FACTORS THAT INFLUENCE THE PROCESSING OF TAX REFUNDS AT KENYA REVENUE AUTHORITY

BY

WYCLIFFE KYENZE MUNYALO

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Munyalo, Wycliffe Kyenze
Factors that influence the processing of tax
DECLARATION

This project is my original work and has not been presented for a degree in any other university or for any other award.

Signature: ___________________________ Date: 13/10/11

WYCLIFFE KYENZE MUNYALO

This research project has been submitted for examination with our approval as university supervisors:

Signature: ___________________________ Date: 13/10/2011

MR. J. THEURI
Department of Accounting and Finance

Signature: ___________________________ Date: 28/07/2011

MR. A. THUO
Department of Accounting and Finance

This research project has been submitted with my approval as the Chairman of the department

Signature: ___________________________ Date: 24/11/2011

MR. F. NDEDE
Department of Accounting and Finance
DEDICATION

This project is dedicated to my family.
ACKNOWLEDGEMENT

My thanks go to the Almighty God for giving me the opportunity to undertake the MBA course.

My sincere appreciation and gratitude goes to my Supervisors Mr. J. Theuri and Mr. A. Thuo for their guidance and support.

Special thanks and profound appreciation goes to my family for their patience, understanding and support during the entire period.

I also thank my colleagues and the administration of Kenya Revenue Authority for allowing me to undertake the course.
**ABSTRACT**

Taxpayers complain that tax refunds process is long and tedious. Delay in tax refunds payment has led to businessmen and traders accusing KRA of being quick to collect tax, but slow in refunding. KRA has in the recent past put in place several measures to ensure that tax refunds are timely processed and paid. These measures are geared to accelerating tax refund processes. However, this has not been the case, and majority of taxpayers have to wait for up to five years before receiving tax refunds (Hira, 2011). The purpose of this study was to identify the factors that influence the processing of tax refunds by Kenya Revenue Authority (KRA) and which if addressed would lead to an improvement in the process. Descriptive research design was adopted with a focus on both qualitative characteristics and status of tax refund process at Kenya Revenue Authority. The target population was 90 staff involved in processing refunds in three departments namely the Domestic Taxes Department, Customs Services department and Finance department. A sample of 45 respondents (50%) was selected using stratified random sampling technique and interviewed based on a semi-structured questionnaire. The data collected was analyzed using both qualitative techniques (especially content analysis) and quantitative techniques (especially descriptive statistics and correlation analysis) with the aid of the SPSS package. The report is presented in terms of tables. The results of descriptive analysis showed that the speed of tax refund processing was good (mean = 3.2561). The results also showed that the funding was inadequate (mean = 1.50), the audit and compliance checks were inadequate (mean = 2.4146); the information technology used was inadequate (mean = 2.4634); while the staff was considered to be inadequate to carry out the work (mean = 2.4544). The results of correlation analysis further showed that all the four factors had a significant positive influence on tax refunds. Treasury funding (R = 0.790, p = 0.000); audit and compliance (R = 0.933, p = 0.000), information technology (R = 0.594, p = 0.000) and staff adequacy (R = 0.725, p = 0.000). The study concludes that though the Treasury has been consistent in funding the Kenya Revenue Authority for monthly settlement of tax refunds, the funding is inadequate as it does not enable the Kenya Revenue Authority to settle all the tax refund arrears. The results further lead to the conclusion that in as much as the Kenya Revenue Authority performs regular audit and compliance checks for all the tax refund claims, these audits are inadequate. The study also concludes that despite the adoption of information technology by the Kenya Revenue Authority in the processing of tax refunds, this technology is inappropriate. Lastly, the study concludes that the staff deployed to process tax refunds is inadequate but competent. The study recommends that the Treasury should increase the monthly provisions for tax refunds. Secondly, the Kenya Revenue Authority should perform post-audit compliance checks. The KRA should also automate all sections that deal with tax refunds. The KRA should also post additional staff to the tax refunds sections in order to speed up the process as the staff currently deployed in these sections is inadequate. If possible, KRA should separate revenue collection function from the processing of refunds. More studies need to be carried out in this area especially to find out what other factors might influence processing and payment of tax refunds.
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ACRONYMS AND ABBREVIATIONS

CIF  Cost, Insurance and Freight
COMESA  Common Market for Eastern and Southern Africa
CSD  Customs Services Department
DTD  Domestic Taxes Department
EFT  Electronic Funds Transfer
HR  Human Resource
IMF  International Monetary Fund
IT  Information Technology
ITMS  Integrated Tax Management System
KAM  Kenya Association of Manufacturers
KRA  Kenya Revenue Authority
NTA  National Taxpayers Association
PAYE  Pay As You Earn
SPSS  Statistical Package for the Social Science
TPB  Theory of Planned Behavior
VAT  Value Added Tax
CHAPTER ONE

1.0: INTRODUCTION

1.1: Background

This section presents the background of the problem. The section focuses on the types of taxes collected by the Kenya Revenue Authority (KRA); the tax refund process, refund problem, challenges and measures taken by the government of Kenya to resolve such challenges.

1.1.1: Taxes Collected by Kenya Revenue Authority

The Kenya Revenue Authority (KRA) collects various taxes in order to provide revenue to the government for various government expenditures. These taxes include value added tax (VAT), income tax, and customs duties and taxes. VAT is a cumulative consumer tax on the supply of goods and services by way of business and also on the importation of goods and services whether by way of business or otherwise (Nyamuga, 2001). Furthermore, it is a multi-stage tax collected, in the case of goods, at all stages in their passage from raw material to the finished products throughout the chain from the primary producer, manufacturer, wholesaler, retailer and eventually the final consumer, who is the general public upon whom the entire burden of this tax falls. In the case of services it is chargeable when the service is rendered. According to Hinricks (1966) VAT is charged for the supply of all goods and services in Kenya in the course of furtherance of a business and on the importation of all goods and services into Kenya.

Income tax is charged in respect of gains or profits from a business, employment or services rendered, right granted to another person to use or occupation of property, dividends and interest, pension, charge or annuity, withdrawal or payments out of a registered pension fund or a registered provident fund (Income Tax Act Cap 470). According to National Taxpayers Association (2011), there are various methods of collecting income tax, which include: (a) Pay As You Earn (PAYE), (b) Corporate Tax, (c) Withholding Tax, (d) Instalment Tax, (e) Advance Tax, (f) Turnover Tax, (g) Presumptive Income Tax, and (h) Capital Gains Tax.
Customs duties and taxes are collected under the provisions of the East African Community Customs Management Act, 2004 and the Customs and Excise Act Cap 472 laws of Kenya. An Excise tax is a levy that is applied selectively on particular goods and services. The tax may be applied to either production or sale, to domestic output or imported. The tax is directly paid by the manufacturers, but the tax burden is passed to the consumers through an increase in prices. Kenya’s main excisable commodities at the moment are soft drinks, alcoholic beverages, tobacco, fuel and motor vehicles. Other excisable commodities are plastic bags and importation of second hand computers. Excisable services mainly include mobile telephone services and gambling. Other than on motor vehicles, excise taxes on beer, cigarettes and petroleum are currently charged on a specific basis, i.e. per volume or quantity (NTA, 2011).

