FACTORS AFFECTING COUNTY LEVY COLLECTION ON INTERNALLY GENERATED REVENUE IN HOMABAY COUNTY, KENYA

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Abstract

Despite the informal sector growing at a very fast rate in Kenya, the collection of taxes from the informal sector has been a great challenge and the gains have been dwindling with the passage of time. This study will provide results that will dissect this problem diagnosing the nature of the challenges and provide possible approaches to the way of overcoming the identified challenges. Policy makers in different counties in Kenya may borrow from the findings of this research when seeking solutions to similar problems in their counties. The study confined itself to the population of businesses located in Homabay County. These businesses included public service vehicles operators, land and stalls owners within Homabay town, Water and sewerage, small traders at the market areas. The study was guided by three theories: the revenue diversification theory, resource based view theory and expediency theory of taxation. This study concluded that automation of the tax collection process has not been well implemented. Issuing of electronically generated receipts should be emphasized to make sure that the levies collected are submitted to the right account. Revenue collection personnel are adequate at their work and they possess the relevant skills. However, the study shows that the clerks should undergo more training in relation to revenue collection. The study concludes that supervision of junior staff by their seniors in revenue collection should be improved to avoid tax evasion. Homabay county government should involve the taxpayers when formulating tax policies more often as this helps in raising awareness. This study relied mostly on information from taxpayers, but it will also be important to get views of the county employees regarding the factors affecting effective county levy collection therefore, the study recommend that another study be done which will focus on the Homabay county workers perspective.

Keywords: *automation process, levy collection, internally generated revenue, tax evasion*

Introduction

All the devolved units and any other government or institutions requires revenue to meet their expenditures. Therefore revenue collection is a very vital role in the county government; however counties in Kenya have given less attention to it hence overreliance on disbursements from the national government. The overreliance of the funds from the national government has led to huge budget deficit in the implementation of the budgets. The county governments have failed to balance their receipts and expenditures because they make revenue

projections which they don't collect in the long run. The County Government get their revenue from taxation, permit fees, cess, license fees and market dues.

In any country, there are going to be a significant number of people working who are not registered with the authorities at all. The greater the degree of personal liberty, the more of these people there are likely to be. Often, they are illegal immigrants. However, at any point in time there are also going to be some legal residents who choose to work entirely underground, filing no tax return at all. This may well be the most effective form of tax evasion. Somebody who files a tax return, and under-reports income, is at some risk of being audited. By contrast, somebody who never files a return is likely to be safer, and may completely escape the notice of the authorities (Spiro, 2005).

The political, economic and social development of any country depends on the amount of revenue generated for the provision of infrastructure in that given country (Akintoye and Tashie, 2013). This implies that adequate internally generated revenue is very vital for the survival, growth and development of any nation. One means of generating the amount of revenue for providing the needed infrastructure is through a well-structural tax system. Usman, (2006) opined that taxation is a means to a worthy end inspite of its "pain" on those who bear the burden, while Afflu, (2013) observed that dependence on broad citizen taxation has steadily become a more important revenue source for most countries in recent years.

Borderline cases between tax and non-taxes revenues in relation to certain fees and charges, thus, taxes constitute the principal source of government revenue and the beauty of any government is for its citizen to voluntarily execute their tax obligations without much coercion and harassment. Tax evasion and fiscal corruption have been a general and persistent problem throughout history with serious economic consequences, not only in transition economies, but also in countries with developed tax systems (Kuria and Memba, 2016).

Kenya's March 2013 elections brought into being a system of devolved government that represented the country's biggest political transformation since independence. This reform was undeniably popular: in a 2010 referendum, two-thirds of voters approved a new constitution that included devolution alongside a new Supreme Court and Bill of Rights. The decentralization measures were extensive, providing for 47 county governments complete with elected governors and assemblies. In the wake of the 2013 elections, early opinion polls found that 85% of Kenyans approved of the idea of devolution.

