EFFECT OF TAX POLICY REFORMS ON TAX REVENUE IN KENYA

BY

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DECLARATION

Declaration by the Student

I, the undersigned declare that this is my original work and has not been submitted for a degree qualification in any other university or institution of learning or to any other examination body.

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Recommendation by the Supervisor

This research report has been submitted for examination with my approval as Egerton University Supervisor.

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DEDICATION

This project work is dedicated to my dear wife Ruth and daughters Nicole and Beslie for their unwavering support and prayers, and for being a source of inspiration during the course of my studies.

ACKNOWLEDGEMENT

It is said that a journey of a thousand miles starts with the first step. This far has been with many challenges. It would not have been possible were it not for the support, prayers and encouragement of everyone who at one time or the other played a particular role. First and foremost, I would like to thank the almighty God for giving me the strength, endurance, resilience, courage and above all wisdom to conquer. Without God it wouldn’t have been possible. Next, I would like to thank Egerton University for giving me an opportunity to study in the institution. I would also like to give my special and sincere thanks to my supervisor Dr. Fredrick M. Kalui for his advice, patience, and guidance throughout the project period. Without your help I could not have made it. To my family, I say thank you for your prayers, moral support and patience throughout the process. I also appreciate my friends, workmates and colleagues for their timely support. To you all, I say THANK YOU.

ABSTRACT

Taxation provides principal lenses in measuring state capacity, state formation and power relations in a whole society. In the evaluation of tax reforms in the developing countries, it is important to first determine the unique role of the tax system in each particular country. The main reason for undertaking tax policy reforms in Kenya was to address issues of inequality and to create a sustainable tax system that could generate adequate revenue to finance public expenditures. In this respect, the government of Kenya introduced in the country the tax modernization programmes for achievement of a tax system that was sustainable in the face of changing conditions locally and internationally. This study examined the reform efforts of the country with respect to revenue generated, and reviewed the strengths and weakness of the tax system as it has evolved over the years from 2003/2004 to 2012/2013. The methodology used was a descriptive research design. The general objective was to evaluate the effect of tax policy reforms on tax revenue in Kenya. The specific objectives of the research study were: to establish the relationship between domestic taxes policy reforms and tax revenue in Kenya, to determine the effect of customs policy reforms on tax revenue in Kenya, to evaluate the relationship between road transport policy reforms and tax revenue in Kenya and to assess the relationship between tax evasion and tax revenue in Kenya. The study used both descriptive and regression statistics. Correlation analysis was made to measure the strength of the relationship between the variables. With the aid of SPSS, a multivariate analysis was employed with the OLS regression being used. From the findings on the relationship between domestic taxes policy reforms and tax revenue in Kenya, the study established that there was a significant relationship between taxes policy reforms and tax revenue in Kenya.

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LIST OF ACRONYMS

CIT	Corporate Income Taxes
PIT	Personal income tax
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
KRA	Kenya Revenue Authority
LTU	Large Taxpayers Unit
MUB	Manufacture under Bond
PAYE	Pay As You Earn
PIN	Personal Identification Number
TMP	Tax Modernisation Programme
CMA	Capital Market Authority
TOT	Turnover Tax
VAT	Value Added Tax
CAMIS	Cargo Management Information System
COSIS	Customs Oil Stocks Information System
DPC	Document Procession Processing Centre
RARMP	Revenue Administration Reform and Modernization Programme
APSC	Air Passenger Service Charge
ECTS	Electronic Cargo Tracking System
KIPPRA	Kenya Institute of Public Policy Research and Analysis
OLS	Ordinary Least Squares
TR	Tax Revenue
DT	Domestic Taxes
CD	Customs Duty
TE	Tax Evasion

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Tax reform is the process of changing the way taxes are collected or managed by the government which may involve the adoption of a Value Added Tax (VAT), the expansion of the VAT, the elimination of stamp and other minor duties, the simplification and broadening of corporate income or personal or asset taxes, or the revision of the tax code to enact comprehensive administration and criminal penalties for evasion (Mahon, 1997).

In Kenya, taxation is the single largest source of government budgetary resources. Between 1995 and 2004, tax revenue constituted 80.4% of total government revenue (including grants). Relatively, the importance of non-tax revenue is also significant in sustaining the public budget, although its importance is much less than the role of taxation given that it's share over the same period was 15.1%. Foreign grants play a minimal role as they have averaged only 4.5%. Given its central role, taxation has been applied to meet two objectives. First, taxation is used to raise sufficient revenue to fund public spending without recourse to excessive public sector borrowing (Glenday, 2002).

Second, it is used to mobilize revenue in ways that are equitable and that minimize its disincentive effects on economic activities. Over time, Kenya has moved from being a low tax burden country to a high tax burden country yet the country faces the obvious need for more tax revenues to maintain public services. Given the high tax burden, prospects to raise additional revenue seem bleak. In addition, Kenyans are yet to accept a tax paying "culture". On one hand, those with political power and economic ability are few and do not want to pay tax while on the other hand, those without political power are many, but have almost nothing to tax, and so resist paying taxes. As no one enjoys paying taxes, there is always mistrust between those collecting taxes and taxpayers. This mistrust generates a hostile coexistence between tax agents and tax payers, with agents perceiving
taxpayers as criminals unwilling to pay their taxes, and tax payers being wary of government agencies' high-handedness in collection of taxes (KRA, 2004).

Even though the tax system continuously changes, in pursuit of the objectives of the Tax Modernization Programme that came into force in 1986, the challenges that confront the tax authorities today are not much different from the pre-reform challenges. With Kenyan firms reporting that about 68.2% of profit is taken away in taxes, tax competitiveness is low and the country remains among the most tax unfriendly countries in the world. Tax evasion remains high, with a tax gap of about 35% and 33.1% in 2000/1 and 2001/2 respectively (KIPPRA, 2004a). The tax code is still complex and cumbersome, characterized by uneven and unfair taxes, a narrow tax base with very high tax rates and rates dispersions with respect to trade, and low compliance (KIPPRA, 2004b).

Additional challenges include tax systems with rates and structures that are difficult to administer and comply with, are unresponsive to growth and discretionary policy hence low productivity, raise little revenue but introduce serious economic distortions, treat labor and capital in similar circumstances differently and are selective and skewed in favor of those with the ability to defeat the tax administration and enforcement system (KIPPRA. 2004b).

The composition of taxes could also change as a result of increased difficulty in taxing mobile tax bases with the total tax burden from income taxes on mobile tax bases like capital and skilled labour likely to decline across governments, while taxes on immobile tax bases will likely increase. In the face of tax competition, national governments may attempt to harmonize their tax systems in an attempt to reduce the negative externalities that one government's decisions impose on other governments. Such harmonization implies that there should be some convergence in tax rates across governments, and in the definitions of tax bases. Some also argue that neither a "race to the bottom" nor international tax convergence are universal outcomes of increased globalization. Analysts differ on whether these developments are positive (e.g., tax competition that reduces the size of government and government waste) or negative (e.g., tax competition that reduces the ability of governments to provide public goods, eliminating the welfare state). However, few question that

globalization has led, and will still to lead to a significant reduction in the autonomy of governments (Musgrave, 1987).

In evaluating tax reform in developing countries, one first needs to determine the unique role of the tax system in each individual country. Among the key reasons for undertaking tax reforms in Kenya was to address issues of inequality and to create a sustainable tax system that could generate adequate revenue to finance public expenditure hence, the tax modernization programme introduced in the country was to achieve a tax system that was sustainable in the face of changing conditions domestically and internationally. Policy was shifted towards greater reliance on indirect taxes as opposed to direct taxes as consumption taxes were seen to be more favourable to investments and thus growth while trade taxes, instead of being used for protection or revenue-maximization purposes, were viewed more as instruments to foster export-led industrialization. Trade taxes were hence used to create a competitive exports sector rather than protect the import-competing manufacturing sector, as had been done in the past (Karingi and Wanjala, 2005).

Given the destabilizing effects of the deficits and the fact that they were becoming unsustainable, the Kenya Government through Sessional Paper No 1 of 1986 (GOK, 1986) came up with measures to address this problem. The most notable fiscal policy proposals adopted were the Tax Modernization Programme (TMP) that was adopted in 1986 and the Budget Rationalization Programme that followed in 1987 (Muriithi and Moyi, 2003) .

1.2 Statement of the Problem

Taxation is the key source of revenue that the government of Kenya uses to provide public services to its citizens. Due to its importance, tax policy debates and decision making becomes a critical issue to the public, businesses and the general economy owing to the varied impact that it will have on each of these entities. The main reason of undertaking tax reforms in Kenya was to address issues of inequality and to create a sustainable tax system that could generate adequate revenue to finance public expenditure. In this respect, tax modernization programmes were introduced in the country for achievement of a tax system

that was sustainable in the face of changing conditions locally and internationally. Of the total tax revenue collected by the government over the last ten years, the largest contributors are income tax, followed by VAT. However it is important to note that the burden on income tax and in particular PAYE is felt by a small percentage of the total productive labour force raising fairness concerns. In addition, a number of businesses especially in the informal sector are not taxed again raising equity questions. Mutua (2012) noted that the tax structure in Kenya is skewed heavily towards income taxes and VAT as the two largest source of total tax revenue. In spite of the efforts by the Kenya government to improve tax administration, there are still a myriad of problems militating against effective and efficient tax system in Kenya and hence affecting the tax revenue collected by the Kenya government. It is against this background that the researcher examined the whole spectrum of tax policy reforms in Kenya with the view of analysing the effects of the policy reforms on tax revenue in Kenya.

1.3 Objectives of the study

1.3.1 General Objective

The general objective was to evaluate the effect s of Tax Policy Reforms on Tax Revenue in Kenya.

1.3.2 Specific Objectives

The specific objectives of the research study were;

i. To establish the relationship between domestic taxes policy reforms and tax revenue in Kenya
ii. To determine the effect of customs policy reforms on tax revenue in Kenya
iii. To determine the relationship between road transport tax policy reforms and tax revenue in Kenya
iv. To determine the effect of tax evasion policy reforms on tax revenue in Kenya
v. To determine the effect of domestic taxes policy reform, customs policy reform, road transport tax policy reforms and tax evasion policy reform on tax revenue in Kenya.

1.4 Research Hypothesis

Ho 1: There is no significant relationship between domestic taxes policy reforms and tax revenue in Kenya

Ho 2: There is no significant relationship between customs policy reforms on tax revenue in Kenya

Ho 3: There is no significant relationship between road transport policy reforms and tax revenue in Kenya

Ho 4: There is no significant relationship between tax evasion and tax revenue in Kenya

Ho 5: There is no combined effect between domestic taxes policy reform, customs policy reform, road transport tax policy reforms and tax evasion policy reform on tax revenue in Kenya

1.5 Significance of the Study

This study shall be of value to various parties that have a direct or indirect stake in Kenya tax system including:

Kenya Revenue Authority and other Government agencies

KRA is the taxation implementing institution in Kenya. From the findings and recommendations that the researcher will make, it will use them to enhance efficiency and effectiveness in tax administration in Kenya.

Researchers and Students of Accountancy Profession

The research will add new knowledge to the already existing body of knowledge that will be used as a source of reference by the other researchers and the students. It will also enhance their understandability of how tax policy reforms affect tax revenue.

Policy Makers

The study will also be important to policy makers in the money market, the capital market and the government who will be interested in knowing the effect of tax reform policies on the performance of companies at the securities exchange market as well as to the business

community at large. This is because companies' income, investors' income and other market players' income is always affected by the tax policy reforms.

1.6 Scope of the Study

This study will focus on the evaluation of the effects of tax policy reforms on tax revenue in Kenya. Specifically, the study will be concentrated on the period from 2003/2004 to 2012/2013 for a number of reasons: This period is long enough to capture both the pure and total responsiveness of tax revenues to tax policy reforms. It is also within this period that Kenya has witnessed political as well as a lot of economic changes.

1.7 Limitations and delimitations of the Study

One of the limitations of the study was that the researcher was denied access to some records by KRA staff as it was considered sensitive. The researcher delimited this by obtaining a letter from Egerton University authorizing him to carry the research purely for academic work. In addition, he assured the authorities that the information will be kept very confidential.

1.8 Definition of operational terms

Tax

A compulsory contribution imposed/levied by a government on income, a product or an activity payable by the citizens of a country resident and non- resident the purpose of which is to finance government expenditure i.e. public goods and services.

Tax payer

This any person who is eligible to bear the liability of tax as per the tax laws of Kenya and includes individuals, corporate bodies, trusts, unincorporated organisations among others.

Resident

A resident is a person domiciled in Kenya for the whole tax year.

Non-resident

This is an individual who mainly resides in Kenya but has interests in another country.

Direct taxes

This means that taxes are levied on income and property of individuals or group of individuals who bears their full burden, i.e. the impact and the incidence of the tax are on the same individual.

Indirect taxes

These are the taxes levied on goods and services and are paid by individuals by virtue of their associating with the goods and services i.e. the impact of the tax is on one person while the incidence is on a different person.

Tax reform

Tax reform is the process of changing the way taxes are collected or managed by the government.

Tax revenue

This is the amount of income that is gained by governments through taxation.

Tax avoidance

This is the use of legal methods to modify an individual's financial situation in order to lower the amount of income tax liability.

Tax evasion

It is the failure to disclose the correct income that should be assessed either by misstatement of facts, falsification of figures, filing of incorrect returns or by misrepresentation of tax liabilities.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

In this chapter, the various tax policy reforms are discussed. The chapter will cover the following: background on Kenya Revenue Authority, theoretical framework, the critical review and finally the conceptual framework where a diagrammatic presentation showing the relationship between tax policy reforms and tax revenue in Kenya will be shown.

