Challenges in Vat Remittance in the Kenya Road Construction Industry: A Case Study of Kitui Region

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Abstract: Road transport is the predominant mode of transport and carries about 93% of all cargo and passenger traffic in the country. Due to this the government allocates a large sum of its budget to road construction activities. Out of this budget 16% is supposed to revert back to the government in form of VAT but according to the statistics, KRA fails to meet its target by large margins. VAT is an important component of revenue collection and it aids economic development in our country. The objective of this study was to determine the challenges of VAT remittance in the road construction sector. This research was a survey involving road contractors in Kitui, since there is no KRA office in the county possibilities of evading tax are high. The other reason for concentrating in Kitui is due to the vastness of the county, there are several constructions going on. Primary data was collected from 500 contractors for descriptive and quantitative research design. The researcher used random sampling to pick a sample of 120 contractors, the response rate was 86. A correlation analysis was used to analyze data. The study found out that withholding agents were important because they deducted VAT at source, thereby making VAT remittance easier for the road contractors; KRA follow-up procedures were important in that they helped in minimizing cases of evasion of tax therefore enabling VAT remittance. It also found out that the number of construction activities was a challenge in that the fewer the activities the less VAT was remitted. The complexity of tax laws was a challenge since the road contractors could not understand the tax laws and therefore it hindered their VAT remittance. The study concluded that involvement of withholding agents, emphasis on KRA follow up procedures, increase in number of road construction activities and demystifying of tax laws would increase VAT remittance.

Keywords: Withholding agents, KRA follow up procedures, Remittance of VAT

1. Introduction

Road infrastructure has been the responsibility of national governments as well as county governments in some countries. It has been agreed that countries that achieve steady economic growth must have sizeable investments in infrastructure. Examples of such countries include Japan, U.S.A, United Kingdom, Germany, China, South Africa among others(Raisisudin et al,2007). Road construction and maintenance is funded by the government using taxes. Marina et al (2002) argues that “taxation is the only known practical manner for collecting resources in order to finance public expenditure for goods and services consumed by any citizen”. Mutua(2012) says that objectives of taxation are to raise revenue to be used to fund government operations, to assist in the redistribution of wealth and income and for regulation purposes, with a view to encourage or discourage certain activities such as smoking.

Mutua (2012) states that of the total tax revenue collected by the government over the last decade, the large contributors are income tax, about 40% followed by Value added tax at 28%. As a way of generating more revenue in the wake of 1990, the government introduced the broad based value added tax as a consumption tax. Alan(1990) explains reasons why a number of countries adopted VAT; first for revenue generation since VAT is a broad based tax levied on the consumption of not only locally manufactured goods and imported goods, but also on services with a view of generating substantial revenue. (Karingi et al 2005). Second for neutrality purposes, VAT is non-distortionary (Alan 1990) and is reported as one of the best ways of, not only promoting neutrality and uniformity of tax burden, but also as a way of providing incentives for increasing productivity and industrialization through few exemptions. Third for efficiency, it involves the promotion of uniformity and simplicity in the administration and management of a tax system. The popularity of VAT in many countries is seen as an alternative of replacing inefficient consumption taxes that use many tax rates, tax capital goods and exports, and erode tax base among other issues (Alan 1990).

VAT was introduced in Kenya in 1990 as a broad based tax levied on the consumption of not only locally manufactured and imported goods, but also on services with a view of generating substantial revenue (Karingi et al 2005). According to Muriithi and Moyi (2003), Kenya has been modernizing its tax system since 1986, while budget rationalization started in 1987. One of the key objectives of the modernization program was to ensure that the revenue structure was flexible enough to guarantee increased revenues. The most rigid system was VAT. Empirical analysis indicates that tax reform has raised the productivity of the tax system except VAT. VAT remittance faces several challenges which if addressed would increase the amount of revenue collected. The researcher decided to do this study since Kenya Revenue Authority has been missing its target of revenue by big margins. For example from June to December 2012, Kenya Revenue Authority had collected Sh 380 billion in taxes less than half of the 881.2 billion target for the full financial year. In the first quarter of 2012/2013, the taxman expected to collect sh 54.6 billion in VAT but fell short of this target by 24 per cent. If Kenya Revenue Authority misses its targets it means the citizens of this country will suffer since they resort to borrowing which is very expensive for the nation.