The 47 county governments have structures, authority and mandate that is enshrined in the constitution. According to the constitution of Kenya 2010, Article 207(1) states that there shall be established a Revenue Fund for each county government into which shall be paid all money raised or received by or on behalf of the county government, except money reasonably excluded by an act of Parliament. Taxation and single business permit constitute the core sources across all the counties. However despite the outlined revenue sources amongst others, the counties have been facing inadequacies of finances to fund their expenditures. Nevertheless, therefore, there are various factors affecting revenue collection by county Governments hence the reason for the study.

Owuor, Chepkuto, Tubey and Kuto (2012) note that revenue collection in developing economies like Kenya has not always been as effective as it should be. There are various challenges in revenue collection performance, where counties are not able to collect sufficient funds to cover their budget expectations and thereby causing huge local revenue collection gaps. Ismail (2016) indicates that the main challenges in revenue collection rotate around revenue collection system. The performance of revenue collection in County governments is deteriorated by corrupt practices issues which result into tax evasion through corruption by corrupt revenue collection officers (Balunywa et al., 2014).

Homa Bay County collects levies through bus park fees, land rates, market dues, business permits, plot rents, livestock cess and liquor licensing. Homa bay county lies between latitude o.15' south and 0 52'south, and between longitudes 34 East and 35 East. The County covers an area of 4,267.1 km 2 inclusive of water surface which on its own covers an area of 1,227km2.The County is located in south western Kenya along lake Victoria where it boarders Kisumu and Siaya counties to the north, Kisii and Nyamira counties to the East,Migori county to the south. Administratively, Homa Bay is divided into eight sub counties.

Problem Statement

Statutory allocation from the Kenyan national government accounts for more than 84% of revenue received by Homabay County. This much dependence stems from the very high imbalance between the internally generated revenue of the state and its expenditure needs. Homabay County finds it difficult to raise adequate revenue which is essentially vital for sustained growth and development. The prevalence of all these in Homabay County constitute severe challenges in the quantum of internally generated revenue collection. This is as per the draft policy drafted by the National treasury for the last three years since the counties came into operation.

The analysis on revenue collected from own sources by the county government in the past three years have shown the parabolic trend of declining revenue compared to the actual revenue projections. This indicates that there is high level of inefficiency in revenue collection. Bikas & Andruskaite (2013) averts that in spite of recent reforms, the central government tax systems in many African countries are characterized by an excessive number of different taxes with rate structures that are difficult for tax payers to understand.

Objectives of the Study

The specific objectives of this research were to:

i. Determine the effect of automation on the collection of internally generated revenue in Homabay County
ii. Establish the influence of personnel awareness on the collection of internally generated revenue in Homabay County
iii. Evaluate the effect of tax evasion on the collection of internally generated revenue in Homabay County
iv. Determine effect of enactment of County Government Bills on the collection of internally generated revenue in Homabay County

