An Assessment of Performance of Government Bodies and Securing Revenue Collection by Kenya Revenue Authority in Nairobi City County, Kenya

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ABSTRACT
The economic security of any country is contingent on the collection of revenue to help in sustaining the development along with the expenditures incurred by the government. Securing revenue collection helps in development of a country. This notwithstanding, performance of government agencies is a major threat towards securing adequate revenue collection in both the developed and developing countries. It is on this premise that this study explored the nexus between performance of government bodies and securing revenue collection by the Kenya Revenue Authority. The study was anchored on the Multiple Indicator Multiple cause model with a cross sectional research design being employed. The study targeted 110 respondents from informal businesses within the Nairobi North region, particularly Buruburu, Kariobangi South, and Roysambu with a sample size of 290 picked through random sampling technique. These regions have a high concentration of informal businesses which ultimately contribute to the underground economy. And for the case of validity report, the study engaged KRA officials using purposive sampling method. The study used questionnaires whose validity was ascertained through use of experts' opinion and that of the supervisor, with reliability test being ascertained through use of Cronbachthe data was collected using questionnaires, which were coded and analysed using SPSS. With a response rate of 77% and Cronbach's Alpha of 0.65, the data employed in the study was deemed to be fit and reliable to conduct the analysis. The regression model indicated that performance of government bodies affect KRA's processes involved in securing revenue collection.
Keywords: Economic security, Revenue collection, Taxation, Shadow economy

I. Background of the study

Global nations have encountered numerous challenges in the design and development of a secure revenue collection system. The shadow economy is mainly successful in the informal settings dud to the inability of the government to control such sectors and ensure tax remittance. For instance, EY (2020) points out that 86% of the African population work in the informal sector. Although the informal sector does not necessarily portray the shadow economy, they create an enabling environment for the success of the underground economy. Osmani (2015) agrees with this notion and argues that a strong shadow economy is associated with weak tax revenue collection as well as poor delivery of services to the public. Organizations in the shadow economy undermine the existing government regulations and are non-compliant to the existing tax revenue requirements. Maritim (2017) further note that tax collection from the informal sector in Kenya is below expectation, hence affecting the security of the Kenyan tax revenue collection system. As such, the security of the revenue collection process is undermined and ultimately the ability of the government to deliver crucial services. Notably, secure revenue collection is dependent on other external actors, and hence is the dependent variable in the study.

The presence of an excess tax burden on businesses has encouraged the growth of the shadow economy and threatened secure tax revenue collection. According to Maritim (2017), the informal sector evades the payment of taxes due to the perception of taxation as a burden, as well as excessive taxation by the government. For instance, out of the 18 million voters in the 2017 general elections, only 2.5 million Kenyans filed taxes

with KRA within the same period (Maritim, 2017). This shows the high number of people in the shadow economy due to the high tax burden. Government attempts to formalize the informal sector as a way of reducing the tax burden on few individuals has experienced backlash and failure to capture a wide number of the population within the tax base (Maritim, 2017). Tax burden ultimately affects secure revenue collection within a nation, and hence is treated as an independent variable.

The performance of the respective government agencies tasked with revenue collection has affected the security of revenue collection. The stringent government regulations and policies have contributed to the growth of the shadow economy by creating barriers to formalization of such entities. For instance, FKE (2021) opines that existing regulatory requirement have created barriers to formalization of the informal sector (and the shadow economy in Kenya). Such barriers include high cost of compliance with tax regulations, cost of social security regulations, and stringent labor laws (FKE, 2021). In the same manner, the performance of government agencies and sectors has affected the formalization of businesses, hence encouraging the growth and success of the shadow economy. For instance, the lack of conformity between the tax requirements within county governments and county governments is a major challenge that has affected revenue collection and compliance of small businesses (FKE, 2021). The complexity of the tax administration process has further affected secure safety collection within the nation. Evidently, government regulations and performance of government agencies are key independent variables that affect the secure revenue collection from the shadow economy.