2.2 Kenya Revenue Authority

The Kenya Revenue Authority was established by an Act of Parliament on July 1, 1995 under Cap. 469 of the laws of Kenya, for the purpose of enhancing the mobilisation of Government revenue, while providing enhance tax administration and sustainability in revenue collection. The Board together with Management of KRA has since its inception spent time and resources setting up systems, procedures and adopting of new strategies aimed at enhancing the operational efficiency of the Authority's processes. In particular, the functions of the Authority are: To assess, collect and account for all revenues in accordance with the written laws and the specified provisions of the written laws, to advise on matters relating to the administration of, and collection of revenue under the written laws or the specified provisions of the written laws, and to perform such other functions in relation to revenue as the Minster may direct.

In order to realise its mandates, the Authority administers the fourteen written laws relating to revenue. These written laws administered by the Authority therefore legally constitute the functional departments and sections of Kenya Revenue Authority, which include: - Income Tax Department, Customs & Excise Department, Value Added Tax Department, Registrar of Motor Vehicle Department and Kenya Revenue Authority Headquarters (support) Departments (KRA, 2012).

2.3 Tax Reforms

Tax reform is the process of changing the way taxes are collected or managed by the government. It may involve the adoption of a Value Added Tax (VAT), the expansion of the VAT, the elimination of stamp and other minor duties, the simplification and broadening of personal or corporate income or asset taxes, or the revision of the tax code to enact comprehensive administration and criminal penalties for evasion (Mahon, 1997).

Tax policy is an administrative apparatus that is built to levy and collect taxes, through application of different tariffs and basis of taxation. Tax policy reform is the process of changing the way the taxes are collected or managed by a government. Tax reformers have different goals, while some seek to reduce the level of taxation of all people by the government, others seek to make the tax system either more progressive or less progressive. Whereas tax policy reforms commenced in 1986, administrative reforms were initiated in 1995 when KRA was established to strengthen revenue collection and harmonize the separate tax collection arms. The overall objective was to provide operational autonomy in revenue administration and enable its evolution into a modern, effective, flexible and integrated revenue collection agency. Since the inception of KRA, revenue collection has continued to grow while professionalism in revenue administration has been enhanced. However, challenges inhibiting the achievement of a fully integrated and modern tax administration remain (KRA, 2012).

The KRA Second Corporate Plan (2003/04 – 2005/06) set the stage for the Revenue Administration Reform and Modernization Programme (RARMP) to ensure that momentum was injected to consolidate the gains that had been made in tax administration. During the Third Corporate Plan Period (2006/07 – 2008/09), the RARMP made enormous strides in ensuring that KRA transformed itself into an ultra-modern, fully integrated and client-focused organization (KRA, 2012).

KRA also implemented the Fourth Corporate Plan (2009/10 – 2011/12). The aim was to entrench the reforms at the operational levels to achieve operational efficiencies and enhance service delivery. The achievements so far have largely been credited through the

implementation of the following key projects; Customs Reforms & Modernisation Project, Domestic Taxes Reform & Modernisation Project, Road Transport Reform & Modernisation Project, Investigation & Enforcement Reform & Modernisation Project, Business Automation Project, Human Resources and Revitalisation Project and Infrastructure Development Project. However, other reform initiatives touching on other critical functions including the Internal Audit and revenue collection payments are being implemented (KRA, 2012).

The tax base in Kenya, as in most sub-Saharan African countries, is extremely narrow. So far, attempts to increase tax revenue have focused on closing the 'taxation gap' and expanding the tax base. The main policies recommended by the IMF have led to trade liberalisation, the transition from a sales tax to a system of VAT, and the creation of the Kenya Revenue Authority. These policies have had mixed results. The reduction in tariffs has been successful, as increased imports have so far more than compensated for the reduction in tariffs and resulted in an increase in trade tax revenue. However, the impact of domestic tax reforms has been less impressive. Most importantly, revenue collected from VAT and direct taxation has not increased as hoped. Neither the switch to VAT, nor the creation of the KRA has significantly altered the proportion of government revenue made up by domestic taxation (Cheeseman and Griffiths, 2005).

2.3.1 Domestic Taxes Policy Reform

This reforms sot to create a fully integrated and modern domestic tax administration with the key objectives of integrating domestic revenue administration; developing a wholistic approach to taxpayer services thereby providing a single view of the taxpayer; reducing the administrative and compliance costs; improving services through taxpayer segmentation; enhancing taxpayer compliance and broadening the tax base.

These objectives were achieved through implementation of the following reforms: Merger of Income Tax and VAT to form Domestic Taxes Department (DTD) in July 2004. In July 2005, DTD took over the administration of Domestic Excise from Customs & Excise Department, Segmentation of taxpayers to address their unique needs by creating the Large

Taxpayer Office (LTO) to cater for large taxpayers and the Medium Taxpayer Office (MTO) for medium sized taxpayers, Widening the tax net by introducing Turnover Tax (TOT) for small taxpayers and particularly those in the informal sector, Enhancing taxpayer compliance through introduction of Withholding VAT system in October 2003 and Electronic Tax Register (ETR) system in July 2005, Development and implementation of a web based Integrated Tax Management System (ITMS) to provide various tax services online. e-tax registration and e-tax filing modules were rolled out as well as Provision of online facilities for verification of Personal Identification Number (PIN) and Tax Compliance Certificate (TCC) at the KRA website to enable taxpayers and the public to verify authenticity (KRA, 2012).

2.3.1.1 Income Tax

Income tax is a direct tax charged on employment income, business income, rent income, pensions, and investment income. The main goal of income tax reforms has been to enhance collection by broadening the tax base while reducing the maximum rates. The top rate for individual tax was reduced from 65% (in 1987) to 32.5% in 1998 to 30% currently. Further, basic tax allowances (tax credits) were increased and simplified while the single credit per individual was introduced in 1997. The changes in the company tax structure include reducing the top rate from 45% to 32.5% between 1989 and 1998 to 30% currently. The rate was rationalized by unifying the structure across all types of business. There were efforts to lower and equalize company and individual marginal tax rates. This was aimed at increasing the disposable income for both corporate and individual capital investments, thus encouraging private investment through the consumption transmission mechanism. The income tax structure was integrated in the following ways:

First, there was a shift from the classical system that encouraged double taxation to the current system that encourages single-stage taxation. The taxation of dividends was limited to a final withholding tax while a compensating tax was introduced to ensure all corporate distributions are made out of after-tax profits. The interest and penalty system has been rationalized along with the introduction of the installment and self-assessment tax systems, as

well as the reintroduction of the personal identification number (PIN) for purposes of tax assessment. The PIN was aimed at improving tax information management by identifying all taxable persons in the country so that any transaction made by them could be systematically identified and the appropriate tax captured. Another element of income tax reforms was the timing of collections and rationalization of the withholding tax system. The system of paying tax on business income was changed from delayed payment to current payment through a seven-year phase-in (from 1990 to 1996). The withholding tax net was expanded to cover interest income from discounts on debt instruments, payments to contractors and self-employed persons without the PIN. Again, withholding tax on interest was raised from 10% to 15% but was made a final tax when received by an individual from a financial institution (KIPPRA, 2004b).

In Kenya, income tax has been designed to target corporate profits (Corporate Income Tax - CIT) and employment (Personal income tax -PIT) and Pay As You Earn (PAYE). Income tax is charged directly on employment income, business income, rent income, pension earnings, investment income (dividends, royalties) and commissions. Income from self-employment is subject to the Personal Income Tax (PIT) while employment income is subject to Pay As You Earn. The PIT and PAYE are charged at the same graduated scale while CIT is charged on profits on limited liability companies. Other income taxes include fringe benefits tax, advance tax, taxes under Widows and Orphans Act and Parliamentary Pensions Act.

At the theoretical level, income taxation is applied to achieve broad objectives of income redistribution and revenue mobilization. In practice, Kenya has always relied heavily on income taxation on the basis of ease of collection rather than on the basis of abstract principles of equity. This explains why the pre-reform period was characterized by high top marginal rates, very wide brackets between the lowest and highest brackets, discrepancy between CIT and PIT rates, too many income tax brackets, and low levels of compliance. Given these features, the main challenges of income tax reforms were to reduce the maximum rates, reduce the dispersion between the minimum and maximum tax rates, and rationalize the income tax brackets (KRA, 2004).

Measures to expand the income tax base included taxation of employer provided benefits, PAYE amnesty (1993), application of presumptive income tax on selected agricultural produce and taxation of foreign exchange gains. Businesses having assets and liabilities denominated in foreign currency were required to pay tax on such assets and liabilities on a realization basis. The Presumptive income tax on agricultural produce (which was abolished in 1993 and re-introduced in 1995) required farmers of direct agricultural exports to pay 20% of their total earnings in tax. Currently, the rate of the deduction is 2% of the gross amount paid. This Presumptive income tax was used to expand coverage of farmers while also raising tax compliance (Nzioki et al, 2004).

The Income Tax Act provides for personal relief to taxpayers. Since 1990, tax brackets and tax relief have been reviewed with the objective of cushioning low-income earners against bracket creep while ensuring that high income earners bear a larger proportion of the tax burden. In the period from 1990 to 1997, there were sustained increases in the single and family relief. Thereafter, a personal relief of Ksh7,200 was introduced to replace the family relief and single relief. The personal tax relief introduced in 1997 has been subjected to 10% annual increments. These increments have had the effect of raising the minimum monthly income at which income tax becomes payable (KRA, 2005).

2.3.1.1a Personal Income Taxes (PIT)

Personal income taxes are justified on the basis of several theoretical arguments. It is argued that that PIT is income elastic since its revenue grows in proportion to income. Second, it is argued that PIT is progressive in its distribution of tax burdens. Third, PIT can be relatively neutral in its effects on economic decisions, hence reducing distortions in the economy. The incidence of PIT falls entirely on the salaried persons and wage employees working in the formal sector. Before the reforms, the PIT system had suffered from several setbacks, which include high marginal tax rates, discrepancies between nominal and effective progressivity, complexity of the system and tax evasion. One of the most pertinent challenges facing the tax authorities has to do with differential treatment of dividend and interest income; they attract different rates even for the same income. The next challenge remains taxation of agriculture

and the informal sector. Despite the use of presumptive taxes, this has been a problematic tax weapon. The performance of the tax has been poor, despite the reform efforts at introducing (Karingi, 2004).

2.3.1.1b Corporate Income Taxes (CIT)

Theoretically, a positive case can be built for the imposition of a corporate tax. This is based on several factors: On equity grounds; Ease of administration for those companies that comply with statutory accounting standards; Political considerations make it more prudent to tax corporations -which have no votes - than taxing individuals; and The benefit principle where corporations should pay taxes in return for the benefits conferred by incorporation. There are, however, negative sides to the imposition of corporate taxes. These include; Corporation taxes have a retarding effect on the corporate sector to the extent that they discourage existing corporations from growing or deterring unincorporated businesses from adopting a corporate form or even encourage existing corporate to discard their corporate identity; Revenue yields from corporate income tax may be at the expense of private savings rather than consumption because corporate taxes mean that dividends are less than they should be; and Corporate income tax may become a deterrent to foreign capital inflow (Moyi and Ronge, 2003).

Prior to the reforms, the main problems of corporate income taxation included low levels of compliance, inefficient tax assessment and collection procedures of tax administration. Since enterprises are the engine of job creation and growth, lower corporate tax rates encourage investment, entrepreneurship and production by increasing the net reward for productive effort. In addition, lower corporate tax rates make Kenya tax competitive and therefore a suitable destination for foreign direct investment. Based on this viewpoint, the most prominent feature of corporate tax reform was the reduction of the top rate from 45% in 1989 to 30% currently. Similarly, the top CIT rate and the top marginal PIT rate were unified as a means of increasing the disposable income for both corporate and individual capital investments. As well as reducing incentives for tax avoidance that results from differentiated top CIT and PIT rates. Similarly, the differentiated CIT rate structure was also rationalized

by unifying the structure across all kinds of business. However, the differentiated rates between local and foreign companies have persisted even during the reforms period. This acts as a disincentive to local companies, which are not eligible for the incentives that are available for their foreign counterparts (Gallagher, 2004).

Turnover Tax was introduced by the Finance Act 2007 through the provision of the Income Tax Act, Cap 470,with the Tax being applicable to any resident person whose turnover from business does not exceed Kshs.5 million during any year of Income but does not include: employment income, exempt incomes falling under the I" Schedule of the Income Tax Act, business incomes subject to a final withholding tax, persons in receipt of business Incomes But with annual turnover below Kshs. 500,000, limited companies, rental Income and professional management fees (KRA, 2011).

2.3.1.2 Value Added Tax

VAT was introduced in Kenya in 1990 to replace sales tax. This shift was motivated by the argument that VAT (relative to sales tax) had a higher revenue potential, and its collection and administration was more economical, efficient and expedient. Since 1991, a number of steps have been taken to rationalize and strengthen the VAT, most importantly by moving several items subject to VAT from specific to ad valorem rates and broadening VAT coverage in the service sector. Four measures were applied to broaden the base of VAT. First, from 1990, sales tax (retail-level) was changed to VAT (manufacturer-level) including business services. Second, the tax point was gradually moved from the manufacturer level to the retail level in a number of sectors including jewellery, household appliances and entertainment equipment, furniture, construction materials, vehicle parts, and pre-recorded music. As a result of this, the coverage of VAT on goods supplied at retail level expanded tremendously from 1990 through 1995. Third, “goods” were redefined to exclude the supply of immovable tangible and all intangible property and rental or immovable property. Fourth, from 1991,the coverage of the service sector was expanded to include business services; hotel and restaurant services; entertainment; conferences; advertising; telecommunications; construction; transportation; the rental, repairs and maintenance of all equipment (including vehicles); and a range of personal services (KIPPRA, 2004b).

