AN ASSESSMENT OF THE EFFECTS OF ELECTRONIC COMMERCE ON COLLECTION OF TAXES IN KENYA.

BY

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A RESEARCH PROJECT SUBMITTED TO SCHOOL OF BUSINESS IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR MASTER OF BUSINESS ADMINISTRATION (FINANCE) KENYATTA UNIVERSITY

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DECLARATION

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

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This research project has been presented for examination with our approval as the university supervisors.

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ABSTRACT

Tax is the major source of Government revenue in Kenya, comprising of an average of 87% of the total revenue collected every year. However, KRA has been under pressure to increase its collection to cater for ever increasing government expenditures. While diversification of taxation and compliance is a major concern for the government, e-business has emerged recently as potential area of taxation but which has not been exploited. Hence this study sought to examine the effects of electronic commerce on tax collection in Kenya. The study used East of Nairobi tax station as a case study. The study objectives included establishing the effects of electronic commerce on tax declaration in relation to collection, investigate the extent to which electronic commerce affect tax reporting in relation to tax collection, determine the effects of electronic commerce on tax payments and determine challenges faced by taxpayers in East of Nairobi tax station in relation to collection. The study adopted descriptive study design targeting population of 120 e-businesses (identified through their respective websites) within East of Nairobi from which a sample size of 92 respondents was identified using stratified random sampling. Primary data was collected by the use of questionnaires and analyzed using descriptive statistics and presented in graphs and tables. The electronic commerce among the taxpayers in east of Nairobi tax station was found by the study data to have had impact on the tax collections by the East of Nairobi tax station of KRA through non tax declaration. The level of tax reporting by the taxpayers who were involved in electronic commerce was found to have had a significant impact in the east of Nairobi tax station of KRA. The study established that most of the organizations had proper tax reporting management in their organizations in east of Nairobi tax station of KRA. The study established that the impact of the electronic commerce on tax payment from the taxpayers in the East of Nairobi tax station of KRA. From the study data, it was established that the most of the respondents’ organization had elaborate receiving payments system with the payment mechanism being online and some extent of both offline and online for the transactions. The study tested four factors whether they could overcome the challenges to the tax compliance among the taxpayers in the East of Nairobi tax station and the study found that these factors if well implemented can help curb the challenges and improve tax compliance among the taxpayers. The study made the following suggestions for further research: study was limited to the East of Nairobi tax station of KRA. Future studies on the same topic could be extended to other parts of Kenya, Investigate on non-online taxpayers trading activities which affect the compliance of taxpayers. Research on other challenges affecting taxpayers’ compliance among the business enterprises apart from the four identified factor and recommend other strategies which can be employed by KRA to overcome challenges of compliance from taxpayers in Kenya.