1.2 Statement of the Problem
Scholars have acknowledged the role of macroeconomic data in effective decision-making. Qureshi (2020) acknowledges the importance of data in enhancing the economic security of nations, including addressing socio-economic challenges. One of the major economic challenges facing developing nations, including Kenya, is lack of adequate tax revenue that can support the national budget while still ensuring the sustainable development of the nation (EY, 2020). This inadequate revenue has led to a skyrocketing borrowing that has threated the development of Kenya, since the country is now spending 63% of its revenue collection on repaying debts (Ayega, 2022),demonstrating how the government urgently needs to enhance its revenue collection to address the existing fiscal deficits and ensure sustainable growth through economic security.

The government need to expand its tax bracket by implementing various solutions, including addressing the effect of the shadow economy across the nation. Kenya has failed to invest in Research and Development, and thus the approximated size of the underground economy may be misleading (United Kingdom Department for International Development., 2019). As such, the above scholars recommend the investment in R&D to increase the knowledge of the contribution of the shadow economy on revenue collection. Tax contribution from the shadow economy is largely dependent on the willingness and good-will of the citizens, which may differ across nations depending on the perception and view of public governance and this may result into security challenges in respect of tax administration and management. This study strived to address this research gap by providing tailored research to the Kenyan shadow economy and its threats to KRA's revenue collection capacity and the country's economic security.

1.3 Objectives of the Study
The main objective of the study was to assess the performance of government agencies and securing tax collection in Nairobi City County, Kenya.
The study was guided by the following specific objectives:
 i. Examine the KRA's ITAX system and securing tax collection in Nairobi City County, Kenya.
 ii. Examine the level of cooperation between agencies and securing tax collection in Nairobi City County, Kenya.
iii. Examine the level of institutional corruption and how its affects securing of tax collection in Nairobi City County Kenya.

1.4 Research Questions
 i. What is the KRA's ITAX system and securing tax collection in Nairobi City County, Kenya?
 ii. What is the level of cooperation between agencies and securing tax collection in Nairobi City County, Kenya?
iii. What is the level of institutional corruption and how its affects securing of tax collection in Nairobi City County Kenya?

II.   Literature Review

2.1   Theoretical Literature Review
2.1.1 The Multiple Indicator Multiple Cause (MIMIC)Model

The Multiple Indicator Multiple Cause (MIMIC) model is a common approach that considers the various causes of the underground economy and the impact of the underground economy on other sections of the economy. The economic application of the MIMIC model in estimating the shadow economy and its impact can be attributed to the works of Frey and Weck-Hannemann (Alkhdour, 2011). The pioneers of the model relied on the previous work by other scholars such as Goldberger and Zellner (1975) (Alkhdour, 2011). Likewise, Frey and Weck-Hannemann(1984) utilized the MIMIC model to assess the relative development and size of the underground economy among the OECD nations (Alkhdour, 2011). The scholars found that tax burdens, regulation, and tax ethics were the principal determinants of the underground economy in those nations (Alkhdour, 2011). Other scholars have expanded the application of the MIMIC model and identified other drivers of the shadow economy and resultant implications of the underground economy.

The model, as explained by Omodero (2019), makes the use of both the discreet and visible variables causing shadow economy and the resultant impact of the underground economy. Alkhdour (2011) further claims that the MIMIC model makes the use experiential variables to approximate the value of an unobserved (latent) variable. The latent variable in the case of the MIMIC model is the ratio of the underground economy as a proportion of the official GDP value. Despite the relevance of the model, it has received criticism by scholars, and is sometimes referred as a 'black box' due to its complexity (Packard et al., 2012). Moreover, the choice of indicator and causal variables is viewed as too subjective, hence weakening the effectiveness of the model. Nonetheless, the model is relevant since the study is not interested in the identification of the causes of KRA's secure revenue collection challenges, but rather examining the financial security threat as a result of tax evasion on KRA's performance.