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These are the challenges facing VAT remittance especially in the construction sector, one is partial withholding of VAT by withholding agents, the VAT rate is 16%, which the withholding agents deduct 6% and the contractor is supposed to go and remit the remaining 10%. This becomes a challenge because it gives room for non-compliance. The KRA’s repeated failure to meet targets has been attributed to leakages in tax collection, especially in VAT and Real estates. With withholding agents the full VAT was deducted on the payment without the traders getting time to manipulate the figures (Kinyanjui et al 2003). Second is KRA follow up procedures are not done often, this includes inspection by tax officials, ETR receipts are not issued. Wawire(2011) said one way of bringing about an elastic VAT would be for KRA to provide information bases and taxpayer education. Taxpayers should be encouraged to maintain proper audited accounts and observe honesty. According to Naibe et al (2011), use of electronic registers has a significant positive relationship with VAT compliance. Therefore as a check to enhance the use of ETR, tax authorities should continue inspecting businesses on regular but impromptu basis. Such inspections should also emphasize on the need to have the businesses adopt the culture of regular use of ETR as far as possible (Naibe, Momanyi, Oginda, 2012)

1.1 Statement of the Problem

Value Added Tax was introduced in Kenya in 1990 as a broad based tax levied on the consumption of not only locally manufactured and imported goods, but also on services with a view of generating substantial revenue (Karingi et al 2005). This study was triggered by the fact that KRA misses its target by large margins year in year out. Non remittance of VAT is the major culprit because it is not all deducted at source. Only 6% is deducted at source the other 10% is paid by the taxpayer. This fact brings about other problems like evasion of tax, collusion with KRA staff so as to avoid paying the 10% VAT. Further tax evasion and avoidance as well as low compliance remains high in Kenya with a tax gap of about 35% and 33.1% in 2000/1 and 2001/2 respectively (KIPPPRA, 2004a). Road infrastructure is a key driver to development of nations. Road construction and maintenance is funded by the government through taxes, and that’s why remittance of taxes is very important especially for a developing nation like Kenya. The African Development Bank and the Chinese development bank have been funding most of the road infrastructure projects in Africa and this debts need to be repaid. (ADB, 2002). For this debts to be productive remittance of VAT needs to be done so that these loans can be repaid.

Empirical studies have shown that there is a challenge in VAT remittance. Analysis indicates that tax reform has raised the productivity of the tax system except VAT. The low elasticity of VAT is surprising given that the base grew faster than income. This suggests collusion between tax collectors and tax payers (Muriithi and Moyi 2003). According to Naibe et al (2011) use of electronic tax registers has a significant positive relationship with VAT compliance. Further a study by Naibe, Momanyi, Oginda (2012), said that tax authorities should continue inspecting businesses on regular but impromptu basis. Another study by Muriithi and Moyi (2003) observed that with complex tax laws, taxpayers have to bear additional costs in order to interpret the law and process tax returns. A study by Kinyanjui et al (2003) established that KRA’s repeated failure to meet targets has been attributed to leakages in tax collection especially in VAT. There is no doubt that VAT remittance has challenges and the question that arises is there anything being done come up with solutions? Therefore this the research gap that this study seeks to unravel.

1.2 Objectives of the study

1) To determine how withholding agents affect the remittance of VAT in the road construction industry.
2) To determine the effect of KRA follow up procedures in the remittance of VAT in the road construction industry.
3) To determine the effect of number of road construction on remittance of VAT in the road construction industry.
4) To evaluate how complexity of tax laws affects remittance of VAT in the road construction industry.

