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Effect of Taxpayer Education and Law Enforcement Strategies on the Level of Tax Revenue in Kenya

Jackson Ritei & Dr. Fred Sporta
Postgraduate Student, KCA University
Lecturer, KCA University

Abstract
This study sought to establish the effects of taxpayer education and law enforcement strategies on Government tax revenue in Kenya. The study was pegged on the fiscal regulatory compliance theory. Revenue data between 1980 and 2020 was used in the study. Ordinary Least Squares technique (OLS) was employed to establish the long run relationship between expenditure on taxpayer education and law enforcement on government tax revenues. The relationship between variables was established through correlation analysis and regression analysis. The results indicated a positive and significant relationship between taxpayer education strategy and tax revenue in Kenya. There was a positive and significant relationship between law enforcement strategy and tax revenue in Kenya. The study concluded that taxpayer education strategy and law enforcement strategy affected tax revenue in a positive and significant way. The study recommends that the government should continue providing taxpayer education. Further, the government should continue to up its tax compliance enforcement efforts.

Keywords: *Taxpayer Education, Law Enforcement & Tax Revenue*

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I. Introduction

The sole and realistic way of mobilizing resources to meet public expenditure on goods and services required by the citizenry is taxation (Marina, 2020). However, this is not entirely the case since some third world countries have alternative sources of revenue besides taxation like user fees and licenses levied on services provided by government ministries, departments and state agencies, including proceeds from the disposal of public assets and denationalization of ailing state corporations. Furthermore, a number of emerging economies rely heavily on external funding as an alternative source of income (Barnett & Grown, 2014).

The use of taxpayer education and law enforcement strategies have been the core strategies by KRA in an effort to raise their tax base (Gitaru, 2017; Abdul & Wang'ombe, 2018; Nyakundi, 2018). Revenue authorities are generally required to achieve as good a compliance outcome as possible (i.e., to maximize the overall level of compliance with the tax laws). The primary goal of a revenue authority is to collect the taxes and duties payable in accordance with the law and to do this in such manner that will sustain confidence in the tax system and its administration. The actions of taxpayers, whether due to ignorance, carelessness, recklessness, or deliberate evasion as well as weaknesses in a tax administration, mean that instances of failure to comply with the law are inevitable. Therefore, tax administration should have in place strategies and structures to ensure that non- compliance with tax law is kept to a minimum (Gardiner, 2019).

Jackson (2020) argues that improving tax compliance requires long-term reform efforts, beginning with strengthening the organization and management of the revenue agency, implementing robust collection systems (e.g., payment and withholding systems) and building capacity in core tax administration functions (registration, filing and payment enforcement, debt collection, audit, taxpayer services, and processing of appeals). Keen et al. (2013) argue that reform of the legal framework and judiciary is also often required to ensure that the necessary powers, penalty regimes, and dispute resolution processes are in place. Increasingly, information and communications technology is playing a critical role in compliance management (e.g., through automatic gathering of third-party information as a by-product of natural business processes; use of electronic invoices to facilitate real-time transaction monitoring and verification; and analysis of revenue risks).

While sound legislation is the cornerstone of achieving a good compliance outcome, it is nevertheless often a costly response to any given non-compliance situation (McKerchar & Evans, 2019). Therefore, consideration of the external legislative context represents an attempt to look at existing legislation in action in an effort to identify weaknesses and threats that may need to be addressed or mitigated through administrative practices (Makau et al, 2020). The role of the authority is to operate within the law. Whilst recommending changes to legislation does represent a legitimate compliance approach for revenue authorities, this guidance note concentrates on administrative rather than legislative solutions (Tanzi & Zee, 2020).

According to Institute of Taxation and Economic Policy (2018), a great proportion of revenue authorities have digressed from the traditional tax management assessment regimes where all or to a larger extent tax reports are scrutinized or examined as a precondition for before being issued to the taxpayers. The regime of choice of late is the self-evaluation and adjustment mechanism that bases its confidence on the taxpayer's own initiative to adhere to their tax obligations to subscribe to the tax register, maintain up to date records, submit accurate tax returns and honor their tax liabilities with minimum or without the intervention of a tax body (Kochanova, Hasnain & Larson, 2020).