1.1.2: Tax Refunds Process

According to the VAT Act Cap 476, VAT refunds apply where taxable goods manufactured in or imported into Kenya are subsequently exported or where tax has been paid in error. The taxpayer is expected to lodge a refund claim with KRA within twelve months from the date the tax became due and payable. Where Income taxes and Custom duties are paid in error or in excess of the due amounts, the taxpayer is supposed to apply for refund from the revenue Authority. KRA settles tax refunds on a first in first out basis. However, VAT returns must be subjected to audit. According to Nyamuga (2001), VAT refund process has several procedures that take approximately 3 days and costs a minimum of Kshs 900, and involve physically visiting KRA headquarters at Times Tower, Nairobi. The taxpayers can wait up to a maximum of five years before KRA refunds the taxes (Hira, 2011). Income tax returns must be processed and screened before any refund is undertaken (DTD Procedures Manual, 2010). Tax refunds under Customs Services are handled on case basis. However, KRA must satisfy itself that the said tax was paid in excess (CSD Procedures Manual, 2010).

According to Nyamuga (2001), the VAT refund section is faced with an increasing volume of refunds backlog which it has to control within the mandate given by the government and to the expectation of the society. Anami (2010) also notes that the issue
of VAT refunds has been a recurrent problem for traders as Kenya Revenue Authority has never been able to promptly act on refunds. Waithaka (2010) notes that the issue of tax refunds has been prominent, with investors crying foul due to the overwhelming delays by the Kenya Revenue Authority in processing the refunds. However, KRA claims that fake claims have in the recent past been lodged for the tax refunds, hence the need to come up with stringent audit measures in a bid to ensure validity of the refunds (Financial Journal, 2010). This has in turn resulted into unwarranted lengthy, tedious and time consuming tax refunds processes impacting negatively on the operations of the businesses (Waithaka, 2010).

The Government has not yet brought about policies that can successfully govern management of the tax refund issues. President Kibaki in 2008 directed KRA to speed up payment of VAT refunds, running into billions of shillings by setting a period of 60 days within which KRA was to settle all unpaid VAT refunds. However, three years on, delays in VAT refunds still run into billions of shillings. In response, KRA has developed a system that enables classification of claims into low and moderate risk, which are paid without, and prior to audit. KRA also increased monthly provision for VAT refunds from Kshs. 1 billion to Kshs. 1.18 billion (Financial Journal, 2010). Another attempt to curb the problem was the introduction of electronic filling for VAT by KRA which was expected to automate the payment process and enable companies to make book entries. But despite these bold measures, tax refund problems are still prevalent. The backlog in processing tax refunds for the period 2007 to 2010 is depicted in table 1.

Table 1.1: Tax Refunds Backlog

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding Tax Refunds in Kshs</td>
<td>8,022,259,604</td>
<td>3,828,643,952</td>
<td>5,527,171,982</td>
<td>8,177,550,945</td>
</tr>
</tbody>
</table>

Source: KRA (2011)
1.2: Statement of the problem

There was an estimated Kshs 6 billion VAT refunds backlog owing to the red tapes in processing the refunds (KAM, 2008). Delay in VAT refunds payment has led to businessmen and traders accuse KRA of being quick to collect tax, but slow in refunding. According to KAM (2008) this has exposed firms to liquidity constraints. Kenya Revenue Authority owed oil marketers in excess of Kshs 2 billion in tax refunds accruing from payments for fuel exported, duty-free sales in Kenya, suspended duties and Gross Payment Accounts (Senelwa, 2006). Most taxpayers have to wait for up to five years before receiving tax refunds (Hira, 2011).

In the recent past KRA has put in place several measures to ensure that more tax refunds are timely processed and paid. These include requesting for additional funding from Treasury, staff training, adequacy and motivation, introduction of tax audit and compliance checks and use of information technology. However, an assessment of the impact of these measures on accelerating tax refund processes has not been carried out. Therefore there is need to determine the factors affecting the tax refund process.

The researcher is not aware of any research encompassing all tax refunds. Existing studies have researched on VAT productivity by estimating its elasticity and buoyancy (Auriol & Warrters, 2005; Thirsk, 1995; Keen & Mintz, 2004; Musgrave, 1998). Others have focused on tax administration (Keen et al., 2001; Chen, 2005; Hines, 2004). Studies on VAT carried out in Kenya includes implication of tax reforms (Osoro, 1993); tax reform and revenue mobilization in Kenya (Muriithi & Moyi, 2003) and the most recent study by Karingi et al., 2005 focused on tax reform experience in Kenya. Therefore, the purpose of this study is to determine factors that influence the processing of tax refunds by KRA.

1.3: Objectives of the study

1.3.1: General objective

The main objective of this study was to determine the factors that influence the processing of tax refunds at Kenya Revenue Authority.
1.3.2: Specific objectives

The study sought to:

i. Establish the extent to which funding by the Treasury influences processing of tax refunds.

ii. Determine the extent to which audit and compliance checks influence processing of tax refunds.

iii. Determine the extent to which information technology affects processing of tax refunds.

iv. Establish the influence of staff adequacy on processing of tax refunds.

1.4: Research questions

This study sought to answer the following questions:

i. To what extent does funding by the Treasury influence processing of tax refunds?

ii. What is the extent to which audit and compliance checks influence processing of tax refunds?

iii. What is the extent to which information technology affects processing of tax refunds?

iv. How does staff adequacy influence processing of tax refunds?

1.5: Significance of the study

This study will be invaluable to a number of stakeholders. First, the management of KRA will find this study useful as a point of reference as far as assisting in decision making regarding improving the tax refund process. KRA Management will use the study to design strategies aimed at streamlining the tax refund process.

The Government agencies and especially the treasury will find this study useful as concerns the impact that funding has on processing of tax refunds in Kenya. This will remind the Treasury of its role on tax refund process and help it devise measures that ensure timely release of funds for refunds.
If the recommendations of this study are put into practice by the relevant authorities, the taxpayers stand to benefit a great deal from an improved tax refund process.

The students, researchers, policy makers, scholars and the academicians will find this study a useful guide in as far as further discussions or studies on the same are concerned. It will therefore form a basis of further research from interested individuals on the subject of tax refunds processing and payment.

1.6: Scope of the study

The study focused on factors that influence the processing of tax refunds at Kenya Revenue Authority (KRA). The Domestic Taxes Department (DTD) is mandated to administer the provisions of the Value Added Tax Act Cap 476 and the Income Tax Act Cap 470 of the Laws of Kenya. Customs Services Department (CSD) is mandated to administer the provisions of the Customs and Excise Act Cap 472 and the East African Community Customs Management Act, 2004. The study will target tax refunds at Domestic Taxes, Customs Services and Finance Departments of KRA.

1.7: Limitations of the study

Time and budgetary constraints did not allow the researcher to carry out an extensive and exhaustive research. Some of the respondents in KRA did not cooperate by responding to the questionnaires and providing information that was required.
CHAPTER TWO

2.0: LITERATURE REVIEW

2.1: Introduction

This chapter presents a review of literature on taxation and tax refunds in general. First, the theories related to the issue of taxation are discussed. Secondly, an empirical review of the studies on taxation and tax refunds are presented. Then a summary of the review is made where the gaps in literature to be filled by this study are identified.