Measures aimed at VAT rationalization included the reduction of the maximum rate from over 150% to 15% (between 1990 and 1997) and the reduction of the rate bands from 15 to 3. Whereas the low rate was increased from 50% to 78%, all the other rates were reduced; the top rate from 150% to 15% and the standard rate from 18% to 16%. Additional measures included raising the minimum turnover level for compulsory registration from Ksh10,000 to Ksh40,000 and also introducing stiff penalties for defaulters in the following areas: late filing of VAT returns, failure to issue VAT invoices and failure to maintain proper books of account. Another aspect of VAT that elicited much interest from the taxpayers was the tax refund system. At the time of inception, the refund system was characterized by weak controls and corruption that led to loss of revenue (Nyamunga, 2001).

Administrative changes were undertaken thereafter (mid 1990s) to streamline the refund system. The improved management that followed has been behind the introduction of tighter verification measures and the elimination of the large backlog of claims. Since 1991, the coverage of excise duties has expanded from domestic production to include imports. Excise duties were rationalised to cover the luxury goods tax element on wine, beer, spirits, mineral water, tobacco products, matches, luxury passenger cars and minibuses while automotive fuels and cosmetics were introduced into the excise tax net (KIPPRA, 2004b).

2.3.1.3 Excise Duty

Excise taxes are levied on (imported) oil products, as well as consumption of beer and spirits, cigarettes, matches, and tobacco. Before the TMP, excise taxes had been levied at specific rates, but moderate to high inflation induced a change to an ad valorem basis. Later, in the 1980s, the tax regimes were selectively switched back to specific charges in the face of undervaluation by traders. Prior to 1990, taxes on cigarettes had provided more than half of non-oil excise tax revenues and beer about one-quarter. However coincident with the introduction of the VAT, the specific tax on beer was replaced with a 100 percent tax rate, and these shares were effectively reversed (Kiringai et al. 2002).

Excise duty is levied on specified schedule goods and services and charged at either specific or ad valorem (value based) depending on type of goods. An ad valorem is a rate charged in accordance with the value of goods, whereas specific rates are charged as per volume or quantity. In the late 1980s, Kenya initiated a Tax Modernization Programme (TMP) which was meant to reform the tax system affecting excise tax policy. In this respect, there was a switch between specific rate and ad valorem regimes, in order to ensure that revenue maximization was maintained. For example, although Kenya maintained specific rate regime during the implementation of TMP, in 1991/2, there was a switch from specific to ad valorem, where there were discretionary annual changes to excise duty for beer and tobacco to keep in line with inflation. Further, in 1997/98 there was rationalization of multiple excise rates on cigarettes to uniform rate in order to simplify collection and curb mis-declaration of imported cigarettes. In 2003/04, the government reverted back to specific tax regime from ad valorem; and more recently, excise tax policy is currently influenced by the East African Community integration and harmonization policies of which Kenya is a member. Generally, ad valorem is used where the objective is to raise revenue, whereas specific excise duty is imposed to correct for externalities (Mutua, 2012).

2.3.2 Customs Policy Reforms

The customs policy reforms aim at transforming and modernising Customs administration in accordance with internationally accepted conventional standards and best practices. This also involved embracing the redefined function of Customs to lay greater emphasis on trade facilitation and protection of society. This was achieved through implementation of the following reform initiatives: a web based Simba 2005 System and its subsidiary systems, i.e. Cargo Management Information System (CAMIS) and Customs Oil Stocks Information System (COSIS), a 24 hour Document Procession Processing Centre (DPC) for processing documents to replace the long-room concept, Embracing Risk Management practices, Enhancing cargo clearance by implementation of an electronic document exchange platform (ORBUS) and expansion of the Authorized Economic Operator (AEO) programme, Enhancing uniformity in commodity valuation by implementation of a Valuation Database, Strengthening enforcement by adopting the EAC recommended forms including Single

Administrative Document (C17B); enhancing Post Clearance Audit (PCA); automating Air Passenger Service Charge (APSC); implementation of One Stop Border Posts (OSBP); implementation of Electronic Cargo Tracking System (ECTS); and adoption of X-Ray Cargo Scanners, Sniffer Dogs (K9 Unit) and Patrol Boats, and Capacity Building in various Customs operational areas (KRA 2012).

Kenya's customs taxes underwent significant changes during the reform period in the direction of restricting exemptions on duty, encouraging exports, reforming the tariff structure and strengthening the administration of customs duties. Broadly, these reforms were aimed at encouraging a free market atmosphere and therefore increasing the level of foreign direct investment in Kenya. During the period 1987 to 1998, the top tariff rate was reduced systematically from 170% to 25%, while the rate bands were reduced from 24 to 5. As a result of the changes, the simple average rate fell from 40% to 16% (KIPPRA, 2005).

Before 1991, the exemption system had been rather generous, and several measures were implemented to restrict the generosity. Such restrictive policies included the reduction in the range of exempt goods, making imports by all parastatals tax deductible, abolishing discretionary exemptions (in 1992) and eliminating exemptions on agricultural commodity aid (except during cases of a national disaster or refugee support) in 1995. The reforms during the period 1994 to 1998 also targeted the non-government organization (NGO) sector by imposing restrictions on NGO exemptions, introducing the bonding of major project aid-funded imports and initiating post project reconciliation. Similarly, NGOs and other relief organizations were required to register for purposes of income tax in order to qualify for exemption (Nyamunga, J. 2004a).

In order to achieve these reforms, the administrative capacity of the tax system had to be strengthened. (Taliercio, R. 2004) The measures undertaken towards this end include the re-introduction of the selective examination/rapid release system and the re-establishment of the intelligence and investigation functions. Others were the strengthening of the transit controls system, revising the pre-shipment inspection programme (from 1994), implementing limited

"modularized" computerization on selected functions, introducing warehouse controls and strengthening cargo control at Mombasa port (from 1996).

2.3.3 Road Transport Tax Policy Reforms

Road Transport Tax Policy Reforms aimed at modernize Road Transport Department's (RTD) operations. This ensured improved service delivery to the taxpayers, increased revenue collection while at the same time reducing the cost of revenue collection. This was achieved through implementation of the following reform initiatives: Undertaking business process reengineering and automation in which Vehicle Management System (VMS) and Driving License Management System (DLMS) were implemented for more efficient processing of applications and better records management, introduction of smart card Driving Licenses, achieving full connectivity of RTD IT systems with other KRA departments and the Ministry of Transport in order to ensure seamless flow of information. As part of this, VMS was linked to Customs Simba 2005 System to communicate seamlessly. This allowed for payment and registration of vehicles at the point of entry, decentralization of RTD services to regional offices in order to take services closer to the customers, introduction of a new-look security logbook with enhanced security features to minimize forgery, introduction of specific registration number plates for motor cycles to prevent tax evasion and creation of an automated receipting system to enhance revenue accountability.

2.3.4 Tax Evasion Policy Reforms

Tax evasion is the failure to disclose the correct income that should be assessed either by misstatement of facts, falsification of figures, filing of incorrect returns or by misrepresentation of tax liabilities. Thus, through the employment of criminal or fraudulent means, the tax payer pays less tax than he ought to pay. Tax evasion is accomplished by deliberate act of omission or commission which themselves constitutes criminal acts under the tax laws. These acts of omission or commission might include failure to pay tax; failure to submit return; omission or misstatement of items from returns; claiming illegal reliefs; understating income; documenting fictitious transactions; overstating expenses; failure to answer queries and so on. Tax evasion involves willful default and is therefore a criminal

offence. The most common form of tax evasion is through failure to render tax returns to the relevant tax authority. A tax evader may be charged to court for criminal offences with the consequent fines, penalties and at times imprisonment being levied on him for evading tax (Faseun, 2001).

Investigation and Enforcement Reform and Modernization project was initiated aiming at enhancing KRA’s capability to efficiently and effectively detect, deter and punish tax fraud through proactive intelligence, coordinated and rapid enforcement, and targeted prosecution. This was achieved through implementation of the following reform initiatives: Integration of all investigation and enforcement units that were previously in various departments under the Investigations & Enforcement (I&E) Department, Restructuring I&E department through establishment of the Business Intelligence Office, Prosecution Office, Enforcement Division and Anti-smuggling and Anti-Counterfeit Unit to enhance enforcement, Enhancement of prosecution capacity, Acquisition and use of anti-counterfeit and anti-smuggling solutions, Capacity building in critical investigations and enforcement areas including computer forensic audit, intelligence gathering, risk management, intellectual property and investigation skills and Development and implementation of a KRA-wide Enforcement strategy (KRA,2012).

2.4 Economic Conditions

According to Richard A. et al, Changes in economic conditions are expected to modify forecasting assumptions in various ways. For instance, changes in the foreign trade sector as a share of the total production in the economy affect the taxable capacity of a country. This is especially true in the case of a developing country, in which trade taxes constitute a significant proportion of tax revenues. Similarly, the deregulation of certain sectors of the economy should automatically change the structure of the relevant markets for goods and services, and such changes will consequently affect the size of the tax bases. Devaluation of the domestic currency will also affect the quantities of imports and exports, which in turn will affect the trade tax revenues from import duties. Changes in the economic conditions of

major trading partners will also have a significant impact on the domestic economy and on tax revenues.

2.5 Price Level Changes

Movements in price levels have different effects on the tax structure and real revenue collection by the government. For instance, inflation has an ambiguous effect on business income tax revenues, by affecting differently the components of taxable income, such as depreciation allowances, accounts receivable and payable, and costs of goods sold. Furthermore, the impact of inflation on indirect tax revenues will ultimately depend on whether the tax is imposed on a unit tax or ad valorem tax. Therefore, the tax policy units have to account for the impact of inflation on the tax bases, for the behavioral responses and for the expected changes in real revenue conditions (McDaniel, 1985).

2.6 Tax Revenue in Kenya

Tax revenue refers to compulsory transfers to the central government for public purpose with certain compulsory transfers such as fines, penalties, and most social security contributions being excluded. The refunds and corrections of erroneously collected tax revenue are treated as negative revenue. According to Barnett and Grown (2004), tax policy is at the heart of the political debate on the level of public services that should be provided and who should pay for them because taxes are the principal source of recurring revenue under government control and besides, taxes are used to assist in the redistribution of wealth and incomes and to regulate economic activities.

Tax is a central but neglected element of development policy. The structure and administration of taxation are frequently omitted from discussion and research agenda. Questions of a primarily redistributive nature may be deemed political, and so unsuitable for neutral economic analysis, and moreover as questions to be resolved by the democratic process in individual countries. On the other hand, many questions are posed in terms of system reform and these may instead be considered as purely ‘technical’ – matters of economic and bureaucratic efficiency to be settled by experts (Martinez-Vazques, 2001).

As a result, tax generates neither the sort of attention given by independent empirical academic research such as questions of optimal exchange rate arrangements, nor the level of NGO advocacy focus devoted to e.g. multinational investment behavior. This twin neglect may explain how an element of such importance for human development has such a low profile – and possibly why its contribution may have been damaging. This neglect, it is argued, has led to two main developments. First, the treatments of tax as a specialist area, with a resultant focus on 'efficiency' rather than theoretical analysis or practical research, which has contributed to a lack of knowledge of potentially important peculiarities of individual countries. This in turn has contributed to treatment of poor countries' systems as simply underdeveloped versions of rich country equivalents. Technical assistance then focused on helping the former to reach 'our level', rather than a more careful and constructive engagement (Crowe, 2005). Problems of this nature are increasingly widely recognized. The World Bank's study of its own performance in this area during the 1990s is damning: Such recognition has brought with it efforts to improve assessment, including a recent USAID project (Gallagher, 2004) which attempts to construct a series of international benchmarks by which to compare tax systems internationally.

Kenya's dependence on foreign aid and borrowing has declined over the last five years, averaging about 11% of the total budget relative to the East Africa Community (EAC) member states, whose budgets are financed to the tune of 30-40% by development partners. To this end, tax policy decisions have different impacts on different individuals, businesses and the economy at large (Mutua, 2012). According to Karingi et al. (2005), Kenya has moved from a low tax yield country during the 1980s, when total tax revenue as a percentage of Gross Domestic Product (GDP) which is measure of the size of the economy, averaged 19.7% to the current average of about 24% following continuous reforms through the Tax Modernization Programme (TMP) after 1994/95 to date. The tax revenue performance over the period 1991/92 - 2010/11 has maintained a consistent growth, in nominal terms.

It is important to note that tax structure in Kenya is skewed heavily towards income taxes and Value Added Taxes (VAT) as the two largest source of total tax revenue. For example, for the period 2005/06 - 2011/12 income taxes accounted for 36.3% of total government revenue (total taxes plus appropriation-in-aid). VAT comes in second, averaging over 25% in the same period, followed by excise duty with import duty and other taxes (for example, stamp duty) accounting for more or less similar proportions (Mutua, 2012).