2.2. Empirical Literature Review
2.2.1. KRA's ITAX system and revenue collection

The poor performance of the existing government bodies is a major contributor to the growth of shadow economy among global economies. Arsić et al. (2015) underline that the efficiency of the tax administration in the collection of taxes is an important determinant of the size of the shadow economy. An efficient tax administration system is equipped with systems and infrastructure to detect tax evasion, thus limiting the popularity and size of the shadow economy, and the vice-versa also holds (Arsić et al., 2015). Opue et al. (2019) concur with the above arguments and indicates that the inefficiency of tax administration agencies ultimately encourages the growth and popularity of the shadow economy. In order to support the above claims, Opue et al. (2019) uses the example of the shadow economy in Nigeria as a result of smuggling of products from Benin. One of the contributors for this unhealthy trend is the high costs associated with clearing goods at the port as well as the laxity of enforcement and anti-smuggling officials. Furthermore, the laxity of the police service in the implementation of the tax revenue regulations, including prevention of illegal trade has affected secure revenue collection. For instance, the importation of contraband goods along the porous Kenyan borders due to laxity of the police service has significantly affected secure revenue collection by the government (KRA, 2020).

The above line of thought underlines the need to enhance efficiency in public organization to consider the popularity, or rather, the attractiveness of the shadow economy. The inefficiency in the key government bodies charged with revenue collection and other key tasks have contributed to the growth and expansion of the shadow economy across the globe. As such, addressing this inefficiency can play a key role in reducing the size of the shadow economy. Salahodjaev (2015) acknowledges the role of investment in intelligence to enhance government competency, knowledge, and regulatory authority. According to Salahodjaev (2015), intelligence is negatively correlated with shadow economy. As such, investment in intelligence can boost the availability of data of the market as well as tax evasion practices by businesses and individuals. Khujamkulov (2017) echoes similar sentiments and indicates that the presence of a large share of the shadow economy in GDP and corruption indicate the existence of weak administrative and judicial institutions. According to Khujamkulov (2017), high quality effective institutions are paramount for the development of an efficient and effective tax collection system. Such systems should be shielded from political influence to guarantee their success and ability to formalize the economy. Khujamkulov (2017) further notes that the government institutions should be independent, make use of prudent macroeconomic and fiscal policy, demonstrate integrity, transparency, and accountability, and offer equal access for all stakeholders. The presence of an efficient system will ensure that all bottlenecks and loopholes are addressed to avoid tax evasion and increase tax revenue collection.

2.2.2. Cooperation between agencies and revenue collection

The performance of government agencies has further escalated the challenges facing KRA's tax secure revenue collection. For instance, the enforcement capacity of tax administration agencies, including KRA is dependent the accuracy of data obtained from other agencies such as KNBS. The presence of a sizable shadow economy possesses a significant threat to the revenue collection agency in terms of predicting amount of revenue that can be collected as well as attaining the set revenue targets. According to Opue et al. (2019), the underground economy has a substantial negative impact as it produces false signals and persuades policy makers as insufficient macroeconomic indicators. Consequently, any macroeconomic policy on unemployment, the tax approach, savings, inflation, productivity, social security, and competitiveness is weak (Opue et al., 2019). This underlines the interdependence of government agencies and how the inefficiency in one sector ultimately affects the operational efficiency of other entities. The above notion is supported by the Malalo's (2018) findings which illustrate how agencies at the Kenya Bureau of Standards (KEBS) have resulted in loss of tax revenue from the import of fertilizer products. As such, the efficiency of tax administration agencies also relies on the efficiency of other organizations in providing relevant data and enforcing industry-wide regulations. The lack of administrative efficiencies escalates the threat of the shadow economy on secure revenue collection. Implementation of measures to encourage tax compliance and formalize the economy can help address the administrative bottlenecks. The use of a proactive model in tax administration is vital in ensuring tax remittance and avoiding the success of the shadow economy. One of the proactive measures highlighted by Arsić et al. (2015) include the introduction of stringent regulations, including penalties for tax evasion.