2.2: Theoretical review

2.2.1: The theory of optimal taxation

The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. The literature on optimal taxation typically treats the social planner as a utilitarian: that is, the social welfare function is based on the utilities of individuals in the society. In its most general analyses, this literature uses a social welfare function that is a nonlinear function of individual utilities. Nonlinearity allows for a social planner who prefers, for example, more equal distributions of utility. However, some studies in this literature assume that the social planner cares solely about average utility, implying a social welfare function that is linear in individual utilities (Mankiw et al., 2009).

To simplify the problem facing the social planner, it is often assumed that everyone in society has the same preferences over, say, consumption and leisure. Sometimes this homogeneity assumption is taken one step further by assuming the economy is populated by completely identical individuals. The social planner’s goal is to choose the tax system that maximizes the representative consumer’s welfare, knowing that the consumer will respond to whatever incentives the tax system provides. In some studies of taxation, assuming a representative consumer may be a useful simplification. However, drawing policy conclusions from a model with a representative consumer can also in some cases lead to trouble (Mankiw et al., 2009).
Optimal tax theory addresses such questions as: Should the government use income or commodity taxes? Within commodity taxes, how should tax rates vary across commodities? How progressive should the tax system be? Optimal tax theory encompasses a range of models that focus on particular aspects of the tax system. These different models share three features. First, each model specifies a set of feasible taxes for the government, such as commodity taxes, and the government’s revenue needs. The models typically rule out lump-sum taxes, which would cause no economic distortion. Second, each model specifies how individuals and firms respond to taxes. That is, individuals have preferences about goods and leisure; firms have a given technology for producing goods; and individuals and firms interact in a given market structure (often perfect competition). Third, the government has an objective function for evaluating different configurations of taxes. In the simplest models, the government’s objective is to minimize the excess burden generated by the tax system while raising a set amount of revenue. The more complicated models balance efficiency considerations with equity concerns. The models that include equity are usually more concerned with vertical equity rather than either horizontal equity or the benefit principle (Gentry, 2003).

2.2.2: The classical taxation theory

For a long time, the classical taxation theory was of most importance. As a result, taxation was only granted the fiscal role of providing state revenues. Adam Smith is considered to be the father of the scientific taxation theory. In his monograph “An Inquiry into the Nature and Causes of the Wealth of Nations” Adam Smith gave a definition of the taxation system, indicating the main conditions for its formation and putting forward four main taxation principles: equity, determination, convenience and thrift of taxation administration. Smith’s work was developed later on by D. Ricardo, J. Mills, and W. Petty (MBA Knowledge Base, 2010).

All the theoretical deliberation and scientific debates of those years were focused on one singular aspect: that the execution of the taxation’s function—the provision of state revenues—is achieved on basis of the principles of equity and justice. Naturally, this theoretical approach to the nature and role of taxation changed in the course of many
decades and centuries, when economic relations became more complex and the need for the intensification of the state’s regulatory role became more stringent. As a result, new taxation theories emerged; among them there were two directions of economic thought, which had the most significant influence on the taxation policy of the countries with a developed market economy: the Keynesian and the neo-classical ones (MBA Knowledge Base, 2010).

2.2.3: Keynesian Taxation Theory

The initiator of the Keynesian taxation theory was John Keynes, who exposed its main principles in his book “The General Theory of Employment, Interest and Money,” in which he advocated state interventions in the processes of market economy regulation. According to Keynes, fast economic development must be based on a market expansion and an associated increase in consumption. As a result, state intervention is achieved at the level of effective demand. One of the main assumptions in Keynes’s theory is that economic growth is related to monetary savings only in conditions of full-employment (MBA Knowledge Base, 2010).

In the contrary case, large amounts of savings hinder economic development as they represent a passive form of income and are not invested in production; as a result the author suggested that surplus savings must be subtracted with the help of taxation. This is why the state must intervene with the purpose of subtracting income savings with the help of taxation in order to finance investments and cover state expenditures. Keynes argued that high level progressive taxation is necessary and that low tax rates lead to reduced state revenues and as a result contribute to economic instability. That is, according to Keynes taxes must play the most important role in the system of state regulation. High taxes stimulate economic activity; influence the stability of the economy and in the context of the economic system act as integrated flexibility mechanisms (MBA Knowledge Base, 2010).
2.3: Empirical review

According to Harrison & Krelove, 2005 a country’s tax refund level (in percent of gross tax collections) is influenced by a number of factors, including (1) the nature of the economy (e.g., extent to which investment generates excess tax credits, value-added of export industries, and proportion of taxable and zero-rated sales in the economy); (2) the design of the tax system, particularly the extent of zero-rating and use of multiple rates; (3) taxpayer compliance behavior and extent of tax fraud; and (4) the system and culture of the tax administration (e.g., level of corruption, capacity to detect and prevent tax fraud, and commitment to taxpayer service in meeting statutory payment deadlines).

Everything else equal, the level of tax refunds is likely to be higher in countries with more open and faster-growing economies (i.e. where there are higher export and investment shares in total economic activity), as well as in countries with modern tax systems and administration that apply self-assessment procedures and respect taxpayers’ rights, including minimizing tax compliance costs. Conversely, refunds will be lower where countries have adopted specific schemes to reduce the number and size of refund claims, and include such measures as zero-rating supplies to exporters, and deferring tax liabilities on imported capital equipment. Finally, refund levels will also be lower in countries where tax administrations and treasuries deny refund claims during periods of government cash shortages (Harrison & Krelove, 2005).

Most countries have statutory deadlines for payment of VAT refunds. A common feature of VAT laws is to impose a deadline on the tax authority to pay refunds within a prescribed period starting from the time a claim for a refund is made. Policy makers have often advocated that, to make the operation of the VAT fair, the same tight statutory timetables imposed on persons paying VAT should also apply to tax authorities refunding VAT. Another argument in support of statutory deadlines is that they help reduce corrupt practices, the rationale being that if the law requires prompt refunding (and this is properly enforced), tax officials will have less opportunity to extract payments from traders in return for speeding up refunds (or indeed paying them at all) (Harrison & Krelove, 2005).
Tax officials invariably argue that overly tight deadlines place them at a disadvantage in dealing with evasion and fraud because they need sufficient time to monitor claims and conduct verification checks on suspect cases. In setting deadlines, it is therefore necessary to strike a balance between the time needed by authorities to safeguard the system and the time standards that are acceptable to the trade community. In addition to statutory deadlines, some tax authorities reinforce their commitment to timely refund processing by publishing service standards in taxpayer charters and similar public documents (Harrison & Krelove, 2005).

Statutory deadlines are often not met. Despite the preponderance of statutory time limits and administrative performance standards, experience is that these are often insufficient in guaranteeing that timely refunds will be made. This may be due to weaknesses in the refund processing system, or because the government faces short-term cash shortfalls. There are many examples where tax authorities do not meet processing deadlines, and while this is more likely to be the case in developing and transitional countries, it is not confined to them. It is not uncommon for business enterprises in advanced economies, also, to complain about the time taken by tax administrations to refund amounts due to them.

Recently, Ivanovic et al., 2006 conducted a study on combating corruption in revenue administration with a specific focus on VAT refunds in Bolivia. Following a relatively successful anti-corruption reform initiative on value added tax refunds in Bolivia, this study identifies opportunities for corruption, produces measurable indicators and recommends methods and strategies to combat corruption in the revenue sector.