1.3 Research Question

The research questions are:-
1) How do withholding agents affect the remittance of VAT in the road construction industry?
2) How effective are KRA follow up procedures in the remittance of VAT in the road construction industry?
3) Does the number of road construction activities affect VAT remittance in the road construction industry?
4) Does complexity of tax laws have an effect on the remittance of VAT in the road construction industry?

1.4 Scope of the study

The study will cover road contractors in Kitui. This is because there is no KRA office in the region and also due to the vastness of the region many road constructions take place.

2. Literature Review

2.1 Theoretical Review

The study was founded by three key theories of tax, those include Optimal Tax theory, Ability Theory and Tax Benefit Theory.

2.1.1 Optimal Tax Theory

The standard theory of optimal taxation states that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. After determining an objective function, the next step is to specify the constraints that the social planner faces in setting up a tax system. Frank Ramsey (1927) suggests that the social planner has to come to grips with heterogeneity in taxpayers’ ability to pay. If the planner could observe differences among taxpayers in inherent ability, the planner could again rely on lump sum taxes, but now those lump sum taxes would be contingent on ability. These taxes would not depend on any choice an individual makes, so it would not distort incentives, and the planner could achieve equality with no efficiency costs.
James Mirrlees (1971) suggested a way to formalize the planner’s problem that deals explicitly with unobserved heterogeneity among taxpayers. By recognizing unobserved heterogeneity, diminishing marginal utility of consumption and incentive effects, the Mirrlees approach formalizes the classic tradeoff between equality and efficiency that real governments face, and it has become the dominant approach for tax theorists. Based on the theory of optimal tax theory, if VAT follows this theory then the collection would increase since contractors would pay VAT according to their ability which would bring equality and efficiency.

### 2.1.2 Ability Theory

Arthur Cecil Pigou ability theory states that taxes should be based on the ability to pay taxes, that is those who have more income should pay more taxes. This principle also makes a lot of sense, especially for the provision of public goods that are consumed by all. If everyone benefits from public goods, without exclusion, then everyone should pay. However, not everyone can pay, so those who can afford to pay, need to bear the burden.

Fair and equitable application of the ability to pay principle also entails that those with the same income pay the same taxes and those with different incomes pay different taxes. These are termed horizontal and vertical equity respectively (Amosweb LLC 2000-2013).

For VAT collection to increase, the VAT should not be charged per contract, instead the income should be calculated annually where the VAT will be charged on the whole income for that year so that if one had only one contract the contractor will pay less compared to those who had more contracts and also at a lower rate since the ability to pay will be considered.

### 2.1.3 Benefit Theory

Erik Landahl benefit theory states that taxes should be based on the benefits received, that is, those who receive the greatest benefits should pay the most taxes. On the surface, this principle is quite logical and easily justified. The people who benefit from public goods are logically the ones who should pay for their provision. (Amosweb LLC 2000-2013)

However, the benefit principle does not work well for the efficient provision of public goods. If those who benefit directly from a public good pay a price equal to the value derived, as would be the case for private goods, then the quantity demanded declines and so too does the overall level of benefit generated. (Dodge 2005)

For VAT this theory applies in that if the contractors were to see the benefits of their paying taxes in the grassroots then they would comply with paying taxes. Most of the time there is nothing to show locally of what the tax money achieves.

### 2.2 Empirical Review

#### 2.2.1 Withholding Agents

The KRA’s repeated failure to meet targets has been attributed to leakages in tax collection, especially in VAT and real estate taxes. With withholding agents the full VAT was deducted on the payment without the traders getting time to go and manipulate the figures (Kinyanjui et al 2003). The tax administration needs to work in constant dialogue with taxpayers answering their queries particularly in the rural areas through extension services with other agencies, possibly post offices. These measures would also mean the KRA hiring more staff in order to be able to allow for citizens to make appointments with the tax officers. Waris (2009) recommended increased cooperation between tax and regulatory authorities. This objective comes out of the ongoing debate concerning the effects of the global financial crisis. Tax administration and enforcement measures should be enhanced at all levels, and institutional corruption should be reduced. Better cooperation between different revenue offices is also important, and the interaction between the central and regional offices could establish a framework for taxpayer dialogue with stakeholders at the local revenue office.