2.2.3. Institutional Corruption and revenue collection

Corruption within the tax administration system is a major factor that ultimately determines the size and success of the shadow economy in any nation. According to Nˇemec et al. (2021), corruption manifests itself during the application of tax laws, particularly tax administrative laws. Baklouti and Boujelbene (2020) concur with the above school of thought and underlines the existence of a correlation between shadow economy, corruption, and economic growth. Corruption within the government agencies encourages the growth of shadow economy, which ultimately decreases the economic growth of a nation (Baklouti&Boujelbene, 2020). Furthermore, Baklouti and Boujelbene (2020) postulate that the shadow economy magnifies the impact of corruption on economic growth. Moreover, Arsić et al. (2015) take a different angle and demonstrates how corruption disincentivise taxpayers from remitting taxes based on the impression that the taxes will not be used to finance the public sector. Likewise, Popescu et al. (2018) offer similar observations and points out that bribery, corruption, and lack of trust in public officials ultimately encourage the growth of the shadow economy and tax avoidance. As such, corruption further enhances the inefficiency in the revenue collection agency and affects the willingness of taxpayers to disclose their revenue and remit taxes.

Corruption is a major contributor of the inefficiency of the government agencies tasked with the administration, monitoring, and enforcement of existing tax measures. However, corruption possess a major threat to the operational efficiency of the key governmental organizations. The study demonstrates the existence of a correlation between corruption, shadow economy, and economic growth. One of the approaches that can help overcome the negative correlation between shadow economy and secure revenue collection is addressing corruption in government agencies and institutions (Baklouti&Boujelbene, 2020). The investigation by Baklouti and Boujelbene (2020) suggest that the reduction in corruption will lead to a decrease in the size of the shadow economy as well as reduce the negative impact of corruption on economic growth through the underground economy. The study by Omodero (2019) further reveals the existence of a correlation between the shadow economy, corruption, and tax revenue performance; although corruption has a more profound impact on tax performance than the shadow economy. Omodero (2019) acknowledge the need to address corruption as well as identifying the root causes of the shadow economy. This approach will encourage participants of the shadow economy to formalize their business and voluntarily comply with the existing tax regulations (Omodero, 2019).

2.5 Conceptual Framework

The conceptual framework shows that the performance of governent agencies was the independent variable while the securing revenue collection was the dependent variable. The performance of government agencies was measured on the basis of KRA's itax systems, cooperation between agencies and institutional corruptio while the dependent variables was determined on the basis of planning, staffing, coordinating and directing.. Figure 1 illustrates the relationship.
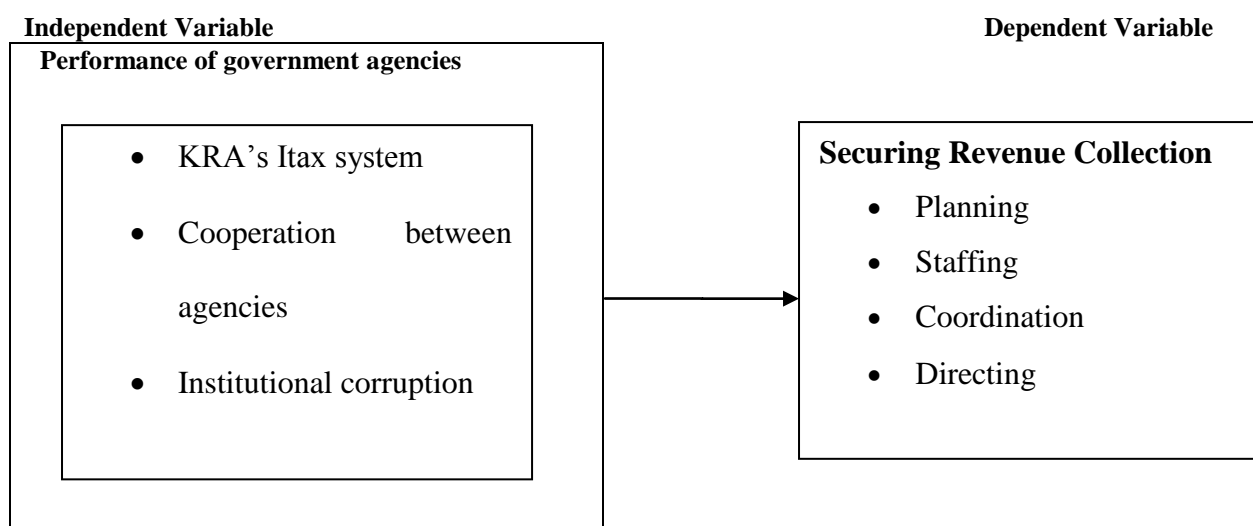
Independent Variable   **Dependent Variable**