Beverly et al., 2006 did an empirical test on splitting tax refunds and building savings. The authors document the demand for these services, the characteristics of those who sought to participate, the savings goals of those who participated, the immediate savings generated by the program, and the disposition of savings a few months after receipt. This study suggested that there may be demand among low-income families for a refund-
splitting program that supports emergency needs as well as asset building, especially if a basic savings product is available to all at the time of tax filing.

A study by Souleles, 1999 sought to determine the response of household consumption to income tax refunds. The study found significant evidence of excess sensitivity in the response of households' consumption to their income tax refunds. Further, some of the sources of this sensitivity were identified. In particular, liquidity constraints appear to play an important role, because the nondurable consumption of constrained households increased at the time of refund receipt, far more than for unconstrained households. However, more than liquidity constraints are at play, because durables expenditure by the unconstrained also responded substantially; and the response of non durables extended later into the year, after refund receipt. Furthermore, the response in durables by the unconstrained is not easily explained by standard models of durables or self-control, because liquid households could have brought their durables before receiving their refunds. There was also some evidence of a disproportionate response to larger refunds, counter to some views of mental accounts. Finally, instrumenting for refunds was found to decrease the power of the excess sensitivity test.

Recent research suggests a sizeable percentage of taxpayers prefer to make interim tax payments in excess of the minimum amount necessary even though it is costly in terms of forgone investment income for them to do so (Ayers et al., 1999; Jackson, 2005). The study by Bobek et al., 2007 examined the underlying reasons why taxpayers tend to make tax payments that ultimately result in a tax refund using Ajzen's (1991) Theory of Planned Behavior. Overall, the model suggested that taxpayers' attitudes (e.g., desire to avoid uncertainty or to avoid any chance of having to pay taxes with return) and subjective norms (e.g., perceptions of friends' likely advice) affect their withholding decisions. This study is important because it investigates the underlying beliefs that affect taxpayers' decision to overpay, while providing prescriptive advice to policymakers, employers, and tax professionals regarding this phenomenon.
Other research studies have proposed several explanations for why overpayment occurs including confusion on the part of the taxpayer (Jones, 1987), high transaction costs of changing withholding (Schmedel, 1997), and a forced-savings hypothesis (Cordes et al., 1992). More recently, researchers have determined that many taxpayers prefer to make interim tax payments in excess of the minimum amount necessary, even though they are aware it is costly in terms of forgone investment income for them to do so (Ayers et al., 1999).

Ajzen’s (1991) Theory of Planned Behavior (TPB) provides a comprehensive theory of the antecedents to behavior and models behavioral intention as dependent on three factors: attitude toward the behavior, subjective norms, and perceived behavioral control. Each of the determinants of behavioral intention is itself a function of an individual's salient beliefs. Many studies have validated the TPB in a variety of contexts for a wide-range of behaviors (e.g., exercise (Ajzen & Driver, 1991, Rivis & Sheeran, 2003), problem drinking (Schlegal et al., 1992, MacMillan & Conner, 2003), weight loss (Sparks et al., 1995), recycling (Taylor & Todd, 1995), and taxpayer compliance (Bobek & Hatfield, 2003)).

Most prior tax research regarding taxpayers’ prepayment position has focused on the effect of prepayment position on tax compliance (e.g. Dusenbury, 1994; White et al., 1993; Chang & Schultz, 1990; Martinez-Vazquez et al., 1992). While different theoretical justifications have been advanced (e.g., prospect theory), in general, prior research has found taxpayers are more likely to be noncompliant when they are in a tax due position, as opposed to when they are expecting a refund.

A few prior studies have addressed the overpayment issue directly. Cordes et al., 1992, examining time-series data from 1947-1984, found that taxpayers were largely unresponsive to administrative attempts to achieve a closer match between tax liability and prepayments. They found weak evidence to support the argument that taxpayers over-withheld as a means of forced savings because they lacked the will to save on their own. On the other hand, Christian et al., 1994 found little support for the “forced-
savings” hypothesis, but did find evidence consistent with a “transaction cost theory”. The transaction cost theory posits that taxpayers are over-withheld not by choice, but because of transaction cost constraints that prohibit them from accurately estimating their tax liability and/or changing their prepayment amounts. The taxpayer beliefs proposed by Cordes et al., 1992 and Christian et al., 1994 can be directly addressed by a more comprehensive model of the antecedents to this behavior.

Ayers et al., 1999 sought to address these conflicting results by investigating whether taxpayers identified a preference for being over-withheld, as opposed to over-paying as a result of confusion, ignorance or high transaction costs. In their study, they found 43 percent of the subjects who understood what the minimum required payment was, still preferred to withhold more than necessary. This preference was even greater when the actual tax liability was more uncertain. More experienced taxpayers were less likely to exhibit a preference for over-payment; and the form of the prepayment (employer withholding vs. estimated payment) was irrelevant. They did not however determine why taxpayers exhibited this preference. Several alternative explanations, however, were offered, including the forced-savings hypothesis, dread at having to pay a high tax bill at filing time, and a reference point hypothesis which suggests that taxpayers view the interim payments as a method of “covering” the tax liability and thus would be dissatisfied with being in a tax due position.

2.4: Factors that influence the Processing of Tax Refunds

2.4.1: Funding

According to IMF, 2009 some governments routinely delay the payment of refunds without proper cause and without subsequent payment of interest. In some of the cases, the delays appear to be a deliberate policy decision of using refund arrears to help achieve the government’s budget targets and cash flow objectives. In other cases, the payment arrears reflect poor administrative processes. Either way, such practices are highly counterproductive in that they aggravate taxpayers’ cash flow problems at the worst possible time and encourage them to withhold tax payments from the government.
To avoid these problems, governments should make adequate budgetary provisions for refund payments.

2.4.2: Tax Audit and Compliance

Compliance is the willingness of individuals and other taxable entities to act within the spirit as well as the letter of tax law and administration, without the application of enforcement of activity. Tax authorities need to be professional, responsive, fair, open and accountable in helping the tax payers comply with tax obligations and should also be effective in bringing to account those who intentionally avoided their obligations (Bjork, 2003).

Enforcement of tax audit rules is complicated by the many statutory records such as tax invoice, cash book and debit note, that have to be maintained. Payment of tax is done by illiterate tax payers who do not follow the required procedures and more so enforcement of the Acts requires high caliber and honest staff for continuous audit and these may not be easy to find (Simiyu, 2003).

The appropriate record keeping is very important in Tax audit administration. This is because it serves as a source of reference in the future and also in case of a disagreement arising between the client and the tax collector. KRA uses the S2005S system in its documentation. However, this system has yet to be fully activated because it lacks a module for timely data capture, causing backlog in data analysis and dissemination to various stakeholders (Owour, 2006).

Bird (1995) observed that explanation of the decline of the VAT in Ukraine lies in tax administration. Weak administration elicited low compliance and its inherent weaknesses increasingly exploited by the growing private sector to evade paying VAT. VAT evasion, the size of underground economy, and corruption are closely linked; and they lead to low VAT collection. He recommended the need for strict VAT audit and compliance checks. A recent study, for example, found a high correlation between level of evasion and the Transparency International (TI) index of perception of corruption (World Bank, 2005).
Low VAT revenue collection is associated with the high levels of evasion. "Levels of evasion at Ukrainian levels in all likelihood reflect not just weak administration but such more systematic structural problems as the prevalence of corruption and a large underground economy- implying low VAT revenue collection" (Bird, 2005).