Adherence to tax obligations has gradually developed and grown into a major field of focus for studies in social and financial psychology (Newman, Mwandambira, Charity & Ongayi, 2018). This concept has been looked at and tackled from a variety of standpoints leading to the understanding of the varied aspects of behavioral attitudes by the tax payers. Attitudes of a tax payer have been determined, current cultural practices defined and the lay philosophies held by people with regard to fulfilling their yearly tax liabilities and declarations examined (Kirchler, 2017). Experimental findings point to the fact that adherence to taxation requirements has resulted in higher and rising levels of government revenue and verification reports and a generally encouraging decline in the overall tax rates based on yearly tax returns (Kochanova, Hasnain & Larson, 2020). Tax liability payment will also be highly efficient when the tax payer anticipate improvement in provision of welfare amenities paid for by the tax revenue with any change in percentage penalties appearing to cause minimal impact on tax liability payment tendency (Almet et al., 2019).

Statement of the Problem

Efficient self-assessment structures are reinforced by a controlling approach that identifies that voluntary compliance was optimized through an appropriate balance of taxpayer education and assistance, simple laws and procedures, and risk-based verification programs. Article 209 of the Constitution of Kenya (2010) outlines powers to impose taxes or raise revenue by the national government (GOK, 2019). The taxes are dipping and yet KRA is spending a lot on the strategies of collecting data. The persistent failure to meet revenue projections has come with far-reaching ramifications for the economy. The country has been compelled to borrow heavily from the local and international markets, a scenario that has partly sparked the current row over controlling lending rates. Banks, struggling to obtain deposits, have been raising the cost of loans to stay afloat. The relatively wider tax gaps and lower revenue productivity of developing and emerging economies that contribute to galloping budget gaps can be reduced if implemented tax reforms incorporate effective tax compliance strategies to help raise more tax revenue (Odero, Reeves & Kipyego, 2019). However, the link between these tax compliance strategies and the level of tax revenue has not been established in Kenya. This is the knowledge gap that this study attempts to fill.

In addition, studies done on tax compliance strategies present research gaps; Ibrahim and Alagidede (2018) who studied growth rate of economic activity on tax revenue in Nigeria. Gacanja (2012) conducted an empirical case study of Kenya on tax revenue and economic growth. Basirat, Aboodi and Ahangari, (2014) focused on inflation rate and tax revenue ratio. Guzman, Ocampo and Stiglitz, (2018) examined the exchange rates and tax revenue growth. Munthali et al., (2017) examined the exchange rate volatility on economic growth Dobrotă (2016) studied the depreciation of currency on tax revenue. The studies present research gaps that this study sought to fill by analyzing the effects of tax compliance strategies on the level of tax revenue in Kenya.

Objective of the Study

The objective of the study was to analyze the effects of taxpayer education and law enforcement strategies on Government tax revenue in Kenya.

Research Hypotheses

$H_{01:}$ Taxpayer education strategy has no significant effect on the level of tax revenue in Kenya,
$H_{02:}$ Law enforcement strategy has no significant effect on the level of tax revenue in Kenya,

II. Theoretical Review: Regulatory Compliance Theory.

Regulatory Compliance was first proposed in the 1970's when the relationship between compliance with rules was compared to compliance with best practice standards and outcome data. The Theory of Regulatory Compliance (TRC) deals with the importance and significance of complying with rules or regulations. This theory has implications for all rule, regulatory, and standards development throughout human service and economic domains. Its emphasis on selecting the right rules rather than having more or less rules and the nature of these rules as being significantly predictive of positive outcomes by being in compliance with said rules.