Performance of government agencies

- KRA's Itax system
- Cooperation between agencies
- Institutional corruption

Securing Revenue Collection
- Planning
- Staffing
- Coordination
- Directing

Figure 1. Conceptual framework

III. Research Methodology

The study used an descriptive research design which involved the use of both observational and survey methods to describe the characteristics of specific individual or phenomenon (Singh, 2013). The use of the descriptive research design helped address the study questions and extend the scope of the investigation by using information from multiple sources to provide conclusive remarks regarding the effect of the performance of government agencies on taxation on secure revenue collection in Nairobi City County, Kenya.

The study targeted informal businesses within the Nairobi North region, particularly Buruburu, Kariobangi South, and Roysambu. These regions have a high concentration of informal businesses which ultimately contribute to the underground economy. The population targeted was 285 respondents within the informal sector and 5 revenue collection professionals. The sample size was arrived at using simple random sampling. Table 1 shows the population and sample size.

Table 1: Target Population and Sample Size

Organization in MSME	Respondents	%	Sampling Technique
Mitumba	27	9.31%	Simple random sampling
Kiosks (mama mboga kiosks)	38	13.10%	Simple random sampling
Kinyonzi and salons	29	10%	Simple random sampling
Butchery	15	5.17%	Simple random sampling
Retailers (physical dukas)	31	10.69%	Simple random sampling
Online Retailers	34	11.72%	Simple random sampling
Hotels and bars	16	5.52%	Simple random sampling
Cyber café	18	6.21%	Simple random sampling
Wines and spirits	33	11.38%	Simple random sampling
Automobile repair shops (mechanics and body fabricators)	18	6.21%	Simple random sampling
Electronic repair shops	12	4.14%	Simple random sampling
Hardware	14	4.83%	Simple random sampling
Total	**285**	**98.28%**	
Revenue Collection Professionals			
KRA revenue collection officers	**3**	1.03%	Purposive sampling
NMS revenue collection officers	**2**	0.69%	Purposive sampling
Total	**290**	**100%**	

Source: Researcher (2021)

Data collection was done using questionnaires. The study made use of internet-enabled data collection techniques, primarily WhatsApp and email to collect data from the target audience. WhatsApp video call were used to engage the KRA officials to confirm the validity of the study. Also, email and WhatsApp were used to send the online questionnaires to the target audience based on the preference of the study participants. The responses from the online-retailers were received using the same medium. The data was subjected to a validity and reliability tests. Validity of the research instrument was done using content validity. The test of reliability entailed the use of Cronbach's Alpha index that relating to correlation of the items set was used in respect of each of the research variable. A threshold of at least 0.7 was chosen for making decision as recommended by Lakshmi and Mohideen, (2013). The Cronbach's alpha obtained was >0.7 for all variables hence the research instrument was reliable. The model below was used;

$Y = \alpha + \beta_1 X_1 + e$

Y= Securing revenue collection

α=Constant

+β_1 is coefficients.

X_1 Performance of government bodies.

E is error term

4.0 Results and Discussion

From the outcome, there was a response rate of 77.27%. A total of 110 questionnaires were distributed and 85 were correctly filled and returned. The rate of non response was 22.73%.

4.1 Descriptive Statistics

Means, standard deviation and percentages were used in examining various aspects of performance of government tax bodies and securing of revenue collection.