Thomas and Michael (2005) questioned the capability of VAT to generate revenue especially for lower income countries. They identified ineffective VAT compliance as a major hindrance to VAT revenue collection. If VAT can be administered adequately, however, the conventional conclusion, that it offers the best way for a country to make up revenue losses from trade liberalization appears generally to hold: Though much more convincingly for more developed countries than for the poorer countries in which trade taxes are generally more important and alternative tax bases less accessible. The critical point is that a country must have the capacity to administer Tax adequately in terms of audit and compliance checks.

Hyun, M.Z. (2005) in a study of tax compliance in Japan and Korea, derived the model of estimating tax compliance which implied that if tax audit is strongly implemented and the penalty is increased, the level of tax compliance is increased. The study says that tax audit is one of the most effective policies to protect the behavior of tax evasion. On tax rate, he said that from theoretical model for tax compliance, it had an ambiguous effect on the level of tax compliance, this depending upon taxpayers' attitude to risk. The empirical evidence on the effects of tax rates on the level of tax compliance has been contradictory. Clotfelter's (1993) investigation of the relationship between marginal tax rates and tax evasion found that marginal tax rates have a significance effect on the amount of tax evasion.

Roberts, J (1998) suggests that to encourage compliance there is need to codify the practice of self-assessment so that it is entrenched into the existing laws. This in turn will help in developing an effective penalty provision system and in setting up progressive compliance improvement initiatives that will set in motion taxpayer awareness campaigns and sensitization programmes. Vazques (2005) notes that the manner in which
enforcement rules are determined can also influence compliance. Social norms and morals have been cited as reasons for higher compliance with the rules. Simple personal ethics based on religion or cultural norms may affect compliance behavior independently of the fiscal exchange between the government and the tax payers. The threat of detection and punishment is clearly a factor and increased enforcement leads to increased compliance.

2.4.3: Use of Information Technology (IT) in Tax refund Process
The ongoing diffusion of new IT and e-business technologies among firms is a current example of the dynamics of technological change and economic development (Koellinger, 2006). Economic theory suggests that the diffusion of new technologies can have far reaching consequences. Most fundamentally, it may change the type of products, and services that are offered and traded. It may also change the production costs of existing products. Hence, virtually all economic spheres can be affected by such changes, including innovation dynamics, productivity and growth, the development of market structures, firm performance, and the demand for (certain types of) labour. Not all new technologies will necessarily lead to disruptive or even measurable changes in any of these variables. Yet, there is good reason to believe that e-business as a technological paradigm, comprised of various tools and applications to optimise the flow and the availability of commercially relevant information based on computer networks, has such a general scope to yield a measurable economic impact.

Koellinger (2006) conceptualisation of IT as an enabler of innovation allows a market-based economic approach to study the impact of IT on corporate performance. The restructuring is important to an organization in achieving its goals. As part of the restructuring programme KRA has in the recent past invested a lot in the management information system and IT. A key area in these developments is introduction of EFT, which has enhanced VAT administration (Owour, 2006). With EFT taxpayers are supposed to deposit their VAT at selected banks. They are issued with VAT books which serve as bank deposit slips to be used for depositing VAT in the Commissioner’s bank account. These also serve as VAT 3 returns which are later sent to DTD. This has
reduced tax evasion, theft and corruption as tax officers do not receive tax money directly (Owuor, 2006). However, there is limited integrated use of IT in Tax refund process. The Integrated Tax Management System (ITMS) for domestic tax administration is being implemented; however it lacks components that enable integrative functionality for Tax refund. Therefore, the critical functions of Tax refund are still manually done, thus delaying timely reconciliation and compliance checks (Owour, 2006).

2.4.4: Staff adequacy

Hinricks (1966) studied implementation of VAT and the underlying problems. He noted that VAT is difficult to collect because of the lack of skills and facilities for tax administration. Given this, a complicated Tax structure is not feasible and the amount of revenue from it will depend on taxpayers compliance and the efficiency of the tax collector. However, he singles out VAT as an important source of government revenue during the early stage of economic development. In addition, revenue from VAT is not stable because of periodic fluctuations in the prices of private consumable goods and services. This tends to complicate planned implementation in many developing countries (Hinricks, 1966). The critical point is that a country must have the capacity (human and capital) to administer Tax adequately.

Motivation is the psychological process that gives purpose, direction and intensity to behavior. It is mainly responsible for differential work output and is the most important determinant of effective job performance (Kreitner, 1989). Kreitner further states that employee motivation or the desire to perform is the foundation of productivity improvement. The issue of employee motivation is important as it establishes a substantial foundation for high performance levels and less unproductive time.

Motivating people is about getting them move in the direction you want them to go in order to achieve a result. Motivation therefore is goal directed behavior. Cole (2004) said motivation is a process of arousing action, sustaining the activity in progress and regulating the pattern activity. It can be said to be the management of functions and inspiring subordinates so that they can perform tasks with a higher degree of enthusiasm.
It is a feeling of commitment to do something well and being prepared to get energy and effort into it. Motivation as observed from the various theories and systems can result in high work productivity, cooperation, effectiveness, overcoming work challenges, willingness of the workers to accept responsibility, few industrial disputes, etc. Lack of it, on the other hand, can lead to low performance, high absenteeism, apathy and indifference. In the case of revenue, its presence would lead to effective collection and enhanced performance.

2.5: Summary of literature

The literature has documented several studies done in this area. Notable is the cross-country survey carried out by the International Monetary Fund in 2005 which described the levels of VAT refunds, the factors that influence such level, and the process of refunds in various countries. Other empirical surveys have shown why taxpayers prefer refunds while others have shown the influence of refunds on compliance behavior as well as on savings culture by households. It is therefore clear from the review that there is lack of literature as far as the factors that influence the processing of tax refunds in developing countries, including Kenya, is concerned. This is the gap the present study seeks to bridge by analyzing the factors that influence the processing of tax refunds by the Kenya Revenue Authority.

2.6: Conceptual Framework

The dependent variable in the conceptual framework is tax refunds processing and payment while the independent variables are Treasury funding, audit and compliance, information technology, and staff adequacy.
2.5.1: Treasury funding
Treasury funding is expected to affect processing and payment of tax refunds. For instance, if the treasury offers adequate funds to the KRA, the processing of refunds would be faster. The converse is also true.

2.5.2: Audit and compliance
The Kenya Revenue Authority officials are usually expected to perform audit and compliance checks before the refunds are made. The time used to complete this task determines the speed with which processing and payment of tax refunds are made. It is expected that if audits and compliance are done on time, tax refunds would be processed on timely basis.

2.5.3: Information technology
The use of IT has been made possible due to the reforms that took place in KRA. Better use of modern technology can enhance the efficiency of processing and payment of tax refunds. KRA currently uses IT in all the departments. It is therefore expected that the
use of IT in the departments will have a positive influence on processing and payment of tax refunds.

2.5.4: Staff adequacy
If the staff is adequately deployed in the departments to focus on tax refund issues, then the processing of tax refunds and subsequent payment would be faster. Staff adequacy not only focuses on the number of staff deployed but their competence as well. The study hypothesizes that staff adequacy will have a positive influence on processing and payment of tax refunds.
CHAPTER THREE

3.0: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology adopted for the study. It presents the research design, the population, sampling technique and sample size, data collection techniques as well as the data analysis techniques.