Conceptual Framework

The revenue generated internally by the county of Homabay is the dependent variable of this study. This revenue operationalizes the factors affecting collection of county levies and they formulate the independent variables. The relationship between the independent variables and the dependent variable is illustrated in the figure below.
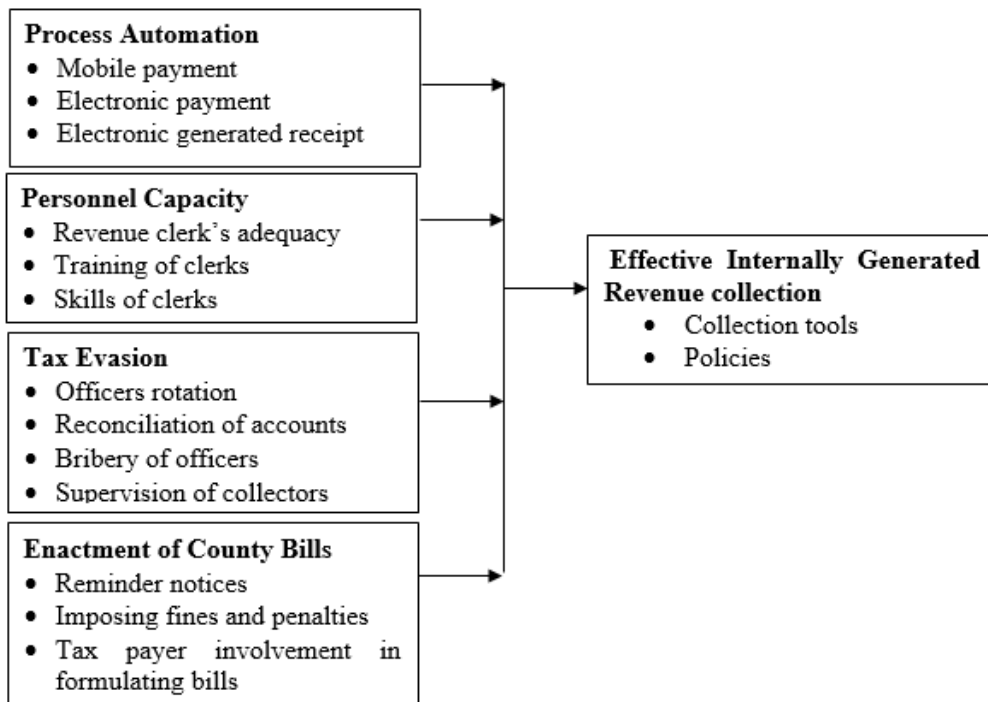
Figure 1: Conceptual Framework

Research Methodology

This study employed a descriptive research design. A target population of 70 respondents was sampled to 20 respondents. Random sampling was used to select participants from the various business owners in Homabay County. This was important in order to ensure representativeness. Purposive sampling was on the other hand be used to select the finance officers and revenue collection officers. A survey questionnaire was used in the collection of data from the study respondents. The data collected was analysed quantitatively. The focus was mainly on descriptive statistics such as frequencies and percentages. Mean analysis was also necessary while correlation analysis helped establish the relationship between factors affecting county levy collection on internally generated revenue. The analysed data has been presented using table and graphs for ease of interpretation.

Results and Discussion

Automation of Revenue Collection Process

The researcher conducted summary statistics for the automation of revenue collection process using mean and standard deviation on a five-point Likert scale where 1= Not at all, 2= Little extent, 3=Moderate extent, 4=Great extent, 5=Very great extent:

Table 1: Automation of Revenue Collection

	PSV operators		Land and building owners		Water, sewerage and Sanitation		Small Traders		Total	
	Mean	StDev	Mean	StDev	Mean	StDev	Mean	StDev	Mean	StDev
There is a system for revenue collection in place	2.25	0.45	3.60	0.50	2.20	0.41	2.21	0.35	2.52	0.73
Mobile payments is a mode for revenue collection	1.25	0.44	3.30	0.50	1.80	0.41	2.00	0.00	2.19	0.91
Use of electronic payments is considered (credit cards)	1.00	0.00	2.00	0.00	2.00	0.00	2.00	0.00	1.81	0.39
Electronically generated receipts are issued upon payment	2.25	0.44	4.00	0.00	3.80	0.40	3.71	0.45	3.52	0.73

The respondents were asked whether there is an automated system put in place for revenue collection, PSV operators disagreed with a mean of 2.25 that they did not have modern and sufficient technology for revenue collection. This indicated a technology gap that exists which should bridge the revenue collection process and the efficiency. Land and building owners agreed with a mean of 3.60 that there is a modern and sufficient system for revenue collection. This is an advantage for revenue collection as it eases the revenue collection process for both the clients and revenue collection personnel. Respondents who do water, sewerage and sanitation e.g garbage collection, disagreed with a mean of 2.20 that revenue collection has not been automated. Small traders disagreed with a mean of 2.21 that Homabay County had not automated revenue collection process.