Table 4.1: Performance of government agencies

Parameter	SD	D	N	A	SA	Mean	Σ
I believe the inefficiency in KRA has encouraged non-remittance of tax revenue.	24.7%	36.5%	17.6%	11.8%	9.4%	2.45	1.249
The Complexity of tax remittance using KRA's ITAX system has affected my tax remittance.	14.1%	24.7%	4.7%	35.3%	21.2%	**3.25**	1.405
Corruption in the county government and by KRA officials has made me avoid remittance of tax to KRA.	4.7%	16.5%	11.8%	42.4%	24.7%	**3.66**	1.160
The perceived corruption by the Kenyan government has reduced my tax declaration and subsequent tax remittance.	5.9%	11.8%	11.8%	45.9%	24.7%	**3.72**	1.140
The lack of cooperation between the various government agencies has contributed to non-remittance of tax revenue.	3.5%	22.4%	12.9%	41.2%	20.0%	**3.52**	1.151

SD- Strongly Disagree   A-Agree   N-Neutral   A-Agree   SA-Strongly Agree
Source: Survey Data (2022)

From the study finding in Table 4.1, the sampled respondents disagreed that the inefficiency in KRA has encouraged non-remittance of tax revenue. (Majority disagreed at 36.5%) and the mean for the respondents sampled was 2.45 representing a response between disagree and neutral which was varied (std dev=1.249). This contravenes the findings made by Arsić et al. (2015) suggesting that the efficiency of the tax administration in the collection of taxes is an important determiner of the size of the shadow economy. Likewise, the participants offered different views regarding the how the performance of government bodies has affected revenue collection, but majority acknowledged that the performance of KRA has significantly improved tax revenue collection, and by extension, safe revenue collection. The interviewees opined that KRA plays an integral part in the collection of tax revenue across the country and on behalf of the county government. One of the participants opined that

"we must be commended for the exemplary work in the collection of revenue on behalf of the government. For instance, since we took over tax collection on behalf of Nairobi County government, we have managed to seal leakages and strengthen revenue collection. Also, KRA has surpassed revenue targets set by Treasury and we believe this will continue."

This finding indicated that currently, complexity of tax remittance using KRA's ITAX system has affected my tax remittance in Nairobi North Tax Region. The respondents agreed with varied opinions at 35.3% (mean = 3.25). Similarly, Arsić et al. (2015), indicated that the complexity of the guidelines to evaluate and apply taxes affects the ability of the tax. This notion is reinforced by the interviews conducted with KRA officials who acknolwdged that the complexity of the revenue collection system. One of the participants raised an issue with the tax remittance system adopted by KRA and its suitability to micro businesses. The participant opined that

"I guess KRA has also failed to take into account the actual operation of MSMEs, including the ability to register and remit tax through ITAX. This means we have eliminated such businesses from the targeted tax bracket based on the design of the system. We have to reconsider a convenient tax revenue remittance system that favours MSMEs."

Besides, with varied opinions (std.dev. = 1.160), the respondents were in agreement that corruption in the county government and by KRA officials has made me avoid remittance of tax to KRA (Mean = 3.66, majority agreed at 42.4%).Also, a majority of the respondents (45.9%) agreed that the perceived corruption by the Kenyan government has reduced my tax declaration and subsequent tax remittance (std. dev = 1.140, mean = 3.72).In the same manner, the participants opined that the collection of revenue in the city is a collaborative effort between various stakeholders, including county government workers. The poor performance of county workers significantly impairs the revenue collection by KRA, particularly in the collection of revenue from parking services. One participant opined that

"the efficiency of KRA is also dependent on the operational efficiency of other government organs. The failure of entities such as NMS affects the ability to meet the projected revenue over a certain period."

Likewise, the interviewees argued that the overall operation of the government, including Nairobi County Government, NMS, and national government is a major factor that affects tax revenue collection. One participant opined that

"corruption within the national and county governments has significantly affected voluntary tax remittance by MSMEs and individuals. This has affected our ability to collect revenue from the informal sector."

These findings align with Nˇemec et al. (2021), who argued that corruption manifests itself during the application of tax laws, particularly tax administrative laws. In addition, the key informants from KRA highlighted those cases of corruption within the government and its agencies tend to discouragetaxpayers from remitting taxes based on the impression that the taxes will not be used to finance the public sector.Lastly, the results show that the respondents, with varied opinions agreed that lack of cooperation between the various government agencies has contributed to non-remittance of tax revenue. (Majority agreed at 41.2% with a mean of 3.52). This aligns with the literature, in that, the lack of synergy especially in administrative efficiencies escalates the threat of the shadow economy on secure revenue collection. Arsić et al. (2015) proposes the introduction of stringent regulations, that will to encourage tax compliance and formalize the economy can help address the administrative bottlenecks.