3.2: Research design

This study adopted descriptive research design with a focus on qualitative characteristics of the Tax refunds process at KRA. A descriptive design describes the state of affairs as it exists at present (Herve, 1988). This methodology permits collection of data about variables or subjects as they are found in a social system or society (Herve, 1988). The design was deemed suitable since data was collected to answer questions concerning the current state of tax refunds at KRA. Descriptive research design enabled the researcher to determine and report the findings as they are.

3.3: Population

The population of this study was all the employees in the various tax refunds sections of Kenya Revenue Authority. The tax refunds sections are Domestic Taxes, Customs Services and Finance. Each section had 30 employees bringing the total population to 90 (KRA HR Database, 2011).

3.4: Sampling technique and sample size

Stratified random sampling method was employed to select a sample of 45 respondents from the three departments based on the categories of employees. This is shown in Table 2.
This sample size of 45 respondents is 50 per cent of the population. This is considered appropriate for the study since Mugenda & Mugenda (2003) contend that a sample size should be at least 30% of the population. Thus, the sample size used here meets the criteria.

### 3.5: Data collection techniques

Data was collected using a structured questionnaire. A questionnaire is a series of written questions on a given topic. These questions were open-ended and closed-ended. The instrument was considered appropriate for the study because all the respondents were literate. It was also less costly in terms of time, and it was more flexible for busy respondents. The questionnaire was divided into two parts. Part one was general and gathered demographic data on the respondents. Part two gathered information on factors that influence the processing of tax refunds. The questionnaires were structured in such a way as to allow respondents to express their views freely. The questionnaires were then administered by the researcher in order to capture all the issues required and also to avoid low response rates.

### 3.6: Data analysis techniques

Data analysis is the process of systematically searching, arranging, organizing, and breaking data into manageable units, synthesizing the data, searching for patterns, discovering what is important and what is to be learned. Analysis of data was done using the statistical package for the social sciences (SPSS). The data collected was coded and entered into the computer, after which analysis was done. Descriptive statistics such as percentage and mean were used to describe the data. The data was presented in the form

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heads of departments</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Supervisory managers</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>General staff</td>
<td>78</td>
<td>33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>90</strong></td>
<td><strong>45</strong></td>
</tr>
</tbody>
</table>
of tables. The mean and standard deviations for each attribute was calculated and interpreted. Further, correlation analysis was used to establish the influence of each of the factors on tax refunds processing and payment.
CHAPTER FOUR

4.0: DATA ANALYSIS AND PRESENTATION

4.1: Introduction

This chapter presents the results of the study. The chapter is organized as follows. First, the sample characteristics are presented. This is followed by the descriptive results on the factors influencing processing of tax refunds. Then the correlation results on the same are presented.

4.2: Response Rate

The results on the response rate are shown in Table 4.1. As shown, 41 out of the 45 questionnaires that were administered were filled in and returned giving a response rate of 91%. This response rate is high considering that most surveys have response rates below 50%.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
<td>41</td>
<td>91</td>
</tr>
<tr>
<td>Non-response</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2011)

4.3: Sample Characteristics

Table 4.2 shows the results on the respondents’ characteristics such as gender, age, education, experience, among other characteristics. In terms of gender, it was noted that 63% of the respondents were male while 37% were female. On their ages, 36% were aged 31-35 years, 54% were 36-40 years while 10% were 41-45 years old. Further, the study revealed that 54% of the respondents were from the Customs Services Department (CSD), 36% were from the Domestic Taxes Department (DTD) and 10% were from the Finance department.
### Table 4.2: Sample Characteristics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender of respondents</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>26</td>
<td>63</td>
</tr>
<tr>
<td>Female</td>
<td>15</td>
<td>37</td>
</tr>
<tr>
<td><strong>Age of Respondents</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31-35</td>
<td>15</td>
<td>36</td>
</tr>
<tr>
<td>36-40</td>
<td>22</td>
<td>54</td>
</tr>
<tr>
<td>41-45</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td><strong>Department of the Respondent</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSD</td>
<td>22</td>
<td>54</td>
</tr>
<tr>
<td>DTD</td>
<td>15</td>
<td>36</td>
</tr>
<tr>
<td>Finance</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td><strong>Highest Level of Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University graduate</td>
<td>37</td>
<td>90</td>
</tr>
<tr>
<td>Post-graduate</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td><strong>Length of Service in Department</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-4 years</td>
<td>15</td>
<td>37</td>
</tr>
<tr>
<td>5-8 years</td>
<td>11</td>
<td>26</td>
</tr>
<tr>
<td>Over 8 years</td>
<td>15</td>
<td>37</td>
</tr>
<tr>
<td><strong>Designation of Respondents</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deputy Commissioner</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Assistant Commissioner</td>
<td>4</td>
<td>27</td>
</tr>
<tr>
<td>Principal Revenue Officer</td>
<td>11</td>
<td>27</td>
</tr>
<tr>
<td>Senior Revenue Officer 1</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Revenue Officer 1</td>
<td>4</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Author (2011)

The results in Table 4.2 further show that in terms of the respondents’ levels of education, 90% had undergraduate degrees while 10% had post-graduate degrees. It was also noted that 37% of the respondents had worked in their departments for a period of 2-4 years, 26% for a period of 5-8 years, while 37% for over 8 years. In terms of their designations, 10% were deputy commissioners, 27% were assistant commissioners, 27% were principal revenue officers, 10% were senior revenue officers while another 27% were revenue officer 1s.
4.4: Factors that Influence the Processing of Tax Refunds

This section presents the results on the factors influencing processing of tax refunds. The results are presented based on the variables of the study.

4.4.1: Funding and Tax Refunds

Table 4.3: Whether Treasury Releases Funds to KRA Monthly for Refunds

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>41</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Author (2011)

Table 4.3 shows that all the respondents agreed that the Treasury regularly releases funds for tax refunds.

Table 4.4: Adequacy of Funds Released by the Treasury for Refunds

<table>
<thead>
<tr>
<th>Adequacy</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>11</td>
<td>26.8</td>
<td>26.8</td>
</tr>
<tr>
<td>Disagree</td>
<td>19</td>
<td>46.3</td>
<td>73.2</td>
</tr>
<tr>
<td>Neither</td>
<td>11</td>
<td>26.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Author (2011)

Table 4.4 shows that 27% of the respondents strongly disagreed that the funds released by the Treasury were adequate, 46% disagreed and 27% neither agreed nor disagreed. This means therefore that majority of the respondents were of the opinion that the funds were inadequate for purposes of tax refunds.

4.4.2: Audit and Compliance Checks and Tax Refunds

Table 4.5: Whether KRA Performs Audit and Compliance Checks on Refunds

<table>
<thead>
<tr>
<th>Audit and Compliance</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>41</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Author (2011)
Table 4.5 shows the results on whether the tax refund sections in KRA often perform audit and compliance checks on the refund claims. The results show that all the respondents were in agreement that audit and compliance checks are performed for all the refund claims.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neither</td>
<td>11</td>
<td>26.8</td>
<td>26.8</td>
</tr>
<tr>
<td>Disagree</td>
<td>26</td>
<td>63.4</td>
<td>90.2</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>9.8</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author (2011)

Table 4.6 shows the results on the extent to which the respondents agreed that the audit and compliance checks performed by KRA were adequate and thorough.