PSV operators, water sewerage and sanitation and small operators respondents disagreed with means of 1.25, 1.80 and 2.00 respectively that there was no use of mobile payments for revenue collection. However, land and building owners were neutral on usage of mobile payment system. In general, Homabay county government tax payers do not use mobile payments for revenue collection as indicated by respondents who disagreed with a mean of 2.19. This is an indication that despite the availability of mobile payment service providers, the county government has not embraced this concept of mobile payment, which enhances efficiency in the revenue collection process.

On the use of electronic payments (e.g. credit cards), PSV operators strongly disagreed with a mean of 1.00 that the County had no such provision for electronic payments.

However, respondents from public service vehicles operators, land and stalls owners, small traders at the market areas disagreed with a mean of 2.00 that they did not use electronic payments for revenue collection.

The results on electronically issued receipts upon payment, land and building owners, water, sewerage and sanitation providers, small traders at the market areas agreed with means of 4.00, 3.80, and 3.71 respectively that revenue collection transactions were processed electronically. This was a good indication since receipts issued electronically mean that the payment has been submitted to the relevant county account. However, PSV operator respondents disagreed with a mean of 2.25 that electronically generated receipts were not issued. This translates to revenue paid ending up in the wrong hands.

According to a study done Wanjiku, (2009), the researcher observed that automation of processes using systems is critical for formulation of management strategies. This observation is in line with the findings in this study regarding the automation of revenue collection.

Revenue Collection Personnel Capacity

The researcher conducted summary statistics for the personnel capacity using mean and standard deviation on a five-point Likert scale where 1= Not at all, 2= Little extent, 3=Moderate extent, 4=Great extent, 5=Very great extent:

Table 2: Revenue Collection Personnel Capacity

	PSV operators		Land and building owners		Water, sewerage and Sanitation		Small Traders		Total	
	Mean	StDev	Mean	StDev	Mean	StDev	Mean	StDev	Mean	StDev
Revenue clerks adequacy	4.20	0.40	4.00	0.64	3.71	0.45	2.25	0.44	3.61	0.84
Frequent training of clerks in relation to revenue collection	2.00	0.64	2.20	0.40	1.71	0.45	1.25	0.44	1.81	0.58
Revenue collector's skills relevant to their work	4.40	0.50	4.20	0.76	3.57	0.50	2.00	0.00	3.61	1.00

From Table 2, asked whether revenue collection clerks were adequate at their work, PSV operators agreed with a mean of 4.20 indicating that the clerks were efficient in collecting revenue. The land and building owners also agreed with a mean of 4.00. Respondents from water, sewerage and sanitation service providers agreed with a mean of 3.71. However, small traders disagreed with a mean of 2.25. This indicated that the revenue collection clerks should also concentrate in collecting revenue from the small traders.

The results on whether there is frequent training of revenue collection clerks on revenue collection, PSV operators and Land and building owners disagreed with a mean of 2.00 and 2.20 respectively. Water, sewerage and sanitation providers and small traders strongly disagreed with means of 1.71 and 1.25 respectively.

The study findings indicate that PSV operators and land and building owners agree revenue collection personnel possess necessary knowledge to respond to client's questions. Respondents from water, sewerage and sanitation providers were neutral on while small traders disagreed to revenue collectors possessing the necessary knowledge. These findings are similar to (Keya & Muturi, 2017) who observed that county government employees should be trained to execute their tax collection effectively.

Tax Evasion Effect on Revenue Collection

The researcher conducted summary statistics for the effect of tax evasion on revenue collection using mean and standard deviation on a five-point Likert scale where 1= Not at all, 2= Little extent, 3=Moderate extent, 4=Great extent, 5=Very great extent.