#### 2.2.2 KRA follow up procedure

According to Muriithi and Moyi (2003), Kenya has been modernizing its tax system since 1986, while budget rationalization started in 1987. One of the key objectives of the modernization program was to ensure that the revenue structure was flexible enough to guarantee increased revenues. The most rigid system was VAT. Empirical analysis indicates that tax reform has raised the productivity of the tax system except VAT. The low elasticity of VAT in both periods is surprising given that the base grew faster than income. This suggests collusion between the tax collectors and the tax payers among other things. Despite substantial reform, significant review and rationalization of the rates under VAT, further improvements are required in the reduction of rates and exemptions, increasing VAT administration capacity through a higher budget outlay, increasing tax collectors’ salaries and reviewing collusion penalties upwards and strengthening the development of audit skills. Wawire (2011), VAT bases should be broadened and tax rates and special treatment reduced to ensure compliance by taxpayers; increase productivity and address the issue of the underground economy. One way of bringing about an elastic VAT system would be to provide information bases and taxpayer education through pamphlets dissemination, seminars, conferences and barazas which might encourage more people to pay taxes. Taxpayers should be encouraged to maintain proper audited accounts and observe honesty. Naibe, Momanyi, Oginda (2012) recommended that tax authorities in Kenya and other developing countries should lay more emphasis on the mid-sized private firms as far as tax compliance measures is concerned. One of the probable measures to ensure businessmen pay tax is stepping up ways of detecting those who fail to use the ETR as required and punishing the offenders to serve as a deterrent to others. According to Naibe et al (2011), use of electronic tax registers has a significant positive relationship with VAT compliance. The tax payer has great incentive to evade tax especially when opportunity to do so is available (Myles, 1995). Therefore as a check to enhance the use of ETR, tax authorities should continue inspecting businesses on regular but impromptu basis. Such inspections should also emphasize on the need to have the businesses adopt the culture of regular use of ETR as far as possible. (Naibe, Momanyi, Oginda, 2012).
2.2.3 Number of road construction activities
According to Wawire (2011), a marked increase in VAT revenue can be achieved if taxable capacity is substantially expanded through increased economic activities. These increased activities should occur first and foremost in the sectors that attract VAT like the road construction sector. The government should rely on VAT because it is elastic and generate revenue with limited administrative costs, are less incommensurate because they are hidden in the commodity prices being transacted, present less chances for tax evasion, are powerful tools for guiding resources allocation through changing supply and demand forces, are more flexible such that rates and coverage can be selective and can be modified to suit the objective of the government. Due to the potential negative effects of the implementation time lags on VAT revenues, new policy guidelines contained in the budget speeches and other tax policy documents should be implemented, as a matter of urgency, almost immediately. Kenyan economy suffers from a high population growth rate and rampant corruption, Kenya’s GDP has been inconsistent since its independence in 1963. Inflation is also a serious concern for the growth of Kenyan economy. Since 2004, the inflation rate has consistently been above 9%. However owing to the political instability and budget deficits, it reached 26.3% in 2009. (Economywatch).

2.2.4 Withholding Agents
The KRA’s repeated failure to meet targets has been attributed to leakages in tax collection, especially in VAT and real estate taxes. With withholding agents the full VAT was deducted on the payment without the traders getting time to go and manipulate the figures(Kinyanjui et al 2003).The tax administration needs to work in constant dialogue with taxpayers answering their queries particularly in the rural areas through extension services with other agencies, possibly post offices. These measures would also mean the KRA hiring more staff in order to be able to allow for citizens to make appointments with the tax officers. Waris (2009) recommended increased cooperation between tax and regulatory authorities. This objective comes out of the ongoing debate concerning the effects of the global financial crisis. Tax administration and enforcement measures should be enhanced at all levels, and institutional corruption should be reduced. Better cooperation between different revenue offices is also important, and the interaction between the central and regional offices could establish a framework for taxpayer dialogue with stakeholders at the local revenue office.