4.2 Inferential Statistics
Inferential analysis was conducted to establish the nexus between performance of government agencies and securing of revenue collection in Nairobi City County, Kenya. The results of this analysis are presented in Table 4.2 to 4.4.

Table 4.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.229[a]	.052	.041	.55081

a. Predictors: (Constant), Performance of government agencies

Source: Research Finding (2022)

To ascertain the relationship between the independent variable (performance of government agencies) and securing tax collection, the dependent variable, regression analysis is performed. The model summary shows that there is only a weak correlation (R = 0.229) between the variables. While only 0.52% of changes in the dependent variable may be detected in the independent variable, $R^2 = 0.052$ indicates that this is the case.

Table 4.3: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.387	1	1.387	4.573	.035[b]
	Residual	25.182	83	.303		
	Total	26.569	84			

a. Dependent Variable: Secure Revenue Collection

b. Predictors: (Constant), Performance

Source: Research Finding (2022)

Basically, the ANOVA is used to evaluate the model being used in the study and to establish whether there is a significant correlation between the independent variable (performance of government bodies) and the dependent variable (securing tax collection). It does so by assessing whether the coefficient of determination value is significantly different from an R-square value of 0. The ANOVA table indicates that F $(1,83)$ = 4.573 and the P=0.035 which is less than 0.05 meaning the coefficient of determination value is significantly different from an R-square value of 0.

Table 4.4. Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	**Std. Error**	**Beta**		
1	(Constant)	2.820	.386		7.309	.000
	Performance	.246	.115	.229	2.139	.035

a. Dependent Variable: Secure Revenue Collection

Source: Research Finding (2022)

Based on the findings in Table 4.4, the effect of performance of government agencies on securing revenue collection was statistically significant based on the p value of 0.035.

Table 4.4 results into the following regression model;
$Y = 2.820 + 0.246X_1 + \sum i$
Where: Y is the Securing revenue collection
X_1 is the performance of government agencies

IV.   Conclusion and Recommendations

Conclusion

The performance of the government agencies was also a point of interest in the research. On that note, the findings revealed that the sampled respondents disagreed that the inefficiency in KRA has encouraged non-remittance of tax revenue. To them, they feel like the taxman is already doing the most in collecting tax from them a therefore, had he been termed as inefficient, it would mean that more tax will be collected. However, Arsić et al. (2015) note that the inefficiency of tax administration is a huge contributor to the low tax remittance. The KRA officials revealed that the current tax system has contributed to the prevalence of the shadow economy in Kenya. Besides, with varied opinions (std.dev. = 1.160), the respondents were in agreement that corruption in the county government and by KRA officials has made me avoid remittance of tax to KRA (Mean = 3.66, majority agreed at 42.4%). The informants also agreed that corruption and government inefficiencies ultimately discourage voluntary tax remittance and encourages the growth of the shadow economy. One participant opined that corruption within the national and county governments has significantly affected voluntary tax remittance by MSMEs and individuals. This has affected our ability to collect revenue from the informal sector.

Policy Recommendations

The study acknowledges that among these factors, the issue of tax burden and poor performance by the government agencies are the main ones that hinder secure tax collection. As such, it is important for the government to ensure that the tax structures are clear, easy to understand and transparent to encourage maximum declaration and remittance by the public. On that note, this study recommends that;
1.   The government should educate the public on the importance of paying taxes, how to pay taxes so as to enhance compliance levels.

2.	The taxation systems should be designed in simple ways that minimise complexity and also smoothen the registration and verification of taxpayers

3.	The government should encourage businesses to formalise their operations by reducing the regulations, high taxes and offering incentives such as low-rate loans to official businesses. This will help reduce the number of businesses operating in shadow economy.

4.	Further research should be done in establishing new ways to help the government trace businesses operating in shadow economy.

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