Table 3: Tax Evasion

	PSV operators		Land and building owners		Water, sewerage and Sanitation		Small Traders		Total	
	Mean	StDev	Mean	StDev	Mean	StDev	Mean	StDev	Mean	StDev
Revenue collection employees are rotated periodically	2.25	0.44	3.80	0.41	3.80	0.41	2.00	0.54	3.00	0.97
Independent reconciliation of revenue collected is done	2.25	0.44	2.80	0.41	2.80	0.41	2.28	0.45	2.52	0.50
The county officers accept bribes when offered to reduce tax liability	3.75	0.44	4.00	0.00	3.60	0.500	3.57	0.50	3.71	0.45
Supervision of junior staff by their seniors in revenue collection	2.25	0.44	2.20	0.41	4.00	0.00	1.71	0.45	2.47	0.96

The findings in table 3 illustrate that periodic rotation of revenue collection personnel, respondents from PSV operators section and small traders disagreed with means of 2.25 and 2.00 respectively. This was not a good practice observed by the sections as it created an environment of familiarity of revenue collectors and clients which creates an atmosphere of collusion to commit frauds and embezzlement of county revenue. However, respondents from the land and building owners and water sewerage and sanitation service providers agreed with a mean of 3.80 each that periodic rotation of revenue collectors happens in their section. This is a good practice as it creates seriousness in the revenue collection process due to non-familiarity with the clients thus bound to create an optimal revenue collection process between the revenue collection personnel and their clients.

Findings from the table also indicate that independent reconciliation of revenue collected, was not done. All the respondents disagreed therefore generating a total mean of 2.52. This can therefore indicate that a revenue collector can easily get away with county's revenue without detection thus leading to loss in county revenue.

Asked whether the county officers accept bribes when offered to reduce tax liability, PSV operators, water, sewerage and sanitation service providers and small traders had a neutral response about it. Respondents from land and building owners agreed. These responses generated a neutral mean of 3.71.

On appropriate supervision by senior staff on the work of their juniors in revenue collection process, PSV operators and land and building owners disagreed with means of 2.25 and 2.20 respectively while small traders strongly disagreed with means of 1.71. Respondents from water, sewerage and sanitation service providers agreed that there was supervision of junior staff with a mean of 4.00. Adenya & Muturi (2017) had a similar finding on supervision of work by senior staff at Kiambu county.

According to (Cheeseman & Willis, 2016), they noted that decentralization in Kenya has been largely affected by tax evasion of revenue. Their findings concur with this study's constructs of tax evasion.

Enactment of County Government Bills

The researcher conducted summary statistics for enactment of county government bills using mean and standard deviation on a five-point Likert scale where 1= Not at all, 2= Little extent, 3=Moderate extent, 4=Great extent, 5=Very great extent:

Table 4 Enactment of County Government Bills

	PSV operators		Land and building owners		Water, sewerage and Sanitation		Small Traders		Total	
	Mean	StDev	Mean	StDev	Mean	StDev	Mean	StDev	Mean	StDev
Section sends reminder notices to defaulters	1.50	0.51	2.40	0.50	2.20	0.41	3.71	0.45	2.61	0.95
Strict enforcement of fines and penalties on defaulter's overdue	1.50	0.51	3.80	0.40	4.00	0.00	3.71	0.46	3.38	1.00
The county government involves taxpayers when formulation tax policies	2.25	0.44	2.20	0.41	2.20	0.41	2.57	0.50	2.33	0.47

Findings from Table 4 reveal that sending of reminder notices to defaulters in the process of revenue collection, respondents from PSV operators strongly disagreed while land and building owners and water, sewerage and sanitation service providers disagreed with a mean value of 2.40 and 2.20 respectively. The mean value generated from small traders response was 3.71 which meant that they were neutral about the reminder notices. In general, the respondents disagreed with a mean value of 2.61.

On strict enforcement of fines and penalties on defaulter's overdue, both respondents from

Land and building owners and small traders were not sure about the strict enforcement with a mean of 3.80 and 3.71 respectively. Respondents from water, sewerage and sanitation providers agreed with a mean of 4.00 while PSV operators disagreed with a mean of 1.50. This was an indication that defaulters in that section get away with revenue owed to the county government thus leading to non-optimal revenue collection by the section.

Response about whether the county government involves taxpayers when formulation tax policies, all respondents disagreed which generated a total mean of 2.33. These results indicated that the county government has not sought for opinion on levy collection from the tax payers.

