towards a thesis entitled “The effect of tax reforms on corporate tax compliance to KRA”. To assist in my research, I request that you spare some time to answer the questions in this questionnaire. Your responses will be treated with utmost confidentiality and used only for the intended purpose.

PART A: BACKGROUND INFORMATION

Name (optional):

Position held:

Department:

Number of years worked:

PART B: ADMINISTRATIVE TAX REFORMS

This section seeks to investigate the effect of administrative tax reforms on corporate tax compliance. To what extent do you agree with the following statements with regard to relationship between administrative tax reforms and corporate tax compliance? Please mark (√) in the box that represents your response

Attribute	**1 Strongly Agree**	**2 Agree**	**3 Moderate**	**4 Disagree**	**5 Strongly Disagree**
Fines &penalties and tax refunds reduced since the inception of Self-Assessment System					
The use of Personal Identification Number (PIN) assisted in collection of taxes?					

The autonomy of KRA enabled compliance of taxes					
The administrative tax reforms increased taxpayer knowledge of tax					

Since inception of administrative tax reforms do all companies voluntarily file their tax returns promptly (Explain)

…………………………………………………………………………………………

…………………………………………………………………………………………

In your own opinion what is the overall success rate of various administrative tax reform measures in relation to corporate compliance? (Explain)

………………………………………………………………………………………………………

…………………………………………………………………………………………

PART C : POLICY TAX REFORMS (TAX LAWS)

This section seeks to investigate the effect of policy tax reforms on corporate tax compliance. To what extent do you agree with the following statements with regard to relationship between policy tax reforms and corporate tax compliance? Please mark (√) in the box that represents your response.

Attribute	**1 Strongly Agree**	**2 Agree**	**3 Moderate**	**4 Disagree**	**5 Strongly Disagree**
The tax laws have increased corporate compliance					
The new tax laws increased integrity of reports filled by corporates					
The introduction of tax law has decreased the number of in-depth audits in companies					
The policy tax reforms has decreased the number of fines &penalties on corporate					

Since inception of policy tax reforms, has the number of corporate tax evaders decreased?

…………………………………………………………………………………………

……………………………………………………………………………………………..

In your own opinion what is the overall success rate of policy tax reforms measures in relation to corporate compliance (Explain)

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……………………………………………………………………………………………..

PART D: TECHNOLOGICAL TAX REFORMS

This section seeks to establish the cost of technological tax reforms on corporate tax compliance. To what extent do you agree with the following statements with regard to relationship between technological tax reforms and corporate tax compliance? Please mark (√) in the box that represents your response

Attribute	**1 Strongly Agree**	**2 Agree**	**3 Moderate**	**4 Disagree**	**5 Strongly Disagree**
The technological reforms have increased corporate compliance					
The penalties &tax refunds reduced since inception of itax					
Taxpayers filling returns accurately and timely since inception of I tax ,ETR,Simba System					
The tax liability & tax refunds have reduced since inception of ETR					
The technological tax reforms increased revenue collection					

Since inception of technological tax reforms, in a fiscal year approximately how many companies suffer the penalty of late submission of returns?

…………………………………………………………………………………………

………………………………………………………………………………………….

In your own opinion what is the overall success rate of various technological tax reform measures in relation to corporate compliance (Explain)

…………………………………………………………………………………………

…………………………………………………………………………………………..

SECTION E: CORPORATE TAX COMPLIANCE

This section is concerned with investigation of corporate tax compliance by companies. To what extent do you agree with the following statements with regard to corporate tax compliance by companies? Please mark (√) in the box that represents your response

Attribute	**1 Strongly Agree**	**2 Agree**	**3 Moderate**	**4 Disagree**	**5 Strongly Disagree**
Tax evasion has reduced since inception of tax reforms					
Fines, indepth audit have decreased since inception of tax reforms					
Tax reforms has played a significant role in enforcing corporate tax compliance					
Revenue collection has improved since inception of tax reforms					

In your opinion has tax reforms in general affected corporate compliance levels.(Explain)

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````````````````````````````````````*THE END*```
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APPENDIX II: APPROVAL LETTER

KENYA REVENUE AUTHORITY

Ref: KRA/5/1004/23

16th August, 2017

Gertrude Mulago Livoi
P.O. Box 58966 -00200
NAIROBI

Dear Gertrude,

RE: REQUEST TO UNDERTAKE RESEARCH

Reference is made to your letter dated 17th July, 2017 on the above.

We are pleased to inform you that approval has been granted for you to carry out research on **"the effect of tax reforms on Corporate Tax Compliance".**

The research you intend to undertake should be for academic purposes only and any data or information given should be treated with utmost confidentiality.

Kindly share your findings with the Authority on completion of the study.

Sincerely,

Beatrice Sapuro
For: Deputy Commissioner – Human Resources

Tulipe Ushuru Tujitegemee!

Times Tower Building
Haile Selassie Avenue, P.O. Box 48240-00100 Tel: 310900 Fax: 316872

SGS UKAS ISO 9001:2008 CERTIFIED

APPENDIX III: INTRODUCTION LETTER

KCA UNIVERSITY
~ 1 9 8 9 ~

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KCAU/SGS/MSc/July.17/2

July 4, 2017

To whom it may concern,

Dear Sir/Madam,

RE: LIVOI GERTRUDE MULAGO REG. NO. 15/05047

It is my distinct pleasure to introduce to you Ms. Gertrude Mulago who is a student in our institution pursuing a Master of Science in Commerce at the School of Business and Public Management.

Gertrude is conducting research on a topic titled: "*Effect Of Tax Reforms On Taxpayers Compliance In Kenya*" which is part of the requirements of the program she is pursuing. The research as well as the data procured thereof shall be used for academic purposes only.

Any assistance accorded to her is highly appreciated.

In case of further inquiry, do not hesitate to contact the undersigned.

Yours faithfully,

KCA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
04 JUL 2017
NAIROBI

Dr. Nyaribo Misuko
Ag. Dean, School of Graduate Studies & Research