2.3 Summary of literature review and Research Gap
Kinyanjui and Moyo (May 2003) did a study on tax reform and mobilization, Karingi et al (2005) did tax reform experience in Kenya, Naibei et al(2012) did relationships between income size, inspection and VAT compliance. Naibei et al (2011) did impact of Electronic tax registers on VAT compliance and Wawire (2011) did determinants of VAT revenue in Kenya, all these research work concentrates on a general overview of VAT compliance and mainly on a single aspect of VAT compliance. There lacks a research on the challenges of VAT remittance in the road construction sector and that’s what this study seeks to find out. From the literature review it is clear that that there are challenges in VAT remittance in Kenya and especially in the road construction sector. Therefore there is need to do this research.

3. Research Methodology
These study adopted descriptive research design. The target population consisted of 500 road contractors based in Kitui (KeRRA prequalification 2015). The researcher selected a sample of 120 respondents out of a population of 500 contractors. The target is120 which is 24% of 500 contractors in Kitui. Mugenda and Mugenda (2003) indicates that a sample size of 10%-30% of the population is a good representation. The study adopted random sampling of questionnaires. The data was collected by the use of questionnaires. Research questionnaires having both structured and unstructured questions was designed and administered. The questionnaire was divided into three sections, general background, withholding VAT agents, KRA follow up procedures. The tabulated data collected was analyzed by calculating various frequencies and percentages. Presentation of data was in form of pie charts, histograms and graphs.

4. Research Findings and Discussions

4.1 Withholding Agents
To determine the effect of withholding agents as a challenge in VAT remittance, the road contractors were required to determine if they preferred partial withholding of VAT which is currently being used or full withholding. Full withholding of VAT is where all the 16% VAT is withheld at source while partial withholding that s being currently used is where 6% is withheld at source and 10% is paid by the contractor. From the 86 respondents 82.6% preferred full withholding of VAT while only 17.4% preferred partial withholding.

Reasons for preferring full withholding were given as ; convenient because VAT was all deducted at source meaning that the contractor received his net payment without been expected to go and remit VAT, saved time because there was now no need to go to the KRA offices to remit VAT, they reduced costs of travelling to KRA offices and other expenses of paying tax experts to remit VAT for them, no further documentation was needed so contractors work was made easier.

4.2 KRA follow up procedures
To determine the effect of KRA follow up procedures as a challenge in VAT remittance the road contractors were required to declare if they had ETR machines. 90.7% of the respondents were found to have ETR machines and 9.3% did not have them. ETR machine is very instrumental in remittance of VAT and these shows majority of the contractors had them. When it came to their usage only 15.1% of contractors always used ETR, 77.9% only used when asked and 7% never use them. From these data it is evident that ETR machines are not used frequently and these leads to non-remittance of VAT since whatever is collected.
without ETR is not accounted for when it comes to VAT payment. According to Naïbei et al.(2011), use of ETR has a significant positive relationship with VAT compliance. The taxpayer has great incentive to evade tax especially when opportunity is available(Myles 1995). ETR captures every transaction done by a tax payer therefore if not used always, VAT may not be remitted on those transactions.