2.7 Justification for use of the Reforms and the Period 2003/2004 to 2012/2013

The following particular Domestic Taxes Policy Reforms were initiated: Merger of Income Tax and VAT to form Domestic Taxes Department (DTD) in July 2004. In July 2005, DTD took over the administration of Domestic Excise from Customs & Excise Department, Segmentation of taxpayers to address their unique needs by creating the Large Taxpayer Office (LTO) to cater for large taxpayers and the Medium Taxpayer Office (MTO) for medium sized taxpayers. Others were widening the tax net by introducing Turnover Tax (TOT) for small taxpayers and particularly those in the informal sector, Enhancing taxpayer compliance through introduction of Withholding VAT system in October 2003 and Electronic Tax Register (ETR) system in July 2005. Development and implementation of a web based Integrated Tax Management System (ITMS) to provide various tax services online, e-tax registration and e-tax filing modules were rolled out as well as Provision of online facilities for verification of Personal Identification Number (PIN) and Tax Compliance Certificate (TCC) at the KRA website to enable taxpayers and the public to verify authenticity (KRA 2012).

The customs policy reforms were achieved through implementation of the reform initiatives such as the web based Simba 2005 System, a 24 hour Document Procession Processing Centre, Embracing Risk Management practices and enhancing cargo clearance by implementation of an electronic document exchange platform. Others were Enhancing uniformity in commodity valuation by implementation of a Valuation Database, Strengthening enforcement by adopting the EAC recommended forms, automating Air Passenger Service Charge, implementation of One Stop Border Posts, implementation of Electronic Cargo Tracking System and adoption of X-Ray Cargo Scanners, Sniffer Dogs and

Patrol Boats, and Capacity Building in various Customs operational areas (KRA 2012). The road transport tax policy reforms was achieved through implementation of reform initiatives such as undertaking business process reengineering and automation achieving full connectivity of RTD IT systems with other KRA departments and the Ministry of Transport in order to ensure seamless flow of information. This was aimed at increasing the tax revenue generated from road transport.

Tax evasion policy reform initiatives implemented were; integration of all investigation and enforcement units that were previously in various departments under the Investigations & Enforcement (I&E) Department, Restructuring I&E department through establishment of the Business Intelligence Office, Prosecution Office, Enforcement Division and Anti-smuggling and Anti-Counterfeit Unit to enhance enforcement, Enhancement of prosecution capacity, Acquisition and use of anti-counterfeit and anti-smuggling solutions, Capacity building in critical investigations and enforcement areas including computer forensic audit, intelligence gathering, risk management, intellectual property and investigation skills and Development and implementation of a KRA-wide Enforcement strategy (KRA,2012).

As can be seen above, the reforms were mainly initiated from the year 2003 up to the year 2006 hence the reason for designating this period as the pre reform period and the years up to 2013 the post reform period. The research was then undertaken for the period 2003/2004 to 2012/2013. This period was not only current but also appropriate to capture most of the data sought by the researcher for the research study.

2.8 Theoretical Review

2.8.1 Wagner's Law of Increasing State Activity

The Law of increasing State activity was introduced by Adolf Wagner a nineteen century German economist to explain the growth of the share of public expenditure in Gross National Product (GNP). He divided government expenditures into three categories namely; administration and defense, cultural and welfare, and provision of direct services by government in case of market failure. It is well known that rather than allow for monopoly to

emerge, government usually creates Statutory Corporations such as NITEL, Post Office, Water Boards etc, to cater for the welfare of the people. Wagner's Law states that as per-capita income increase, the relative size of the public sector will grow.

According to Wagner as the economy becomes industrialized, population tends to concentrate in the urban areas. This in turn leads to externalities (market failure) and congestion which require government intervention and regulations. Legal authorities and the police emerge to address problems of law and order, peace and security. Banking services by the State arise to link surplus funds with those who have the investment opportunities. The increase of public expenditures on recreation, education, health, and welfare services is explained in terms of the high population in the urban centers. Wagner argued that as real income increases, public expenditure on education, recreation, health etc would increase more than the increase in real income. This explains the increasing ratio of government expenditure to gross national product.

Wagner's theory of increasing State activity has many defects. First, it is not a well-articulated theory of public wants; rather it is an organic theory of the State where the State behaves as if it were an individual and takes decisions independent of members of the society. Secondly, the predictive power of the theory is very much doubtful. It is not always true that as par-capita income grows, the share of public expenditure in GNP increases. The share of public expenditure may actually decrease as the economy grows particularly when the private sector is strong and dynamic.

2.8.2 Peacock Wiseman Theory of Public Expenditure

Allan Peacock and Jack Wiseman theory (PWT), was based on the political theory of public expenditure determination which states that government likes to spend more money, citizens do not like to pay more taxes, and that government needs to pay some attention to the aspiration and wishes of their people. PWT attempted to explain the circular trend or time pattern of change in government expenditure in response to development in the political economy while the taxable capacity of the electorate acts as a constraint. Their theory is

known as the Displacement Hypothesis and is based on the experience of Great Britain. Displacement hypothesis states that government expenditure grows in step wise fashion.

During periods of catastrophes or wars, government expenditure grew rapidly in Great Britain and remained constant during the war, famine, or disaster otherwise catastrophic period. They also argued that government expenditures are largely determined by government revenue or taxation, PWT maintains that as the economy and income grew, tax revenue would raise thereby enabling government expenditures to rise in line with GNP. The acceptance of the existence of tolerable level of taxation which acts as a constraint on government behaviour is consistent with Clark's "Catastrophe School" of taxation. PWT make a destination in government expenditure growth between normal or peak time and war, crisis or social upheaval period.

According to PWT, during peak, public expenditures would tend to experience an upward trend, even though there may be some discrepancies between a desirable level of government expenditure and a desirable level of taxation. During war, famine or social upheaval this normal and steady growth in government expenditures, would be interrupted. This is as a result of the displacement hypothesis as unproductive government spending during social upheavals displaced productive government expenditure leading to rapid increase in public expenditure.

Government imposes higher taxes which are regarded as acceptable during period of crisis. During this period, public expenditure is displaced upward (i.e. displacement effect). War-related expenditure displaces private and other government expenditures. However after the wars or crisis, aggregate public expenditures does not fall back to its original level since a war is not fully paid for from taxation alone. Inspection effect may also occur as government attempts to increase expenditures to improve social conditions which have deteriorated during the period of the crisis. Government finances the high expenditure from the increase and tolerable level of taxation that does not return to its former level. There are two possible scenarios which may occur after the war or social upheaval. First, total private expenditures

may return to its original growth path and second, government expenditures experienced during the war may continue in the post-war period along with an increase in civilian government expenditures until the desired growth is reached (Baghebo M. 2012).

2.9 Empirical Review

Gachanja (2012), in his research on The effect of tax reforms and economic factors on tax revenues in Kenya observed that Kenya introduced the tax modernisation programme in 1986 with the hope that this would, among other things, enhance revenue collection. The objective of this study was to establish the effect of tax reforms and economic factors on tax revenues in Kenya.

A correlational study design was selected. Secondary data was collected for a ten year period (2000-2009) from various sources included the Central Bank of Kenya website, the Kenya National Bureau of Statistics, Transparency International website and the World Bank website. Trend analysis was used to graphically present some of the trends in the data. With the aid of SPSS, a multivariate analysis was employed with the OLS regression being used. The dependent variable was tax revenues while the independent variables were tax reforms (measured as a dummy variable).

The regression model was controlled for corruption (measured by the corruption perception index). The trend analyses revealed that there corruption index in Kenya had been improving since 2000 while tax revenues had been rising over the period. The OLS regression revealed that the independent variables accounted for 91.6% of the variance in tax revenues. Reforms were negatively and significantly correlated with tax revenues, which had a positive and significant influence on tax revenues, while corruption had a positive but insignificant impact on tax revenues. The study concludes that tax reforms have negatively contributed to tax revenues in Kenya while economic conditions (GOP) have positively impacted on revenues. The effect of tax reforms is therefore counter-intuitive. The study recommends that the Kenya Revenue Authority relook into the issue of reforms and modernization programs to check on whether some of the reforms they have instituted lead to better revenue collections.

The study also recommends that reforms and measures need to be carried out in all sectors of the economy to spur economic growth and therefore improving the tax revenues. Future studies should also perform the normality of distribution tests to determine which type of multivariate analysis to be carried out. Other tests to check whether the conditions for parametric analysis as well as for OLS regression analysis are met can be performed.

Okech and Mburu (2011), in their research 'Analysis of responsiveness of tax revenue to changes in national income in Kenya 1986-2009', observed over the years, the Kenyan government had continued to experience budget deficit. This had been partly attributed to the inability of the tax system to generate sufficient revenue to finance public expenditure. Inadequacy of tax revenue to finance public expenditure had largely been attributed to lack of responsiveness of tax revenue to changes in national income.

To reverse the trend, the Kenyan government continues to initiate and implement tax reforms over years. The purpose of their study was to analyze the responsiveness of tax revenue to changes in national income using tax elasticity and buoyancy given the various tax reform measures that had been mooted over years. This was guided by various specific objectives namely i) to determine the income-elasticity of tax revenue; ii) to determine buoyancy of tax revenue; iii) to examine tax-to-base elasticity of tax revenue; and iv)to determine base to income elasticity of tax revenue.

By adopting a causal research design, a multiplicative model of estimating elasticity and buoyancy was used. In terms of data, the study relied primarily on secondary data obtained from various Kenya Statistical Abstracts, Economic Surveys and International Financial Statistics Browser. ADF test was done to detect non stationarity and differencing done to make data stationary. The study found that the tax revenue was neither buoyant nor income-elastic despite reforms undertaken over period since 1986. On the basis of this, it was recommended that there was need re-evaluate the tax policy measures that had been implemented over the years to make tax responsive to national income while enhancing tax collection measures.

Moyi, E. and Ronge E. (2006) in their research on Taxation and Tax Modernization in Kenya observed that Kenya introduced the Tax Modernisation Programme in 1986 with the hope that it would, among other things, enhance revenue collection, improve tax administration and reduce compliance and collection costs. Despite the tax modernization, there were concerns that the challenges that confront the Ministry of Finance and Kenya Revenue Authority were not much different from the challenges that faced these revenue authorities before the reforms.

They also noted that there were also concerns that tax competitiveness in Kenya was low and the country remained among the most tax unfriendly countries in the world. Their study reviewed tax revenue performance as well as tax design and administration changes during the period 1996 - 2005 in order to identify priorities for further tax reform.

Their empirical analysis revealed the adverse effect of inflation on tax revenues. The tax structure was less buoyant and possibly inelastic although indirect taxes, and not direct taxes, held the capacity to improve the flexibility of the tax system. The challenges that confronted tax design included taxation of agriculture and the informal sector, repeal of tax holidays, high effective protection, high dispersion of tariff rates, detailed and rigid custom rules, poor response of VAT to reforms, weak capacity to process large volumes of returns and refunds for zero-rated transactions. In addition, Kenya’s tax system was burdensome in terms of time taken to prepare and submit tax returns.

The study concluded that further tax reforms should give priority to the following areas: first, taxation of the informal sector by designing simplified registration processes and giving the sector treatment other than that provided by the current methods and tax code. Second, there should be a policy shift towards internationally acceptable investment incentives such as accelerated depreciation for qualifying manufacturing assets. Third, tax productivity should be improved through simplifying the tax structure and reducing the tax rates, reviewing cumbersome custom procedures and enhancing the tax monitoring function. Fourth, lowering

effective protection of Kenya's products by reducing tariffs with the goal of achieving broad based uniform tariffs. Fifth, strengthen tax administration through developing integrated taxpayer registration systems; simplifying tax laws, forms and procedures; developing frequently updated information systems on registered tax payers; and intensifying the use of automatic triggering mechanisms. Sixth, the response of VAT to economic and policy changes should be enhanced by strengthening the administrative capacity (personnel, computers and audits) to handle large volumes of returns and refunds; and continue to harmonize the VAT rates. Seventh, the tax system should be insulated from inflation effects by ensuring that adequate indexing procedures are applied to accurately account for full movements in prices. Finally, there is need to build vertical accountability of the tax system by ensuring that taxpayers are more involved in the formulation of tax policy and planning for any reforms.

Omondi O. V. et al (2014) in their research on Effects of Tax Reforms on Buoyancy and Elasticity of the Tax System in Kenya: 1963–2010 examined the effects of tax reforms on tax buoyancy and elasticity estimates. The specific objectives of the study were; to determine the effect of tax modernization programme and revenue administration reforms and modernization programme on tax buoyancy and tax elasticity. The study employed regression analysis and used annual time series data for the period 1963 to 2010. Secondary data from Kenya National Bureau of Statistics, Kenya Revenue Authority, Central Bank of Kenya and World Bank was used. Elasticity estimates were determined by adjusting data for discretionary changes using the proportional adjustment method. The study revealed that both revenue administration reform and modernization programme (RARMP) and tax modernization programme (TMP) were important in explaining the variations in buoyancy and elasticity of the tax system in Kenya. Although the reforms analyzed had positive effect on both tax buoyancy and elasticity, the results indicated that this was not sufficient to help generate adequate revenue to finance the ever increasing government expenditure. They noted that with an inelastic tax system, the Kenya government had to re-evaluate the implementation strategies and pursue further reforms for it to fully exploit the tax revenue potential in the economy.