These findings are in line with those of Balunywa et at., (2014)

Regression analysis

This research used a multiple linear regression to find out the influence of the independent variables on the targeted revenue and found out as follows:

Table 5: Coefficients model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-110.54	36.10		-2.81	.004
Process automation	67.32	32.60	.17	2.11	.044
1 Personnel capacity	85.78	33.29	.22	2.52	.011
Tax Evasion	60.22	9.42	.29	6.57	.000
Enactment of bills	38.99	13.65	.188	2.85	.007

$$Y = -112.643 + 67.282X_1 + 85.760X_2 + 60.174X_3 + 38.943X_4$$

X_1 = Automation

X_2 = Revenue collection personnel capacity

X_3 = Tax evasion

X_4 = Enactment of bills

It was established that all the factors affecting revenue collection (revenue collection personnel capacity, internal controls, technology, and enforcement of laws) were jointly significant as indicated by $p < 0.05$ in all the cases, implying that if put into consideration by Homabay county government this will see a positive change in the in the revenue collected thus ability to collect optimal revenue. Therefore, all the null hypotheses were rejected.

Summary of Findings

Automation of Revenue Collection

From the findings, the study established that as indicated with a mean of 2.52, respondents were neutral on availability of modern and sufficient technology for revenue collection. These results indicated a need for Homabay County to heavily invest in technology as it eases the revenue collection and makes it efficient.

In general, the county government has not embraced the use of electronic payments for revenue collection as indicated by respondents who disagreed with a mean of 1.81. This further indicated that the county government has not integrated the revenue collection process with electronic technology.

With a mean of 3.52 findings also indicate that, levies paid to Homabay county end up in the right account.

Revenue Collection Personnel

The study can reveal that Homabay county government has sufficient revenue collection personnel as the mean is 3.61.

The conclusion is that in general, the revenue collection personnel of Homabay county do not undergo frequent trainings in relation to revenue collection as indicated by a mean of 1.81.

Asked whether the revenue collection personnel possess the necessary skills, the response was neutral with a mean of 3.61. This was an indication that respondents were not sure whether revenue collection employees have the necessary skills to execute their relevant skills.

Tax Evasion

Findings reveal that periodic rotation of revenue collection personnel was not as clear as it should be since respondents were neutral with a mean of 3.00. Findings from the study also indicate that independent reconciliation of revenue collected, was not done. This can therefore indicate that a revenue collector can easily get away with county's revenue without detection thus leading to loss in county revenue.

On appropriate supervision if revenue collection personnel by senior staff, the total mean generated was 2.47 indicating there was no appropriate supervision by their seniors on their work in their respective sections. This was a bad practice that might give revenue collection personnel a leeway not to perfectly execute their duties since there was no one to watch over their actions in the field.

Enactment of County Government Bills

Findings revealed that sending of reminder notices to defaulters in the process of revenue collection was not done as most respondents disagreed with a mean of 2.61. Strict enforcement of fines and penalties on defaulters overdue is not necessarily adhered to as many respondents casted a doubt with their neutrality mean of 3.38.

Results from the findings indicate that Homabay county government does not seek for opinion on levy collection from the tax payers.

Conclusion

This study concludes that automation of the tax collection process has not been well implemented. Issuing of electronically generated receipts should be emphasized to make sure that the levies collected are submitted to the right account. Use of electronic payment is least known or considered at Homabay County yet it is one of the most commonly used platforms in Kenya.

Revenue collection personnel are adequate at their work and they possess the relevant skills. However, the study shows that the clerks should undergo more training in relation to revenue collection.

The study concludes that supervision of junior staff by their seniors in revenue collection should be improved to avoid tax evasion.

Homabay county government should involve the taxpayers when formulating tax policies more often as this helps in raising awareness.

Recommendation

Based on the findings of this study, the study recommends that Homabay County should invest more on the automation of levy collection process. This study relied mostly on information from taxpayers, but it will also be important to get views of the county employees regarding the factors affecting effective county levy collection.

Areas for further research

The study recommends that another study be done which will focus on the county workers perspective.

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