The compliance theory provides justification for the empirically established behavior of the tax controllers to institute concurrently numerous, heterogeneous targets (Jayapalan, 2018). Empirical studies confirm the possibility of having a combination of physical, psychological and normative targets taking effect on compliance and noncompliance tendencies. In particular, a regulate could be focusing on enhancing his profitability, safeguard self from any anticipated loss, derive pleasure, and respond in an appropriate manner, all at once (Karingi et al., 2015). However, Machogu and Amayi (2013) believe that the said targets may not necessarily translate into a generally accepted standard for utility. Therefore, the theories advocating for voluntary compliance rely only on one kind of these motives, particularly the rational actor theories of compliance, assume and fail to account for a substantial portion of the empirical certainty, the way a number of experimental studies have concluded.

2.2 Conceptual Framework

Figure 1 presents the conceptual framework of the study. As shown, the study has two independent variables and one dependent variable. The independent variables are taxpayer education strategy, law enforcement strategy while the dependent variable is level of tax revenue.

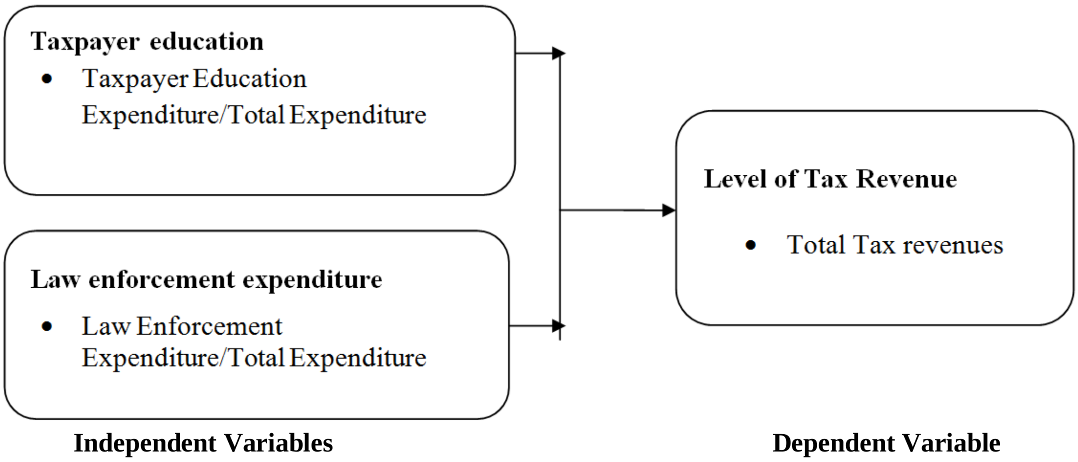

Figure 1: Conceptual Framework

3.1 Research Methodology

The study adopted a descriptive research design given that it generates contents of what, when, why, where and how when capturing the quantitative features of the research (Mugenda, 2012). The descriptive research design mirrored the longitudinal reflection of the historical data to envisage tax revenue in time series. The study population was the Kenya Revenue Authority. The study used the financial information and economic growth from Kenya Revenue Authority. The study used time series data of Kenya government tax revenue collected for the period 1995 to 2020. The data sources KRA publications and Economic surveys. The data on expenditure on taxpayer education and law enforcement was extracted from the publication and cleaned using Excel spreadsheet. Data on tax revenue was extracted from economic surveys.Data analysis is the process of creating a defined system with working structure plan that entail examining mathematical information on data collected and processing it to a meaningful information (Cooper & Schindler, 2013). Time series model was used. The research used a regression model in time series using STATA software.

4.1 Results and Findings

4.2 Descriptive Statistics

The descriptive statistics shows the mean, standard deviation, minimum and maximum values of the variables for period 1995-2020. Tax revenue was depicted in millions while taxpayer education expenditure, law enforcement expenditure were depicted in percentage to total expenditure. The results are depicted in percentages and are presented in Table 1.