The results show that 27% of the respondents were neutral, 63% of the respondents disagreed and 10% agreed. This suggests that the audit and compliance checks on refund claims were not thorough and adequate.

4.4.3: Information Technology and Tax Refunds

The study sought to establish whether KRA embraces information technology (IT) in its tax refund operations. The results are shown in Table 4.7

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>41</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Author (2011)
As shown, it was revealed that all the respondents agreed that KRA had embraced IT in its tax refund operations.

Table 4.8: Appropriateness of IT for Processing and Payment of Refunds

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>22</td>
<td>53.7</td>
<td>53.7</td>
</tr>
<tr>
<td>Agree</td>
<td>19</td>
<td>46.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author (2011)

Table 4.8 shows the results on the extent to which respondents agreed that the IT used was appropriate for processing and payment of tax refunds.

The results show that 54% of the respondents disagreed and that 46% agreed. This suggests that most respondents disagreed on the appropriateness of IT used for processing and payment of tax refunds.

Table 4.9: Influence of IT on Tax Refund Process and Payment

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neither</td>
<td>22</td>
<td>53.7</td>
<td>53.7</td>
</tr>
<tr>
<td>Agree</td>
<td>19</td>
<td>46.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author (2011)

Table 4.9 shows the results on the extent to which respondents agreed that the use of IT in the refunds section had speeded up the processing and payment of tax refunds.

The results revealed that 54% of the respondents were neutral while 46% agreed. None of the respondents disagreed. This shows that the respondents were not sure of whether refunds had been speeded up by the use of IT in the organisation.
4.4.4: Staff Adequacy and Tax Refunds

Table 4.10: Tax Refund Staff Adequacy

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>11</td>
<td>26.8</td>
</tr>
<tr>
<td>Disagree</td>
<td>19</td>
<td>46.3</td>
</tr>
<tr>
<td>Agree</td>
<td>11</td>
<td>26.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Author (2011)

Table 4.10 shows the results on the extent to which the respondents agreed that the staff deployed in the refunds section was adequate as far as processing and payment of tax refunds was concerned.

The results show that 27% of the respondents strongly disagreed, 46% disagreed while 27% agreed. Thus the results reveal that majority of the respondents were of the opinion that the staff deployed for tax refunds were inadequate.

Table 4.11: Tax Refund Staff Competency

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>26</td>
<td>63.4</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>15</td>
<td>36.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Author (2011)

Table 4.11 shows the extent to which the respondents agreed that the staff deployed in the refunds section were competent as far as processing and payment of tax refunds is concerned.

The results show that 63% of the respondents agreed while 37% strongly agreed. Thus, all the respondents were in agreement that the staff was competent to carry out the refund processing activities in the organisation.
Table 4.12: Influence of Staff on Processing and Payment of Tax Refunds

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neither</td>
<td>11</td>
<td>26.8</td>
<td>26.8</td>
</tr>
<tr>
<td>Agree</td>
<td>30</td>
<td>73.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author (2011)

Table 4.12 shows the results on the extent to which the respondents agreed that the staff available had speeded up the processing and payment of tax refunds.

The results show that 27% neither agreed nor disagreed while 73% of the respondents agreed. Thus, the majority of the respondents agreed that staff had led to faster processing and payment of tax refunds.

Table 4.13: Summary of Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speed of tax refunds processing</td>
<td>41</td>
<td>3.2561</td>
<td>.46933</td>
</tr>
<tr>
<td>Treasury funding</td>
<td>41</td>
<td>1.5000</td>
<td>.37081</td>
</tr>
<tr>
<td>Audit and compliance</td>
<td>41</td>
<td>2.4146</td>
<td>.29374</td>
</tr>
<tr>
<td>Information technology</td>
<td>41</td>
<td>2.4634</td>
<td>.50485</td>
</tr>
<tr>
<td>Staff adequacy and competency</td>
<td>41</td>
<td>2.4544</td>
<td>.50301</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>41</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author (2011)

Table 4.13 presents a summary of the descriptive statistics especially the mean scores and standard deviations on the variables of the study. The mean scores of 3 and above show that the respondents agreed with the variable as being important and significant influencer while a mean of less than 3 shows that the respondents disagreed with the factors as influencers.

The results show therefore that the respondents noted that the speed of tax refund processing was good (mean = 3.2561). The results also show that the funding was
inadequate (mean = 1.50), the audit and compliance checks were inadequate (mean = 2.4146) and so was information technology use (mean = 2.4634). The staff was considered to be inadequate but competent to carry out the work (mean = 2.4544).

4.5: Correlation Results

Table 4.14: Factors Influencing Tax Refund Processing and Payment

<table>
<thead>
<tr>
<th>Tax Refunds Processing</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury funding</td>
<td>.790**</td>
<td>.000</td>
<td>41</td>
</tr>
<tr>
<td>Audit and compliance</td>
<td>.933**</td>
<td>.000</td>
<td>41</td>
</tr>
<tr>
<td>Information technology</td>
<td>.594**</td>
<td>.000</td>
<td>41</td>
</tr>
<tr>
<td>Staff adequacy</td>
<td>.725**</td>
<td>.000</td>
<td>41</td>
</tr>
</tbody>
</table>

** Correlation is significant at 1% level

Source: Author (2011)

The correlation results are shown with tax refunds processing as the dependent variable and the rest as the independent variables. Pearson correlation (R) and significance values (Sig) are shown in Table 4.14.

The results show that all the four factors had a significant positive correlation with tax refunds. As shown, treasury funding had a significant positive influence (R = 0.790, p = 0.000); audit and compliance had a significant positive influence (R = 0.933, p = 0.000), information technology had significant positive influence (R = 0.594, p = 0.000) and staff adequacy also had a significant positive influence (R = 0.725, p = 0.000).
CHAPTER FIVE

5.0: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1: Introduction

This chapter presents the summary of research findings, conclusions of the study, recommendations for policy and practice and suggestions for further research.

5.2: Summary of Findings

The study found that all the respondents agreed that the treasury regularly released funds for tax refunds. Majority (73%) of the respondents were of the opinion that the funds were inadequate for purposes of tax refunds.

The study revealed that all the respondents were in agreement that audit and compliance checks were performed for all the refund claims. The results showed majority (63%) of the respondents disagreed that the audit and compliance checks on refund claims were thorough and adequate.

The study showed that all the respondents agreed that KRA had embraced IT in its tax refund operations. The results showed that majority (54%) of the respondents disagreed on the appropriateness of IT used for processing and payment of tax refunds. Most of the respondents (54%) were not sure of whether refunds had been speeded up by the use of IT in the organisation.

The results also showed that majority (73%) of the respondents were of the opinion that the staff deployed for tax refunds was inadequate. All the respondents were in agreement that the staff was competent to carry out the refund processing activities in the organisation. The results showed that 73% of the respondents agreed that staff had led to faster processing and payment of tax refunds.

The results of descriptive analysis showed that the speed of tax refund processing was good (mean = 3.2561). The results also show that the funding was inadequate (mean =
1.50), the audit and compliance checks were inadequate (mean = 2.4146) and so was information technology use (mean = 2.4634). The staff was considered to be inadequate but competent to carry out the work (mean = 2.4544).