From the sample of 86 respondents, 24.4% respondents have been inspected by KRA officials but 75.6% respondents have not been inspected. This data shows that in this region KRA officials do not do frequent inspections and this leads to non-remittance of VAT since inspections help to keep the contractors alert and they also use ETR machines since they know they can be caught anytime. Tax authorities should do inspections on regular but impromptu basis. Such inspections should also emphasize on the need to have the businesses adopt the culture of regular use of of ETR as far as possible (Naïbei, Momanyi, Oginda, 2012)

From the sample of 86 respondents, 69.7% respondents have colluded to evade tax and 30.3% respondents have not. This data shows that collusion with either KRA officers or even tax experts is very common and this affects the remittance of VAT since some of the VAT is not paid and the other goes to the wrong hands. According to Muriithi and Moyi(2003)empirical analysis indicates low elasticity of VAT even though the base grew faster than income, this suggests collusion between the tax collectors and the tax payers. According to Wawire(2011) taxpayers should be encouraged to maintain proper audited accounts and observe honesty.

4.3 VAT remittance

The respondents were required to rate the challenges faced in VAT remittance. The study identified the challenges as partial withholding of VAT where 6% is deducted at source and 10% is paid by the contractor. Access to KRA offices, the KRA office is in Machakos which is far especially for the contractors in the far-flung areas of Kitui. The other challenge is use of ETR machines, inspections by KRA staff, frequency of filing returns which is monthly, a lot of documents are needed to file returns and few number of construction activities.

A likert scale of 1-5 was used to determine how the above factors influenced VAT remittance where (5) Strongly agree, (4) Agree, (3) Neutral, (2) Disagree, (1) Strongly Disagree. From the responses mean and standard deviation were calculated for ease of interpretation of findings. The finding is shown in Table 4.7

<table>
<thead>
<tr>
<th>VAT remittance</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partial withholding of VAT</td>
<td>4.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Access to KRA offices</td>
<td>3.84</td>
<td>1.21</td>
</tr>
<tr>
<td>ETR machines</td>
<td>3.92</td>
<td>1.32</td>
</tr>
<tr>
<td>Inspections by KRA</td>
<td>3.95</td>
<td>1.044</td>
</tr>
<tr>
<td>Frequency of filing</td>
<td>4.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Number of documents</td>
<td>3.82</td>
<td>1.25</td>
</tr>
<tr>
<td>Number of road constructions</td>
<td>3.9</td>
<td>1.226</td>
</tr>
</tbody>
</table>

From the findings, partial withholding of VAT had a mean of 4.20 with a standard deviation of 1.4, access to KRA offices had a mean of 3.84 and a standard deviation of 1.210, ETR machines had a mean of 3.92 and a standard deviation of 1.32. Inspections of KRA had a mean of 3.95 and a standard deviation of 1.044, frequency of filing had a mean of 4.10 and a standard deviation of 1.1, number of documents needed had a mean of 3.82 and a standard deviation of 1.25 and number of road constructions had a mean of 3.90 and a standard deviation of 1.226. This is a clear indicator that there are challenges in VAT remittance in the road construction sector, this include partial withholding of VAT where 6% is withheld while 10% is paid by the contractor, access to KRA offices-no KRA office in Kitui, non –usage of ETR machines which leads to evasion of taxes, frequency of filing- done monthly which is a big hassle for the contractors, many documents needed to file VAT and many contractors do not keep records, and the few number of road constructions which leads to low remittance of VAT. Waris (2009) recommended increased cooperation between tax payer and regulatory authorities, if this is done the challenges above would be catered for.

4.4 Correlation Analysis

The table below indicates the correlation Analysis of VAT remittance and the challenges

<table>
<thead>
<tr>
<th>Correlation Analysis for VAT remittance</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 Withholding Agents</td>
<td>-0.77</td>
<td>-0.95</td>
<td>0.81</td>
<td></td>
</tr>
<tr>
<td>Q2 KRA follow up procedures</td>
<td>0.77</td>
<td>1</td>
<td>0.89</td>
<td>0.29</td>
</tr>
<tr>
<td>Q3 Number of road constructions</td>
<td>0.95</td>
<td>0.89</td>
<td>1</td>
<td>0.97</td>
</tr>
<tr>
<td>Q4 Complexity of tax laws</td>
<td>0.81</td>
<td>0.29</td>
<td>0.97</td>
<td>1</td>
</tr>
</tbody>
</table>