Table 1: Descriptive Statistics

Variable	Years	Mean	Std. Dev.	Min	Max
Tax revenue	26	585,590.9	497,072.6	103,567	1,607,000
Taxpayer education expenditure	26	16.24	1.20	14.54	19.0
Law enforcement expenditure	26	21.21	3.30	18.56	36.0

Tax revenue depicted in millions had a mean of 585,590.9 and a standard deviation of 497,072.6. The minimum ratio was 103,567 and the maximum of 1,607,000. The minimum and the maximum indicated a wide gap in tax revenue collected over the years where the maximum was Ksh1.6 trillion. Taxpayer education expenditure had a mean of 16.24 and a standard deviation of 1.20. The minimum ratio was 14.54 and the maximum of 19.0. The expenditure for taxpayer education was below 20% to total expenditure. Law enforcement expenditure had a mean of 21.21 and a standard deviation of 3.30. The minimum ratio was 18.56 and the maximum of 36. The mean implied that most of the law enforcement expenditure was below 20% of the total expenditure.

4.3 Correlation Analysis

The study conducted correlation analysis for the various variables that are taxpayer education strategy and law enforcement strategy on the level of tax revenue in Kenya in order to examine the nature of the statistical relationships between each pair of variables. Table 2 shows the correlation matrix of all the variables included in the study.

Table 2: Correlation Matrix

Variables	Tax revenue	Taxpayer education strategy	Law enforcement strategy
Tax revenue	1.000		
Taxpayer education strategy	0.603	1.000	
	0.001		
Law enforcement strategy	0.760	0.682	1.000
	0.013	0.000	

The results in Table 2 show that taxpayer education strategy had a positive and significant relationship on the level of tax revenue in Kenya (r= 0.603, p=0.001). Law enforcement strategy had a positive and a significance relationship on the level of tax revenue in Kenya (r=0.760, p=0.013).

4.4 Regression Analysis

The study conducted regression analysis to establish the statistical significance relationship on taxpayer education and law enforcement strategies and the level of tax revenue in Kenya. The regression includes techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent and one or more independent variables. The results are presented in Table 3.

Table 3: Regression Analysis

Tax Revenue	Coef.	Std. Err.	t	P>|t|
Taxpayer education strategy	1.128	0.411	2.740	0.012
Law enforcement strategy	0.429	0.143	3.000	0.007
_cons	0.182	0.529	0.340	0.735
F(2, 21) = 33.79				
Prob > = 0.0000				
R-squared = 0.7655				
Adj R-squared = 0.7399				

The fitted model was;

Tax revenue = 0.182 + 1.128TPE + 0.429LEE

Where:

TX = Tax Revenue

TPE = Taxpayer education strategy

LEE = Law enforcement strategy

The overall R squared of 0.7655 implied that taxpayer education strategy and law enforcement strategy explained 76.5% on the variations on level of tax revenue in Kenya. The overall model was significant as indicated by the Prob>chi2 of 0.000 with an F (2, 21) of 33.79. In addition, the constant of 0.182 showed that taxpayer education strategy and law enforcement strategy are held constant, tax revenue will remain at 0.182 units. The results further portrayed a positive and significant relationship between taxpayer education strategy and tax revenue in Kenya (β= 1.128, p=0.012). There was a positive and significant relationship between law enforcement strategy and tax revenue in Kenya (β= 0.429, p= 0.007).

4.5 Discussion of Findings

The first objective of the study was to establish the effect of taxpayer education strategy on the level of tax revenue in Kenya. Correlation results showed that taxpayer education strategy had a positive and significant relationship on the level of tax revenue in Kenya ($r= 0.603$, $p=0.001$). Further, regression analysis portrayed a positive and significant relationship between Taxpayer Education Expenditure and tax revenue in Kenya ($\beta= 1.128$, $p=0.012$). This implies that a unitary increase in taxpayer education strategy led to an increase in tax revenue in Kenya by 1.128 units holding other factors constant. Since the P-value of $0.12<0.05$, the null hypothesis was rejected that Taxpayer education strategy has no significant effect on the level of tax revenue in Kenya.