Muriithi M. K. and Moyi E. D. (2003), in their research on Tax reforms and revenue mobilization in Kenya, noted that Kenya embarked on massive tax reforms in 1986, but what was known about the performance of the reforms in terms of raising the revenue mobilization capacity of the tax system? Did the reforms mitigate Kenya's perpetual fiscal imbalances? This study attempted to examine the impact of Kenya's tax reform programme in light of the in-built revenue mobilization capacity of the tax system. The paper analysed the trend of tax reforms for each category of tax, and evaluated the impact of these reforms, both on the overall tax system and on individual tax handles. The magnitude of the fiscal gap and the reaction of the government to this problem were first discussed. The rationale and process of tax reforms in Kenya was then outlined. A framework for estimating revenue productivity was then presented, and an empirical analysis was provided.

The paper reported that: the expectation was that these policies would ensure that every individual tax was designed so that its yield was responsive to national income changes, tax policy was expected to ensure that the predominant taxes in the revenue were those with a highly elastic yield with respect to national income, reforms had a positive impact on the overall tax structure and on individual tax handles, the elasticity of indirect taxes was lower compared to direct taxes.

The paper concluded that: the reforms' larger impact on direct taxes than on indirect taxes, suggests that revenue leakage is still a major problem for indirect taxes, the better responsiveness of direct taxes can be attributed to the relative effectiveness of the reforms in direct taxes, which not only made the tax system simpler but also reduced avenues for evasion and corruption, effective reforms in direct taxes include the introduction of PIN, lower rates, reduction of exemptions and a shift away from multiple rates across many categories, tax reform has raised the productivity of the tax system with the exception of sales tax/VAT and the low elasticity of sales tax/VAT in both periods is surprising given that the base grew faster than income, this suggests collusion between the tax collectors and the taxpayers among other things.

2.10 Research Gap

Okech and Mburu (2011), in their research 'Analysis of responsiveness of tax revenue to changes in national income in Kenya 1986-2009' found that the tax revenue was neither buoyant nor income-elastic despite reforms undertaken over period since 1986. On the basis of this, they recommended that there was need re-evaluate the tax policy measures that had been implemented over the years to make tax responsive to national income while enhancing tax collection measures.

Moyi, E. and Ronge E. (2006) in their research on Taxation and Tax Modernization in Kenya noted challenges that confronted tax design included taxation of agriculture and the informal sector, repeal of tax holidays, high effective protection, high dispersion of tariff rates, detailed and rigid custom rules, poor response of VAT to reforms, weak capacity to process large volumes of returns and refunds for zero-rated transactions. In addition, Kenya's tax system was burdensome in terms of time taken to prepare and submit tax returns.

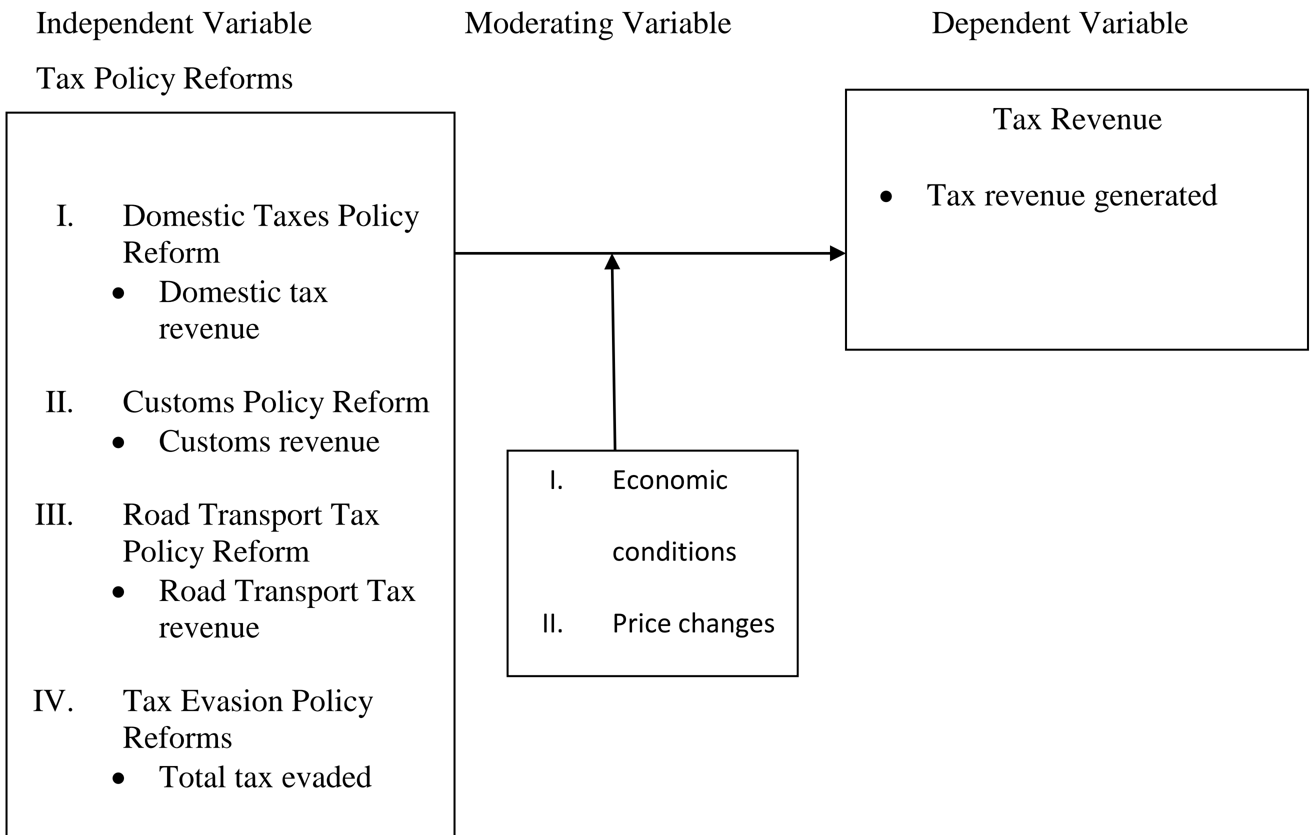
Muriithi M. K. and Moyi E. D. (2003), in their research on Tax reforms and revenue mobilization in Kenya recommended that further improvements were required in the area of reduction of rates and exemptions, increasing VAT administration capacity through a higher budgetary outlay, increasing tax collectors' salaries and reviewing collusion penalties upwards, and strengthening the development of audit skills, additional capacity was required in areas such as automation, audit and risk profiling, and general skill development. It also recommended that the tax authorities should pay more attention to taxpayer education, compliance and tax audits.

Most of the researches that have been done have not addressed the particular reforms to do with domestic taxes, customs taxes, road transport taxes and tax evasion. It is against this background that the researcher undertook this research on the basis of these reforms so as to evaluate their effects on tax revenue in Kenya.

2.11 Conceptual Framework

The diagrammatic representation of conceptual framework shows how the variables are related. Domestic Taxes Policy Reform, Customs Policy Reform, Road Transport Tax Policy Reform and Tax Evasion Policy Reforms are independent variables while Tax Revenue was the dependent variable which depended on the occurrences of the independent variables.

Figure 2. 1: Conceptual framework



The dependent variable of this study was tax revenue which was influenced by the independent variables namely domestic taxes policy reform, customs policy reform, road transport tax policy reform and tax evasion policy reforms.

2.11.1 Domestic Taxes Policy Reform

Domestic taxes policy reform to a great extent influence tax revenue. Well formulated domestic policy reforms will increase tax revenue while poorly formulated policy reforms will reduce tax revenue. No reforms mean that the tax revenue may eventually fall leading to huge budget deficits. These reforms seek to create a fully integrated and modern domestic tax administration with the key objectives of integrating domestic revenue administration as well as developing a holistic approach to taxpayer services thereby providing a single view of the taxpayer while enhancing taxpayer compliance and broadening the tax base.

2.11.2 Customs Policy Reform

The customs policy reforms aim at transforming and modernising Customs administration in accordance with internationally accepted conventional standards and best practices. This also involved embracing the redefined function of Customs to lay greater emphasis on trade facilitation and protection of society. This was achieved through implementation of the reform initiatives such as the web based Simba 2005 System, a 24 hour Document Procession Processing Centre, Embracing Risk Management practices, Enhancing cargo clearance by implementation of an electronic document exchange platform, Enhancing uniformity in commodity valuation by implementation of a Valuation Database, Strengthening enforcement by adopting the EAC recommended forms, automating Air Passenger Service Charge, implementation of One Stop Border Posts, implementation of Electronic Cargo Tracking System and adoption of X-Ray Cargo Scanners, Sniffer Dogs and Patrol Boats, and Capacity Building in various Customs operational areas (KRA 2012). These policy reforms were aimed at increasing the total tax revenue generated in the country.

2.11.3 Road Transport Tax Policy Reform

The road transport tax policy reforms contribute to tax revenue to a great extent. Poor road transport tax policy reforms for example will create a huge drop in tax revenue and vice versa. Road Transport Tax Policy Reforms aimed at modernising road transport department's operations so as to ensure improved service delivery to the taxpayers, increased revenue

collection while at the same time reducing the cost of revenue collection. This was achieved through implementation of reform initiatives such as undertaking business process reengineering and automation achieving full connectivity of RTD IT systems with other KRA departments and the Ministry of Transport in order to ensure seamless flow of information. This was aimed at increasing the tax revenue generated from road transport.

2.11.4 Tax Evasion Policy Reforms

Tax evasion is the failure to disclose the correct income that should be assessed either by misstatement of facts, falsification of figures, filing of incorrect returns or by misrepresentation of tax liabilities. The most common form of tax evasion is through failure to render tax returns to the relevant tax authority. A tax evader may be charged to court for criminal offences with the consequent fines, penalties and at times imprisonment being levied on him for evading tax (Faseun, 2001). So as to reduce tax evasion, the following reform initiatives were implemented; integration of all investigation and enforcement units that were previously in various departments under the Investigations & Enforcement (I&E) Department, Restructuring I&E department through establishment of the Business Intelligence Office, Prosecution Office, Enforcement Division and Anti-smuggling and Anti-Counterfeit Unit to enhance enforcement, Enhancement of prosecution capacity, Acquisition and use of anti-counterfeit and anti-smuggling solutions, Capacity building in critical investigations and enforcement areas including computer forensic audit, intelligence gathering, risk management, intellectual property and investigation skills and Development and implementation of a KRA-wide Enforcement strategy (KRA,2012). This was to make sure that loop holes in the tax system were finally eliminated and so as to increase the tax revenue generated.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter starts with a discussion on the research design of the study. It then discusses the method of data collection and data analysis. It concludes with the measurement of the variables.

3.2 Research Design

A research design can be regarded as an arrangement of conditions of collection and analysis of data in a manner that aims to combine relevance with research purpose (Kombo and Tromp, 2006). The research design adopted was descriptive research design in which data was gathered just once over the period 2003/2004 to 2012/2013 from Kenya Revenue Authority. The data collected was analysed over the period and compared the results for periods before and after the regulations came to effect. A cross-sectional study analysed the data collected to make inferences about a population of interest (universe) at one point in time. The study was descriptive research as it was conducted to evaluate the effect s of Tax Policy Reforms on Tax Revenue in Kenya.

3.3 Data Collection

The researcher used secondary data that was collected for a five year period (2003/2004 to 2012/2013) from Kenya Revenue Authority. The data collection tools being employed were the data collection sheets, which gathered the data for the whole period under study.

3.4 Data Analysis

The researcher examined the correlation between the dependent variable (tax revenue) and the independent variables (tax policy reforms) and then evaluated the effects of the variables on tax revenue. With the aid of SPSS, a multivariate analysis was employed with the OLS regression being used where the dependent variable was the tax revenues while the independent variables were the tax reforms. Paired T-test was carried out to

determine the differences between the mean revenue collected in the two period pre and post reforms. Paired Sample Correlations were calculated to establish the significance of the correlation between each pair of the variables. The study also used descriptive statistics, regression analysis and correlation analysis to analyze the data. The regression model was presented in the equation below:

$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \varepsilon$ Where:

Y = Tax Revenue

α = Constant

X_1 = Domestic Taxes

X_2 = Customs duty

X_3 = Road Transport Taxes

X_4 = Tax Evasion

$b_1 \ldots b_4$ = Regression Coefficients

ε = Error

This compares well with the approach used by Muriithi and Moyi (2003) in their research, "Tax Reforms and Revenue Mobilization in Kenya", which stated that before subjecting their data to regression analysis, variables were described showing the trends of various variables and also used the Ordinary Least Square method estimate the parameters of the model. This study used ANOVA to test for significant differences between means.

The use of both descriptive and regression statistics was appropriate as they assisted in establishing patterns, trends and relationships and made it easier to understand and interpret the implications of the research study. The study utilized regression test in testing the significance of the variables in the study. Regression analysis is the statistical technique that identifies the relationship between two or more quantitative variables: a dependent variable, whose value is to be predicted, and an independent or explanatory variable (or variables), about which knowledge is available. The technique was used to find the equation that represented the relationship between the variables. Multiple regressions provide an equation

that predicts one variable from two or more independent variables. The study sought to test the following null hypothesis: H0: There is no significant relationship between tax policy reforms and tax revenue in Kenya.

CHAPTER FOUR:
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data findings to evaluate the effect s of Tax Policy Reforms on Tax Revenue in Kenya. These data were collected from the Kenya revenue Authority. Multiple linear regressions were used to evaluate the effects of Tax Policy Reforms on Tax Revenue in Kenya. The study covered a period of 10 years, 5 year pre and 5 year post reform starting form year 2003/2004 to year 2012/2013.