The table indicates that there is a positive correlation between withholding agents, KRA follow up procedures, number of road constructions and complexity of tax laws with VAT remittance. This means that if each challenge is adequately addressed the VAT remittance would be affected positively. There would be an increase in VAT remittance. Naïbei et al(2011) who indicated that use of electronic registers has a significant positive relationship with VAT compliance. Muriithi and Moyi(2003) indicated collusion between tax payers and atx collectors as a reason why productivity of VAT is low. Kinyanjui et al(2003) found out that with withholding agents the full VAT was deducted on payment without the traders getting time to manipulate the figures. Wawire(2011) indicated that a marked increase in VAT revenue can be achieved if taxable capacity is substantially expanded through increased economic activities and more so in the sectors that attract VAT like the road construction sector.

5. Summary, Conclusion and Recommendations

Tax collection is one of the important sources of revenue for our country. VAT is one of the components of taxation that brings a lot of revenue. The study sought to find out the challenges of remitting VAT in the road construction sector.
The study found out that partial withholding of VAT was a challenge since 6% of VAT was deducted at source and the contractors are supposed to pay the remaining 10% by themselves. This brought about extra costs that they have to incur for example paying tax experts to do the filing for them. They also had to sacrifice some extra time to go and pay VAT. This findings concur with Kinyanjui et al (2003) who indicated that with withholding agents the full VAT was deducted on payment without the traders getting time to manipulate the figures.

The study found out that KRA follow up procedures was a challenge since many of the contractors did not use ETR machines which are very effective in capturing VAT. KRA also did not do regular inspections to ensure that laws are followed and this leads to decline in VAT remittance. This findings concur with Naibei et al(2011) who indicated that use of electronic registers has a significant positive relationship with VAT compliance. Therefore as a check to ensure the use of ETR, tax authorities should continue inspecting businesses on regular but impromptu basis(Naibei, Momanyi, Oginda 2012). Muriithi and Moyi(2003) indicated collusion between tax payers and tax collectors as a reason why the productivity of VAT is low.

The study found out that many of the contractors had one or two contracts in a year and having no other source of income it became a challenge for them to remit VAT. This coupled with the high cost of living was a big challenge for them. This concurs with Wawire(2011) who indicated that a marked increase in VAT revenue can be achieved if taxable capacity is substantially expanded through increased economic activities and more so in the sectors that attract VAT like the road construction sector.

The study found out that many of the respondents regarded the tax laws as complex. This was a challenge since they had to incur extra costs to comply, they also had to use a lot of time because a lot of documentation was needed. This findings concur with Muriithi and Moyi (2003) who indicated that with complex tax laws, taxpayers have to bear additional costs in order to interpret the law and process tax returns.

5.1 Conclusion

The study concluded that withholding agents are very important in VAT remittance in Kenya. This is because they would deduct all the VAT at source and remit it to KRA. This enhanced tax compliance and also boosted KRA in a substantial way.

The study also concluded that KRA needs to do a lot more to improve on its follow up procedures. They should do inspections often so as to ensure ETR machines are used and also cover loopholes that lead to collusion of tax collectors and tax payers.

The study also concluded that the number of road construction activities should be increased in order to get more VAT and also to enable the tax payers to remit VAT since they will have increased incomes.

The study also concluded that tax education should be done to address the issue of complex tax laws so as to enable tax payers to be able to remit VAT with ease.

5.2 Recommendations

From the study it is evident that KRA should consider full withholding of VAT by the withholding agents, since the study has shown that they were of pivotal importance. KRA should also encourage the use of ETR machines and should also do regular but impromptu inspections to check if they are being used this will minimize the cases of tax evasion.(Naibei et al all 2011) The government should also do more to increase economic activities especially in areas which attract VAT. (Wawire 2011) KRA should demystify the tax laws through training and simplifying the laws so that anybody can understand them.(Muriithi and Moyi 2003).

References