The findings agree with Maseko (2014) who carried out a study which sought to examine the effects of tax education on tax compliance for small taxpayers and revealed that there was a positive significant relationship between tax education and taxpayer compliance. The study further revealed that indeed taxpayers are with different business situations from large businesses which cause them to bear high tax compliance burdens than SMEs. The study by Andarias (2016) on taxpayer registration and tax compliance established that taxpayer registration is an important tool if properly used, this is primarily because taxpayer registration enhances tax compliance. In addition, the study was able to establish that taxpayer registration can as enhance problem solving among taxpayers. The findings agree with Christina, Deborah and Gray (2018), identified factors that made them not to pay their taxes due, within the statutory period and not declaring the correct taxable income as; complexity of the tax laws, ability to pay, ignorance of the tax laws and the perceptions of high tax rates and unfairness of the tax system. The study by Normala and Obid (2013) confirmed that an increase in tax knowledge would increase the level of voluntary tax compliance. The statistical findings, confirm that there is a significant relationship between the level of tax education and the level of voluntary tax compliance.

The second objective of the study was to establish the effect of law enforcement strategy on the level of tax revenue in Kenya. Correlation results showed that law enforcement strategy had a positive and significant relationship on the level of tax revenue in Kenya ($r=0.760$, $p=0.013$). Further, regression analysis portrayed a positive and significant relationship between law enforcement strategy and tax revenue in Kenya ($\beta= 0.429$, $p= 0.007$). This implies that a unitary increase in law enforcement strategy led to an increase in tax revenue in Kenya by 0.429 units holding other factors constant. Since the P-value of $0.007<0.05$, the null hypothesis was rejected that law enforcement strategy has no significant effect on the level of tax revenue in Kenya.

The findings are consistent with Dublin and Wilde (2018) who conducted an empirical analysis of federal tax auditing and compliance and found that there was a strong deterrence effect on non-compliance. They concluded that IRS was effectively right to direct its resources to audit conductions to enhance tax revenue. The findings by Feld and Tyran (2012) found that the tax compliance is higher on average in endogenous penalty treatment in which subjects are allowed to approve or reject the proposal of a penalty as compared to an exogenous penalty treatment where penalty is imposed by the experimenter. The main explanation why people show higher tax morale if they are allowed to vote on a penalty is legitimacy. The findings are in line with Naibei, Momanyi and Oginda (2012), study on the relationship between income size, inspection and VAT compliance on private firms that there was a higher VAT compliance level on those firms which had undergone a tax audit by KRA. 58% of the businessmen agreed that tax audits acted as deterrence on tax evasion. This in effect had a positive effect on the VAT revenues collected by KRA. Nyaga found that audit and penalty had a positive relationship with tax compliance and hence tax revenue and taxpayer service. Mararia (2014) found that penalties and fines had a significant positive relationship with tax compliance. This resulted to an overall increase in collections as penalties and fined deterred tax evasion by taxpayers.

5.1 Conclusion

The study concluded that taxpayer education strategy has a positively and significantly relationship with tax revenue in Kenya. The positive coefficient for taxpayer education strategy implied that increase in the taxpayer education strategy improved on the tax revenue in Kenya. The study concluded that law enforcement strategy has a positively and significantly relationship with tax revenue in Kenya. The positive coefficient for law enforcement strategy implied that increase in the law enforcement strategy improved on the tax revenue in Kenya.

6.1 Recommendation

The study recommends that the government should continue providing taxpayer education since it had a significant effect on tax revenue. It is expected that tax education will enable the taxpayer to understand tax laws and procedures and create a positive tax compliance attitude and should be directed towards behavioral change. Non-compliance may be unintentional, where the taxpayer is not aware of his/her tax obligations or fails to fulfill his/her tax obligations due to ignorance of tax laws and procedures; or intentional, due to the compliance attitudes.

The study found that there is a positive relationship between the expenditure by the tax authority on law enforcement and the tax revenue collected. The implication of this is that the government should continue to up its tax compliance enforcement efforts. This will help it curb tax evasion and underreporting which may lead to low tax revenue realization. Credible law enforcement is an integral part of any compliance strategy as it acts not only to deter tax evasion but also to remind taxpayers that the tax collector is working to maintain the fairness of the tax system by ensuring that all pay their fair share. Administration begins with the law in place. The law represents a component of the context or environment in which a revenue authority operates and it is from this environment that we discern the compliance risks associated with the administration of the law.

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