4.2 Descriptive Statistics

Descriptive statistics is the term given to the analysis of data that helps describe, show or summarize data in a meaningful way such that patterns might emerge from the data. The researcher used descriptive statistics because if he simply presented the raw data it would be hard to visualize what the data was showing. Descriptive statistics therefore enabled the researcher to present the data in a more meaningful way, which allowed simpler interpretation of the data.

Descriptive statistics were used in this study to describe the basic features of the data in a study. They provided simple summaries about the sample and the measures. Secondary data for 2003/2004 to 2012/2013 from KRA corporate plan was used in this study. The period from 2003/2004 to 2007/2008 was treated as re-reforms while 2008/2009 to 2012/2013 as post-reforms period. In section 4.2 the study present the research finding on the descriptive statistics in the data collected. The table 4.1 below displays the descriptive statistics for each of the variables used segregated by the two time periods i.e. the pre reform and the post reform periods.

Table 4. 1: Descriptive Statistics for Pre-reforms (values in millions Kenya shillings)

	N	Minimum	Maximum	Mean	Std. Deviation
Total Revenue	5	201763	433915	3.13E5	88359.595
Domestic Tax	5	97948	274263	1.89E5	64199.647
Customs	5	90630	157304	1.19E5	30062.070
Road Transport	5	1685.00	3620.00	2.9110E3	742.97880
Tax Evasion	5	1402	2930	2289.00	581.212
Valid N (list wise)	5				

The study found that in the pre-reforms period, actual total revenue had a minimum of Kshs. 201,763 million, a maximum of Kshs. 433,915 million and an average of Kshs. 313,000 million with a standard deviation of Kshs. 88,359.595 millions. This mean was then compared to the post reform period so as to see the effect of the reforms on the tax revenue. Table 4.2 below illustrates the descriptive statistics for the post reform period which was compared to the descriptive statistics of the pre reform period.

Table 4. 2: Descriptive Statistics for Post-reforms (values in millions Kenya shillings)

	N	Minimum	Maximum	Mean	Std. Deviation
Total Revenue	5	480569	870100	6.31E5	149305.929
Domestic Tax	5	298799	543450	4.00E5	93281.467
Customs	5	179361	328800	2.30E5	58553.650
Road Transport	5	3941.00	5123.00	4.4606E3	509.32387
Tax Evasion	5	2409	2950	2605.40	210.702
Valid N (list wise)	5				

The study found out that, in the post-reform period, actual total revenue had a minimum of Kshs. 480569 million and a maximum of Kshs. 870,100 million. The minimum of the post reform period was much higher than the maximum at pre-reforms indicating that the reforms had effect on tax revenue. The mean of the post reform period was Kshs. 631,000 million with a standard deviation of Kshs. 149,305.929 millions for the total tax revenue. This was

also higher compared to the pre reform period also indicating the positive effect the reforms had on total revenue. It can therefore be concluded that reforms had a direct influence on the tax revenue.

4.3 Correlations Analysis

To quantify the strength of the relationship between the variables, the study used Karl Pearson's coefficient of correlation. The Pearson product-moment correlation coefficient (or Pearson correlation coefficient) is a measure of the strength of a linear association between two variables and is denoted by r. The Pearson correlation coefficient, r, can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable. A value less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases. In this section, the study presents the research finding on the Pearson product moment correlation. Pearson product moment correlation was conducted to determine the strength of relationship between the study variables.

Table 4. 3: Correlations between the Dependent and the Independent Variables.

		Tax Revenue	Domestic Taxes	Customs duty	Road Transport	Tax Evasion
Tax Revenue	Pearson Correlation	1	.609**	.645**	.330	.216
	Sig. (2-tailed)		.000	.000	.053	.973
	N	10	10	10	10	10
Domestic Taxes	Pearson Correlation	.609**	1	.802**	.270	-.008
	Sig. (2-tailed)	.000		.000	.116	.965
	N	10	10	10	10	10
Customs duty	Pearson Correlation	.645**	.802**	1	.093	-.237
	Sig. (2-tailed)	.000	.000		.597	.170
	N	10	10	10	10	10
Road Trans-port tax	Pearson Correlation	.330	.270	.093	1	.638**
	Sig. (2-tailed)	.053	.116	.597		.000
	N	10	10	10	10	10
Tax Evasion	Pearson Correlation	216	-.008	-.237	.638**	1
	Sig. (2-tailed)	.973	.965	.170	.000	
	N	10	10	10	10	10

On the correlation analysis between the dependent variable (total tax revenue) and various tax reforms (independent variables), the study found out that there was a significant positive correlation coefficient between total tax revenue and domestic tax reforms as shown by correlation coefficient of r = 0.609 as well as the customs policy reforms as shown by correlation factor of r = 0 .645. The study further found a significant positive correlation

between total tax revenue road transport tax reform as shown by correlation coefficient of r = 0.330. The study finally found a positive correlation between total tax revenue and tax evasion reform as shown by correlation coefficient of 0.216. This compares well with Moyi and Muriithi (2003) in their research tax reforms and revenue mobilization in Kenya.

4.4 Regression Analysis

Regression analysis is the statistical technique that identifies the relationship between two or more quantitative variables: a dependent variable, whose value is to be predicted, and an independent or explanatory variable (or variables), about which knowledge is available. The technique is used to find the equation that represents the relationship between the variables. Multiple regressions provide an equation that predicts one variable from two or more independent variables. Regression analysis is used to understand the statistical dependence of one variable on other variables. The technique can show what proportion of variance between variables is due to the dependent variable, and what proportion is due to the independent variables. The relation between the variables can be illustrated graphically, or more usually using an equation.

In this study, both Univariate and multiple regression analysis were conducted to test the influence among predictor variables. The depended variable was regressed against the individual independent variables and thereafter the depended variable was regressed against the combined (all) independent variables. The research used statistical package for social sciences (SPSS V 21) to code, enter and compute the measurements of the multiple regressions. The study adopted simple regression guided by the following model:

$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \varepsilon$ Where:

Y = Tax Revenue

α = Constant

X_1 = Domestic Taxes

X_2 = Customs duty

X_3 = Road Transport Taxes

X_4 = Tax Evasion

$b_1 \ldots b_4$ = Regression Coefficients

ε = Error

4.4.1 Univariate Linear Regression

4.4.1.1 Univariate Linear Regression for Domestic Taxes

To detect the presence of autocorrelation (a relationship between values separated from each other by a given time lag) in the residuals (prediction errors) from a regression analysis, the Durbin–Watson statistic was used. Durbin Watson statistic is the number that tests for autocorrelation in the residuals from a statistical regression analysis. A value of 2 means that there is no autocorrelation in the sample. Values approaching 0 indicate positive autocorrelation and values toward 4 indicate negative autocorrelation.

Table 4. 4: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.415[a]	.172	.167	.38473	1.770

a. Predictors: (Constant), Domestic Taxes

b. Dependent Variable: Tax Revenue

In this case, the value of Durbin Watson was 1.770 indicating that there was no serious problem of autocorrelation. In order to detect whether multicollinearity was a problem to the model, condition index; the variance-inflation factor (VIF); and tolerance of each variable were calculated. VIF values are considered a problem when they go beyond 10, and tolerance values below 0.10 should be a cause for concern. An R2 value of 0.172 indicates that 17.2% of the variation in Tax Revenue can be explained by the model. Hence Domestic Taxes can explain 17.2% of the variation in Tax Revenue while other factors can explain 82.8%.

Table 4. 5: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.832	1	1.832	12.378	.000a
	Residual	1.332	9	.148		
	Total	3.164	10			

a. Predictors: (Constant), Domestic Taxes

b. Dependent Variable: Tax Revenue

To determine how best the regression model fits our data, Analysis of Variance on the coefficient of determination (R^2) was calculated. The F value was 12.378 ($P<.001$). This shows that the model was suitable at 95% confidence level (0.05% level of significance).

Table 4.6 displays the coefficient of the regression model of Tax Revenue on Domestic Taxes.

Table 4. 6: Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.071	.187		16.425	.000		
	Domestic Taxes	.268	.047	.415	5.714	.000	1.000	1.000

a. Dependent Variable: Tax Revenue

From the results of the regression model, the coefficient for Domestic Taxes was significant at 5% level of significance. Therefore, Tax Revenue was predicted using Domestic Taxes in the following equation: $Y=3.071+.268X1$ Where; Y was Tax Revenue and X1 was the Domestic Taxes. This means that for every unit increase in domestic taxes there will be 0.268 increase in total taxes indicating that there is significant relationship between domestic taxes policy reforms and tax revenue in Kenya.

4.4.1.2 Univariate Linear Regression for the Customs Duty

To detect the presence of autocorrelation the Durbin–Watson statistic was used. The value of Durbin Watson was above 1.5 (1.853) indicating that there was no serious problem of autocorrelation.

Table 4. 7: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.705[a]	.497	.493	.30003	1.853

a. Predictors: (Constant), Customs Duty

b. Dependent Variable: Tax Revenue

The results in Table 4.7 above, showed no serious problem of multicollinearity. An R^2 value of 0.497 indicates that 49.7% of the variation in Tax Revenue can be explained by the model. Hence Customs Duty can explain 49.7% of the variation in Tax Revenue while other factors can explain 51.3%. To determine how best the regression model fits our data, Analysis of Variance on the coefficient of determination (R^2) was calculated. An F value of 154.833 (P<.001) shows that the model is suitable at 95% confidence level.

Table 4. 8: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.938	1	1.938	21.533	.000a
	Residual	0.810	9	.090		
	Total	2.748	10			

a. Predictors: (Constant), Customs Duty

b. Dependent Variable: Tax Revenue

To determine how best the regression model that fits the data, Analysis of Variance on the coefficient of determination (R^2) was calculated. An F value of 21.533 (P<.001) showed that the model was suitable at 95% confidence level.

Table 4.9 displays the coefficient of the regression model of Tax Revenue on Customs Duty.

Table 4. 9: Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.667	.199		8.378	.000		
	Customs Duty	.595	.048	.705	12.443	.000	1.000	1.000

a. Dependent Variable: Tax Revenue

From the results of the regression model the coefficient for Customs Duty was significant at 5% level of significance. Therefore, Tax Revenue can be predicted using Customs Duty in the following equation: Y=1.667+.595X2 Where; Y is Tax Revenue and X2 is the Customs Duty. This means that for every unit increase in Customs Duty, there will be 0. 595 increase in total taxes indicating that indicating that there was significant relationship between Customs Duty policy reforms and tax revenue in Kenya.

4.4.3 Univariate Linear Regression for the Road Transport Taxes

Table 4. 10: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.511[a]	.261	.257	.36340	1.847

a. Predictors: (Constant), Road Transport Taxes

b. Dependent Variable: Tax Revenue

The value of Durbin Watson was 1.847 which was above 1.5 indicating that there was no serious problem of autocorrelation. The results in Table 4.10 below, showed no serious problem of multicollinearity. An R^2 value of 0.261 indicates that 26.1% of the variation in Tax Revenue can be explained by the model. Hence Road Transport Taxes can explain 26.1% of the variation in Tax Revenue while other factors can explain 73.9%.

Table 4. 11:ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.938	1	1.938	21.533	.000a
	Residual	0.810	9	.090		
	Total	2.748	10			

a. Predictors: (Constant), Customs Duty

b. Dependent Variable: Tax Revenue

To determine how best the regression model fits the data, Analysis of Variance on the coefficient of determination (R^2) was calculated. The findings show an F value of 21.533 ($P<.001$) which shows that the model was suitable at 95% confidence level.

Table 4. 12: Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.704	.193		14.024	.000		
	Road Transport Taxes	.388	.052	.511	7.454	.000	1.000	1.000

a. Dependent Variable: Tax Revenue

Table 4.12 displays the coefficient of the regression model of Tax Revenue on Road Transport Taxes in the following equation: Y=2.704+.388X3 Where; Y was Tax Revenue and X3 was the Road Transport Taxes. From the results of the regression model, the coefficient for Road Transport Taxes was significant at 5% level of significance. Therefore, Tax Revenue can be predicted using Road Transport Tax policy reforms. This means that for every unit increase in Road Transport Taxes, there will be 0.388 increases in total taxes indicating that indicating that there was significant relationship between Road Transport Tax policy reforms and tax revenue in Kenya.

4.4.4 Univariate Linear Regression for the Tax Evasion

The value of Durbin Watson was above 1.589 indicating that there was no serious problem of autocorrelation. The results in Table 4.13 below, showed no serious problem of multicollinearity.

Table 4. 13: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.515[a]	.265	.261	.36242	1.589

a. Predictors: (Constant), Tax Evasion

b. Dependent Variable: Tax Revenue

The results in Table 4.13 above, showed no serious problem of multicollinearity. An R^2 value of 0.265 indicates that 26.5% of the variation in Tax Revenue can be explained by the model. Hence Tax Evasion can explain 26.5% of the variation in Tax Revenue while other factors can explain 73.5%. To determine how best the regression model fits our data, Analysis of Variance on the coefficient of determination (R^2) was calculated.

Table 4. 14: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.450	1	1.450	11.0687	.000a
	Residual	1.179	9	.131		
	Total	2.629	10			

a. Predictors: (Constant), Tax Evasion

b. Dependent Variable: Tax Revenue

To determine how best the regression model fits the data, Analysis of Variance on the coefficient of determination (R^2) was calculated. The findings show an F value of 11.0687 (P<.001) which shows that the model was suitable at 95% confidence level.

Table 4.15 displays the coefficient of the regression model of Tax Revenue on Tax Evasion.