The results of correlation analysis further showed that all the four factors had a significant positive correlation with tax refunds. Treasury funding had a significant positive influence ($R = 0.790, p = 0.000$); audit and compliance had a significant positive influence ($R = 0.933, p = 0.000$), information technology had significant positive influence ($R = 0.594, p = 0.000$) and staff adequacy also had a significant positive influence ($R = 0.725, p = 0.000$).

5.3: Conclusion

The study concludes that though the treasury has been consistent in funding the Kenya Revenue Authority for monthly settlement of tax refunds, the funding is inadequate as it does not enable the Kenya Revenue Authority to settle all the tax refund arrears. This is what has led to a backlog in the tax refunds. Treasury funding has a significant positive impact on the processing and payment of tax refunds in Kenya. This means that the more the treasury funds KRA for purposes of clearing the refund backlogs, the faster the refund process becomes.

The results further lead to the conclusion that in as much as the Kenya Revenue Authority performs regular audit and compliance checks for all the tax refund claims, these audits are inadequate. This can be attributed to the fact that the number of claims is very high and the Kenya Revenue Authority does not have the capacity to perform audit and compliance checks for all of them and competently at that. Audit and compliance checks have a positive significant influence on the tax refund process. This means that when audit and compliance checks are done regularly and adequately, the refund process is faster.

The study also concludes that despite the adoption of information technology by the Kenya Revenue Authority in the processing of tax refunds, this technology is
inappropriate. This may be because the adoption of IT by the Kenya Revenue Authority was meant for collection of taxes. Thus, emphasis of the information technology use is on the tax collection and not on tax refund processing. Information technology has a significant positive influence on tax refund processing and payment. This means that when the IT is appropriate, it leads to faster processing and payment of tax refunds.

Lastly, the study concludes that the staff deployed to process tax refunds is inadequate compared to the tasks they need to perform. The same staff is also very competent to carry out the duties related to tax refunds. Staff had a significant positive influence on tax processing and payment. This means that when the staff is adequate and competent, the processing and payment of taxes is hastened.

5.4: Recommendations

The study makes a number of recommendations based on the findings of the study and subsequent conclusions. First, the Treasury needs to increase the monthly provisions for tax refunds. This will help clear the tax refund backlogs.

Secondly, there is need for the Kenya Revenue Authority to perform post-audit compliance checks. This will enable the Authority to weed out dubious claims in the future that can hurt the organisation.

The Kenya Revenue Authority should also automate all sections that deal with tax refunds. Currently this is not the case. Such automation will speed up the tax refund process.

The Kenya Revenue Authority should also post additional staff to the tax refunds sections in order to speed up the process as the staff currently deployed in these sections is inadequate.

There is also a further need to separate revenue collection function from the processing of refunds. This is because currently the officers collecting revenue are the same that
conduct audit and compliance checks on refund cases. If possible, a department to deal with tax refunds should be created to enhance this process.

5.5: Suggestions for Further Research

More studies need to be carried out in this area especially to find out what other factors might influence processing and payment of tax refunds. Studies also need to be carried out to check the viability of delinking the tax refunds sections from the revenue collection departments. This will inform the choice to have a department on refunds or to merge with one of the existing ones. It will also be interesting to study whether tax refunds have any relationship with tax compliance behaviour among the taxpayers.
REFERENCES


Chen, M. (2005). Rethinking the informal economy: Linkages with the formal economy and the formal regulatory environment. WIDER Research paper no.2005/10, April


Income Tax Act Cap 470


Value Added Tax, Cap 476


APPENDICES

Appendix 1: Research questionnaire

Part I: Introduction letter

Dear Respondent,

I am an MBA student at the School of Business, Kenyatta University. I’m currently undertaking my research project entitled “Factors that influence the processing of Tax Refunds at Kenya Revenue Authority”. The attached questionnaire is for gathering data, which will be useful in the mentioned research.

You have been selected as one of the respondents in this study. I therefore request you to kindly facilitate the collection of the required data by answering the questions herein.

Please note that the information sought is purely for academic purposes and will be treated with utmost confidentiality.

I look forward to your co-operation.

Yours faithfully,
Part II: Questionnaire

Questionnaire Number.................. Date..............

This questionnaire is designed to gather information on the factors that influence the processing of Tax Refunds at Kenya Revenue Authority. This information is purely for academic purposes and will be treated with great confidence. You are therefore requested not to write your name anywhere on this paper. Your cooperation will be highly appreciated.

Section A: Respondents' demographics

1. What department do you work in?

2. Highest education level attained
   - Secondary ( )
   - College ( )
   - University graduate ( )
   - Post graduate ( )
   - Other specify ________________________________

3. How long have you been working in the department?
   - Less than 2 years ( )
   - 2 to 4 years ( )
   - 5-8 years ( )
   - Over 8 years ( )

4. What is your designation in the department?

5. What is your gender?
   - Male ( )
   - Female ( )
   - Other Specify ________________________________
6. What is your age?
   - 18-25 years ( )
   - 26-30 years ( )
   - 31-35 years ( )
   - 36-40 years ( )
   - 41-45 years ( )
   - 46 years or above ( )

Section B: Factors that influence the processing of Tax Refunds

7. The treasury is supposed to release funds monthly to KRA to enable payment of outstanding tax refunds. Is this the present scenario at KRA?
   - Yes ( )
   - No ( )

8. To what extent do you agree that the funds released by the treasury for tax refunds are adequate?
   - Strongly agree ( )
   - Agree ( )
   - Neither ( )
   - Disagree ( )
   - Strongly disagree ( )

9. Does the tax refund section in KRA often perform audit and compliance checks on the refund claims?
   - Yes ( )
   - No ( )
10. To what extent do you agree that the audit and compliance checks performed by KRA are adequate and thorough?
   Strongly agree ( )
   Agree ( )
   Neither ( )
   Disagree ( )
   Strongly disagree ( )

11. Does KRA embrace information technology (IT) in its Tax refund operations?
   Yes ( )
   No ( )

12. To what extent do you agree that the IT used is appropriate for processing and payment of tax refunds?
   Strongly agree ( )
   Agree ( )
   Neither ( )
   Disagree ( )
   Strongly disagree ( )

13. To what extent do you agree that the use of IT in the refunds section has speeded up the processing and payment of tax refunds?
   Strongly agree ( )
   Agree ( )
   Neither ( )
   Disagree ( )
   Strongly disagree ( )
14. To what extent do you agree that the staff deployed in the refunds section is adequate as far as processing and payment of tax refunds is concerned?

Strongly agree ( )
Agree ( )
Neither ( )
Disagree ( )
Strongly disagree ( )

15. To what extent do you agree that the staff deployed in the refunds section is competent as far as processing and payment of tax refunds is concerned?

Strongly agree ( )
Agree ( )
Neither ( )
Disagree ( )
Strongly disagree ( )

16. To what extent do you agree that the staff available has speeded up the processing and payment of tax refunds?

Strongly agree ( )
Agree ( )
Neither ( )
Disagree ( )
Strongly disagree ( )

17. Do you have any suggestion that can improve tax refund process?

.................................................................................................................................
.................................................................................................................................
.................................................................................................................................

Thank you for participating