Table 4. 15: Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.016	.150		20.108	.000		
	Tax Evasion	-.306	.041	.515	-7.531	.000	1.000	1.000

a. Dependent Variable: Tax Revenue

From the results of the regression model the coefficient for Tax Evasion was significant at 5% level of significance. Therefore, Tax Revenue can be predicted using Tax Evasion in the following equation: Y=3.016-.306X4 Where; Y is Tax Revenue and X4 is the Tax Evasion. This means that for every unit increase in Tax Evasion, there will be 0.306 decrease in total taxes indicating that there was significant relationship between Tax Evasion policy reforms and tax revenue in Kenya.

4.4.2 Multivariate Regression - Dependent Variable and Combined Independent Variables

4.4.2.1 Regression Analysis before Tax Reforms

In this section the study presents the research findings on the relationship between various aspect of tax reforms and total tax revenues, before adoption of tax reforms.

Table 4. 168: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	Sig. F Change
1	.851[a]	.724	.711	2.01670	.711	2.619	.015[b]

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.711 an indication that there was variation of 71.1% on total tax revenue due to changes in domestic taxes policy reforms, customs policy reforms, road transport policy reform and tax evasion policy reforms at 95% confidence interval. This shows that 71.1% changes in total tax revenue could be accounted for by changes in domestic taxes policy, customs policy reforms, road transport tax reform and tax evasion reforms. Therefore, further research should be conducted to investigate the other (28.9%) factors not studied in this research that affects total tax revenue. R was the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strong positive relationship between the study variables as shown by the correlation coefficient of 0.851. This compares with Gachanja 2012, who's regression revealed that the indepenedt variables accounted for 91.6% of the variance in tax revenues. This compares well with Moyi nad Muriithi (2003), who found out that there was a significant positive relationship between the study variables. They found out that during the pre-reform period, the overall tax system yielded an elasticity of 0.276 against a bouyancy index of 1.023 (a difference of 0.747)

Table 4. 179: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.872	4	0.468	1.619	.065[b]
	Residual	0.121	1	0.121		
	Total	1.993	5			

The ANOVA test is used to determine the impact the independent variables have on the independent variable in the regression analysis. From the ANOVA statistics above, the study established the regression model had a significance level of 6.5%, which was an indication that the data was not ideal for making a conclusion on the population parameters as the value of significance (p-value) was more than 5%. The calculated value was less than the critical value (1.619<1.697) an indication that domestic taxes policy, customs policy reforms, road transport tax reform and tax evasion reforms do not significantly influence the total tax revenues. The significance value was greater than 0.05 indicating that the model was significant.

Table 4. 18: Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.569	.388		4.479	.021
	Domestic taxes policy	.266	.020	.276	5.230	.024
	Customs policy reforms	.050	.929	.755	3.459	.041
	Road transport tax reform	.517	.105	1.044	4.173	.025
	Tax evasion reforms	.112	.087	.158	1.294	.019

The established regression equation was:

$Y = 0.569 + 0.266 X_1 + 0.050X_2 +0.517 X_3 + 0.112X_4$

The above regression equation revealed that holding domestic taxes policy, customs policy reforms, road transport policy reforms and tax evasion reforms to a constant zero, total tax

revenues would stand at 0.569. A unit increase in domestic tax reforms would lead to increase in tax reforms by a factor of 0.266. A unit increase in customs tax reforms led to increase in tax revenues by a factor of 0.050, a unit increase in road transport tax reforms would lead to increase in total tax revenues by a factor of 0.517 and a unit increase in tax evasion reforms would lead to increase in total tax revenues by a factor of 0.112. This was shown the research by Wawire et al (2014), which found out that the coefficient of this variable was positive suggesting that if GDP increases by 1% total tax increases by 1.144%. This means that the tax system yielded a 1.144% change in tax revenue as a result of changes in discretionary policy measures for every change in GDP.

4.4.2.2 Regression Analysis after Tax Reforms

In this section the study presents the research findings on the relationship between various aspect of tax reforms and total tax revenues, after adoption of tax reforms.

Table 4. 21: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	Sig. F Change
1	.972[a]	.945	.891	.88133	.891	2.671	.001[b]

Adjusted R squared was coefficient of determination which gives the variation in the dependent variable due to changes in the independent variable. From the findings as shown in the above table, the value of adjusted R squared was 0.891 an indication that there was variation of 89.1% on total tax revenue due to changes in domestic taxes policy, customs policy reforms, road transport tax reform and tax evasion reforms at 95% confidence interval. This shows that 89.1% changes in total tax revenue could be accounted for by changes in domestic taxes policy, customs policy reforms, road transport tax reform and tax evasion reforms. R is the correlation coefficient which shows the relationship between the study variables. This compares well with moyi and Muroothi (2003), who found out that there was a significant positive relationship between tha study variables. They found out that during the

pre-reform period, the overall tax system yielded an elasticity of 0.276 against a bouyancy index of 1.023 (a difference of 0.747). In comparison, the post reform period recorded a bouyancy and elasticity of 1.661 and 1.495 respectively (a diffrence of 0.166). It is apparent that the bouyancy index increased by almost 62% between the two periods, while the elasticity inreased by over 400%.

Table 4. 22: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.61	4	0.435	2.671	.001[b]
	Residual	15.974	1	0.163		
	Total	18.584	5			

From the ANOVA statistics above, the study established the regression model had a significance level of 0.1% which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value (2.671>1.697) an indication that domestic taxes policy, customs policy reforms, road transport tax reform and tax evasion reforms significantly influence total tax revenues. The significance value was less than 0.05 indicating that the model was significant.

Table 4. 19: Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.639	.396		3.133	.052
	Domestic taxes policy	.400	.884	.823	4.792	.017
	Customs policy reforms	.138	.193	1.00	6.448	.008
	Road transport tax reform	.173	.085	-.545	-2.984	.018
	Tax evasion reforms	.614	.394	.671	4.098	.000

The established regression equation was:

$Y = 0.639 + 0.400 X_1 + 0.138X_2 + 0.173 X_3 + 0.614 X_4$

From the above regression equation, it was revealed that holding domestic taxes policy, customs policy reforms, road transport tax reform and tax evasion reforms to a constant zero, total tax revenues at would stand at 0.639, a unit increase in domestic tax reforms would lead to increase in tax reforms by a factors of 0.400, a unit increase in customs tax reforms would lead to increase in tax revenues by factors of 0.138, a unit increase in road transport tax reforms would lead to increase in total tax revenues by a factor of 0.173 and a unit increase in tax evasion reforms would lead to increase in total tax revenues by a factors of 0.614. This also compares well with moyi and Muroothi (2003), who found out that there was a significant positive relationship between tha study variables. They found out that during the pre-reform period, a bouyancy and elasticity of 1.661 and 1.495 respectively (a diffrence of 0.166).

4.5 Testing the Hypothesis

4.5.1 Paired Samples Statistics

Testing the significance was done by the use of the Paired T-test. A Paired T-test is a statistical hypothesis test in which the test statistic follows a Student's t distribution if the null hypothesis is supported.

Paired T-test was carried out to determine the differences between the mean revenue collected in the two period pre and post reforms. Paired Sample Correlations were calculated to establish the significance of the correlation between each pair of the variables. This is shown in the table below:

Table 4. 16: Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Actual Total Revenue-Pre & Actual Total Revenue-Post	5	.945	.015
Pair 2	Actual Domestic Tax-Pre & Actual Domestic Tax-Post	5	.939	.018
Pair 3	Actual Customs-Pre & Actual Customs-Post	5	.869	.036
Pair 4	Actual Road Transport-Pre & Actual Road Transport-Post	5	.839	.045
Pair 5	Actual Tax Evasion-Pre & Actual Tax Evasion-Post	5	.405	.099

In testing for the significance of the differences in mean revenue collected between the two periods, post and pre reforms, the following hypothesis was used; H_0: There are no differences in mean revenue collected between pre and post reforms period. All the pairs were significantly correlated at 5% level of significance apart from Tax evasion that was significant at 10%. The results obtained indicate that there are significant differences between pre and post reforms period ($p<.05$) for Total Revenue, Domestic Tax, Customs and Road Transport tax. However, there was no significant difference in mean Tax Evasion between the two periods.

Table 4.17: Paired Samples Test

		Paired Differences							
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)
Pair 1	ATR-Pre - ATR-Post	-3.18E5	71801.69	32110.69	-4.074E5	-2.291E5	-9.91	4	.001
Pair 2	ADT-Pre - ADT-Post	-2.10E5	39699.46	17754.14	-2.596E5	-1.610E5	-11.84	4	.001
Pair 3	ACD-Pre - ACD-Post	-1.11E5	35684.34	15958.52	-1.555E5	-66941.23	-6.97	4	.002
Pair 4	ART-Pre - ART-Post	-1.54E3	419.63	187.66	-2070.64	-1028.55	-8.25	4	.001
Pair 5	ATE-Pre - ATE-Post	-3.164E2	532.00	237.92	-976.97	344.17	-1.33	4	.004

Ho 1: There is no significant relationship between domestic taxes policy reforms and tax revenue in Kenya.

Testing of the null hypotheses was based on the fact that, if the p value calculated is $p > 0.05$, then the null hypothesis is accepted otherwise it is rejected. The first specific objective of the study was to establish the relationship between domestic taxes policy reforms and tax revenue in Kenya. The associated P- value was 0.002. This value was less than 0.05 indicating that there was evidence against the null hypotheses and therefore the null hypothesis that there is no significant relationship between domestic taxes policy reforms and tax revenue in Kenya was rejected. A conclusion was therefore drawn that there was significant relationship between domestic taxes policy reforms and tax revenue in Kenya. This is in line with Saahdong (2008), who found out that though there was a stable revenue mobilization after the tax reform, but in general, there was an overall increase in the country's revenue especially after the tax reforms.

Ho 2: There is no significant relationship between customs policy reforms on tax revenue in Kenya.

The second specific objective of the study was to establish the relationship between customs policy reforms and tax revenue in Kenya. The associated P- value was 0.001. This value was less than 0.05 indicating that there was evidence against the null hypotheses and therefore the null hypothesis that there is no significant relationship between customs policy reforms and tax revenue in Kenya was rejected. A conclusion was therefore drawn that there was significant relationship between customs policy reforms and tax revenue in Kenya. This compares well with Moyi nad Muriithi (2003), who found out that there was a significant positive relationship between the independent and the dependent variable.

Ho 3: There is no significant relationship between road transport policy reforms and tax revenue in Kenya.

The third specific objective of the study was to establish the relationship between road transport policy reforms and tax revenue in Kenya. The associated P- value was 0.001. This value was less than 0.05 indicating that there was evidence against the null hypotheses and therefore the null hypothesis that there is no significant relationship between road transport policy reforms and tax revenue in Kenya was rejected. A conclusion was therefore drawn that there was significant relationship between road transport policy reforms and tax revenue in Kenya. This also compares well with Moyi nad Muriithi (2003), who found out that there was a significant positive relationship between the independent and the dependent variable.

Ho 4: There is no significant relationship between tax evasion policy reforms and tax revenue in Kenya.

The fourth specific objective of the study was to establish the relationship between tax evasion policy reforms and tax revenue in Kenya. The associated P- value was 0.004. This value was less than 0.05 indicating that there was evidence against the null hypotheses and therefore the null hypothesis that there is no significant relationship between tax evasion policy reforms and tax revenue in Kenya was rejected.

CHAPTER FIVE:
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The purpose of this chapter was to summarize the findings, discuss and draw conclusions and recommendations on the findings of the main objective of the study, which were the effects of tax policy reforms on tax revenue in Kenya. It was based on the specific objectives of the study which included: to establish the relationship between domestic taxes policy reforms and tax revenue in Kenya, to determine the effect of customs policy reforms on tax revenue in Kenya, to evaluate the relationship between road transport policy reforms and tax revenue in Kenya and to assess the impact of tax evasion on tax revenue in Kenya.

5.2 Summary of Findings

From the finding on the correlation analysis, the study found that there was positive correlation between tax revenues and custom reforms. The study also found a positive correlation between total tax revenue and domestic tax reforms. It also revealed that there was positive relationship between total tax revenue and road transport tax reform. The study further revealed that there was a positive correlation between total tax revenue and tax evasion reform. From the finding on the regression analysis the study found that was a greater variation on total tax revenue due to changes in domestic taxes policy, customs policy reforms, road transport tax reform and tax evasion reforms. The study also found that there was significant positive relationship between domestic taxes policy, customs policy reforms, road transport tax reform , tax evasion reforms and total tax revenue. In the post tax reform the study established that domestic taxes policy, customs policy reforms, road transport tax reform and tax evasion reforms significantly influence total tax revenues.

The study established that in the pre reform period the domestic taxes policy, customs policy reforms, road transport tax reform and tax evasion reforms do not significantly influence the total tax revenues in Kenya. The study revealed that a unit increase in domestic tax reforms, customs tax reforms, road transport tax reforms and tax evasion reforms would lead to increase in total tax revenues. From the finding on the hypothesis testing the study revealed

that there was significant positive relationship between domestic taxes policy reforms and tax revenue in Kenya, between customs policy reforms on tax revenue in Kenya, between road transport policy reforms and tax revenue in Kenya and between tax evasion and tax revenue in Kenya.

In summary, it was noted that tax reforms sources for economic development are very important if Kenya must rank among equals in the improvement of the lives of her citizens. Results of this study have revealed evidence in significant increase in total tax revenue attributed to tax reforms in Kenya. Therefore, to build and maintain the culture of sustainable development, there is urgent need for a review and restructure of the nation's tax policy and administrative system. While the government takes step to address the perennial annual budget deficits and tax gap, the citizens should wake up to their civic responsibilities in terms of tax compliance. This is in line with Saahdong (2008), who found out that though there was a stable revenue mobilization after the tax reform, but in general, there was an overall increase in the country's revenue especially after the tax reforms but the system is still characterized with lot of revenue leakages which need to be checked and controlled.

5.3 Discussion of the Findings

5.3.1 Pre Reform Period

From the above regression models, the study found out that before tax policy reforms, holding domestic taxes policy, customs policy reforms, road transport tax reform and tax evasion reforms to a constant zero, total tax revenues would stand at 0.569. A unit increase in domestic tax reforms would lead to increase in tax reforms by a factor of 0.266 while a unit increase in customs tax reforms would lead to increase in tax revenues by a factor of 0.050. A unit increase in road transport tax reforms would lead to increase in total tax revenues by a factor of 0.517 and a unit increase in tax evasion reforms would lead to increase in total tax revenues by a factor of 0.112. This was in line with Kieleko (2006) who evaluated tax revenue productivity in Kenya for the period 1973-2003. The results showed that there had been a considerable improvement of the tax revenue productivity and that the reforms made in this period had significant effect on the responsiveness of the tax system.

5.3.2 Post Reform Period

The study found the model after adoption of tax reforms, while holding domestic taxes policy reforms, customs policy reforms, road transport tax reforms and tax evasion reforms to a constant zero, total tax revenues at would stand at 0.639. A unit increase in domestic tax reforms would lead to increase in tax reforms by a factors of 0.400 whereas a unit increase in customs tax reforms would lead to increase in tax revenues by factors of 0.138. A unit increase in road transport reforms would lead to increase in total tax revenues by a factor of 0.173 and a unit increase in tax evasion reforms would lead to increase in total tax revenues by a factor of 0.614. This was in line with Kieleko (2006) who evaluated tax revenue productivity in Kenya for the period 1973-2003. The results showed that there had been a considerable improvement of the tax revenue productivity and that the reforms made in this period had significant effect on the responsiveness of the tax system.

5.3.3 Domestic Tax Policy Reforms

The first objective of this study sought to establish the relationship between domestic taxes policy reforms and tax revenue in Kenya and the first hypothesis for the stud}" was; He 1: There is no significant relationship between domestic taxes policy reforms and tax revenue in Kenya. The study established that after adoption of tax reforms the coefficient for domestic tax reforms was 0.400 compared to 0.266 in the pre reforms period, showing an difference of +0.134. This was in line with Kieleko (2006) who evaluated tax revenue productivity in Kenya for the period 1973-2003. The productivity was measured through buoyancy and elasticity. The coefficients were measured through log regression of the taxes to the Gross Domestic Product. The analysis of this study was carried out using the Proportional Adjustment Method (PAM) in capturing the effects of tax reforms on discretionary tax measures and tax productivity. The results showed that there had been a considerable improvement of the tax revenue productivity and that the reforms made in this period had significant effect on the responsiveness of the tax system.

5.3.4 Customs Policy Reforms

The second objective of this study was to determine the effect of customs policy reforms on tax revenue in Kenya and the hypothesis was; Ho 2: There is no significant relationship between customs policy reforms on tax revenue in Kenya. The study also deduced that custom tax reforms had a positive and significant influence on the total tax revenues as it had a coefficient of 0.138. Compared to the pre reform period of 0.050, there was a difference of +0.088. This was in line with Muriithi and Moyi (2003) who analyzed the productivity of Kenya's tax structure in the context of the tax reforms focusing on pre and post reform period. In the study, they assessed the buoyancy and elasticity of individual taxes and the overall tax system. Their findings suggested that tax reforms had a positive impact on the overall tax structure and on the individual tax handles, even though the impact of the reforms was not always uniform. The reforms had a bigger impact on direct taxes than on indirect taxes, suggesting that revenue leakage is still a major problem for indirect taxes.

5.3.5 Road Transport Policy Reforms

The third objective was to determine the effect of customs policy reforms on tax revenue in Kenya and the hypothesis, Ho 3: There is no significant relationship between road transport policy reforms and tax revenue in Kenya. The study further deduced that road transport tax reforms positively and significant influenced the total tax revenues as it had a positive coefficient 0.173. Compared to the pre reform period of 0.517, there was a difference of -0.334. This correlates with Karingi and Wanjala (2005) who evaluated the effect of tax reforms on tax revenue and its composition in the pre and post adjustment period, as measured by the tax/GDP ratios and the share of specific taxes in total tax revenue. In their study, they observed that tax yield rose successfully even before the major tax reform programme to peak on average at 19.7 per cent of GDP. However, this level of tax yield compared to the expenditure-to-GDP ratio was nonetheless insufficient. Consequently, they argued that since one of the main objectives of the TMP was to raise tax yield on a zero deficit strategy to match expenditures, which were on average 28 per cent of GDP.

5.3.6 Tax Evasion Policy Reforms

The third objective was to assess the impact of tax evasion on tax revenue in Kenya and the hypothesis, Ho 4: There is no significant relationship between tax evasion and tax revenue in Kenya. It was further found out that tax evasion reforms positively and significantly influenced the total tax revenues as it had a positive coefficient 0.614. Compared to the pre reform period of 0.112, there was a difference of +0.502. This concurs with Wawire (2011) who studied the determinants of value added tax revenue in Kenya for the period 1963/64 to 2008/2009.

5.4 Conclusions

From the findings on the relationship between domestic taxes policy reforms and tax revenue in Kenya, the study established that there was a significant relationship between taxes policy reforms and tax revenue. The study established that domestic taxes policy reforms positively influence the tax revenue in Kenya. It also found that there was significant relationship between custom policy reforms and tax revenues, and thus the study concludes that domestic taxes policy reforms and customs policy reforms positively influence the tax revenue in Kenya. The study also found that there was positive significant relationship between road transport policy reforms and tax revenue in Kenya, and therefore concludes that that there was positive significant relationship between road transport policy reforms and tax revenue in Kenya. From then finding on the tax evasion policy reform positively impacted on tax revenue in Kenya, the study also found that there is significant relationship between tax evasion and tax revenue in Kenya, thus the study concludes that there is significant relationship between tax evasion and tax revenue in Kenya.

It was also concluded that, unless the citizens work in hand with the government, every effort of the later to better their lives might prove abortive. Inequitable tax, which is one of the major problems in taxation, was promoted by the actions of those in the informal sector. However, government should note that it is not possible to tax a nation into prosperity. High tax rates will not only increase evasion but will equally discourage investment. This is the case of fiscal neutrality. Economic decisions may be influenced due to high tax rates and that

may influence negatively on the nation's economy. (Bowles 1999) cited in Richardson 2006, posit that the higher the marginal tax rate, the higher the likelihood of evasion. In this era of globalization, unfriendly tax policies may create room for capital flight from Kenya to other countries with more relaxed tax policies. The move towards borderless world has opened up new opportunities for taxpayers to minimize their tax liabilities (Owens 2006). This also compares well with Musgrave (1987) who found that a strong tax system is fundamental to the development of nation's economy. Tax reforms, such as the reduction in personal income tax rates, and the determination of a minimum exemption limit (tax threshold), are generally applicable to both developed and developing economies.

5.5 Recommendations

From the findings, the study recommends that in order to encourage voluntary compliance, tax policy formulation should be after due consultation with all the stakeholders. This will enhance the positive impact of tax reform on total tax revenues. There is need for Kenya Revenue Authority to increase customer satisfaction as satisfactory services to the taxpayers could encourage voluntary compliance. There is the need for management and organizational approach that emphasizes services, support and information for the honest taxpayers.

Tax reforms sources for economic development is very important if Kenya must rank among equals in the improvement of the lives of her citizens. Results of this study have revealed evidence in significant increase in total tax revenue attributed to tax reforms in Kenya. Therefore, to build and maintain the culture of sustainable development, there is urgent need for a review and restructure of the nation's tax policy and administrative system. Why government takes step to address the perennial annual budget deficits and tax gap, the citizens should wake up to their civic responsibilities in terms of tax compliance.

The gap between the citizens and the government is so wide that policies are made and forced down on the people without due consultation. For there to be a good tax administration, all the citizens must welcome tax policies. Besides, the involvement of all stakeholders may further foster the sincerity of the government thereby reducing the problem

of trust, which had bedeviled tax administration. This calls for public private partnership in decision-making process for good governance.

Increase tax revenue is a function of effective enforcement strategy, which is the pure responsibility of tax administrators. Kenya lacks the enforcement machineries, which include among other things, adequate manpower, technology and effective communication system. This among other issues call for the autonomy of tax administration, which the system had long been yearning for. Tax administration requires highly trained personnel to match up with the sophistication of tax evasion with the use of modern technology. The autonomy if granted will enable tax administration to hire the appropriate qualified personnel, fire the redundant ones, reduce internal layers of management with its attendant bureaucracy and official red tape, buy the appropriate equipment required for the job, reduce political interference which had encouraged frequent changes in policy and many more.

Evidently, budgetary constraint has hindered the employment of highly paid personnel by Kenya revenue authority. Literature shows that most of the tax laws are obsolete and need review. The requirements of such laws no doubt cannot match up with the current trend of economic changes. This calls for a review of such laws to meet the prevailing situation on a regular basis. Taxation as a means of revenue generation is like a double edge sword. A carefully planned tax policy that is consciously and faithfully implemented can help to generate revenue that can greatly transform a nation. Okech and Mburu 2011 also recommended that there was need re-evaluate the tax policy measures that had been implemented over the years to make tax responsive to national income while enhancing tax collection measures.

5.6 Suggestions for Future Research

The study sought to evaluate to evaluate the effect s of Tax Policy Reforms on Tax Revenue in Kenya. Composite datasets that include all taxable services often make unbiased results. Thus, while the results show a high degree of confidence in the relationship between tax reforms and revenue, it does so relative to the four categories of revenue put together, not one

individual taxable service. The study did not look at all the tax policy reforms in Kenya but concentrated on four key reforms namely domestic taxes policy reforms, custom duty policy reforms, road transport policy reforms and tax evasion policy reforms. However, it is worthwhile to note that there are other tax reforms in Kenya that have effect on tax revenue. Clearly, tax revenue in Kenya is subject to all tax policy reforms. However this was not done in this study although an in depth analysis of the effects was done thus ensuring that generalization of the study findings was possible. However, it is important to undertake further comprehensive study on the effects of tax policy reforms on tax revenue in Kenya. A better and thorough understanding of specific effects would require studying those taxable services individually.

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APPENDICES

Appendix I: Data Collection Sheet

SECTION A: DOMESTIC TAXES DATA COLLECTION SHEET

Period	Year	Actual Revenue	Target Revenue	Deviation
Pre – reform Period	2003/2004			
	2004/2005			
	2005/2006			
	2006/2007			
	2007/2008			
Post – reform Period	2008/2009			
	2009/2010			
	2010/2011			
	2011/2012			
	2012/1013			

SECTION B: CUSTOMS DUTY DATA COLLECTION SHEET

Period	Year	Actual Revenue	Target Revenue	Deviation
Pre – reform Period	2003/2004			
	2004/2005			
	2005/2006			
	2006/2007			
	2007/2008			
Post – reform Period	2008/2009			
	2009/2010			
	2010/2011			
	2011/2012			
	2012/1013			

SECTION C: ROAD TRANSPORT TAX DATA COLLECTION SHEET

Period	Year	Actual Revenue	Target Revenue	Deviation
Pre – reform Period	2003/2004			
	2004/2005			
	2005/2006			
	2006/2007			
	2007/2008			
Post – reform Period	2008/2009			
	2009/2010			
	2010/2011			
	2011/2012			
	2012/1013			

SECTION D: TAX EVASION DATA COLLECTION SHEET

Period	Year	Actual Revenue saved	Target Revenue Saved	Deviation
Pre – reform Period	2003/2004			
	2004/2005			
	2005/2006			
	2006/2007			
	2007/2008			
Post – reform Period	2008/2009			
	2009/2010			
	2010/2011			
	2011/2012			
	2012/1013			

Appendix II: Summary of the actual and expected tax revenue

Year	ATR	ETR	ADT	EDT	ACD	ECD	ART	ERT	ATE	ETE
2003/2004	201763	208083	97948	98848	90630	99424	1685	1700	1402	1802
2004/2005	270,875	280456	175244	182110	91946	989932	2880	2997	2640	2890
2005/2006	297699	301069	183614	184970	111155	112536	3025	3125	2930	3563
2006/2007	360191	356086	215617	213540	142449	140353	3345	3462	2125	2193
2007/2008	433915	424671	274263	263169	157304	158564	3620	3789	2348	2938
2008/2009	480569	493035	298799	309846	179361	179886	3941	4124	2409	3303
2009/2010	534403	545228	338152	339669	193752	201352	4123	4259	2499	4207
2010/2011	634903	641212	408787	412925	223551	225551	4245	4321	2648	2736
2011/2012	635971	658640	409183	424278	224266	231602	4871	4889	2521	2759
2012/2013	870100	956300	543450	5450020	328800	3278820	5123	5134	2950	3021

Source: KRA (2014)

WHERE:

ATR Actual Total Revenue
ETR Expected Total Revenue
ADT Actual Domestic Taxes
EDT Expected Domestic Taxes
ACD Actual Custom Duty
ECD Expected Custom Duty
ART Actual Road Transport Tax
ERT Expected Road Transport Tax
ATE Actual Tax Evasion
ETE Expected Tax Evasion