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EFFECT OF TAX COLLECTION ON SERVICE DELIVERY OF COUNTY GOVERNMENT IN KENYA: A CASE STUDY OF MACHAKOS COUNTY GOVERNMENT

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ABSTRACT

Taxation is to impose a financial charge or other levy upon a taxpayer by a state or the functional equivalent of a state such that failure to pay is punishable by law. However most tax payers do not recognize the importance of taxation therefore the purpose of this study was to determine the effects of tax collection on service delivery in County Governments of Kenya. The specific objectives of this study were to determine the effects of tax evasion, tax law enforcement and tax administration on service delivery in the County Government. Descriptive research design was employed on this study. Primary data was obtained by the use of questionnaires administered to 15 tax administration officials. Data was analyzed and presented in form of percentages and frequency tables. From the findings, the study revealed that tax evasion has negative effects on service delivery and the tax authority has in place measures to curb such cases since majority(55%) of the respondents strongly agree. Tax law enforcement plays a key role in people pays tax as most of the respondents (48%) strongly agrees that strict penalties are imposed on defaulters. Tax administration has significant effect on service delivery as majority (58%) of the respondents strongly agrees that they are honest and transparent in tax matters. This study will yield data and information that will be useful to the Kenyan government and county government in formulating sound financial management strategies in tax collection and helps them to adopt policies to enforce financial discipline among county governments. It will help the tax payers to appreciate the role of tax collection. By implementing recommendations given on tax collection management will be able to improve its service delivery capabilities. It will help researchers and other scholars to enhance their knowledge of tax collection and as a background for reference in future studies.

Key Word: *Project; Service Delivery; Tax; Tax Collection; Tax Evasion; Kenya*

1.0 INTRODUCTION

1.1 Background of the study

Governments in both developed and developing countries collect taxes to fund public services, Marina, (2002) argue that, taxation is the only known practical manner for collecting resources in order to finance public expenditure for goods and services consumed by any citizenry. Tax may be defined as a "pecuniary burden laid upon individuals or property owners to support the government a payment exacted by legislative authority." A tax "is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative' authority", and is "any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name. The dictionary defines 'service delivery' as the state of producing rewards or results. In this context, service delivery is synonymous with output. In scientific literature, 'service delivery' is defined as the relationship between output and input; between results or proceeds and sacrifices. When it concerns the ratio between the total output and total input all labour and capital, economists refer to 'total factor service delivery'. If it involves the ratio between output and a specific part of the input, this is referred to as 'partial service delivery': for example, labour productivity expressed as the amount of production for each labour unit, or the number of labour hours for each product unit. Output involves the number of products, the quality of the products and the operating result, expressed as, for example, net profit or market share. Input involves all company resources that are used: labour (number of employees, number of full-time equivalents), capital, technology, information (training, education), facilities and services, including property and facility service.

Funds provided by taxation have been used by states and their functional equivalents throughout history to carry out many functions. Some of these include expenditures on war, the enforcement of law and public order, protection of property, economic infrastructure (roads, legal tender, enforcement of contracts, etc.), public works, social engineering, and the operation of government itself. Governments also use taxes to fund welfare and public services. These services can include education systems, health care systems, and pensions for the elderly, unemployment benefits and public transportation. Energy, water and waste management systems are also common public utilities. Colonial and modernizing states have also used cash taxes to draw or force reluctant subsistence producers into cash economies. Governments use different kinds of taxes and vary the tax rates. This is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as business, or to redistribute resources between individuals or classes in the population. Historically, the nobility were supported by taxes on the poor; modem social security systems are intended to support the poor, the disabled, or the retired by taxes on those who are still working. In addition, taxes are applied to fund foreign aid and military ventures, to influence the macroeconomic performance of the economy (the government's strategy for doing this is called its fiscal policy), or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive, (Hoffman, 1994)

Taxation is the key source of revenue that the government of Kenya uses to provide public services to it citizenry .Over the last decade tax performance in Kenya has significantly improved in nominal terms averaging about 24% of the size of economy. This has enable the government to finance 60% of the budget .Due to its importance, tax policy debates and decision making becomes a critical issue to the public to businesses and the economy at large owing to the varied impact that it will have on each of these entities. The legal definition and the economic definition of taxes differ in that economists do not consider many transfers to governments to be taxes. For example, some transfers to the public sector are comparable to prices. Examples include tuition at public universities and fees for utilities provided by County governments. Governments also obtain resources by creating money (e.g., printing bills and minting coins), through voluntary gifts (e.g., contributions to public universities and museums), by imposing penalties (e.g., traffic fines), by borrowing, and by confiscating wealth. From the view of economists, a tax is a non-penal, yet compulsory transfer of resources from the private to the public sector levied on a basis of predetermined criteria and without reference to specific benefit received, (Olmert, 1996).

1.2 Statement of the problem

Article 209(3) of the constitution gives powers to county governments to raise revenue by imposing property taxes; business taxes; entertainment taxes and any other tax as authorized by an Act of parliament. The taxes collected by the county government should be used in provision of services to the tax payers and often mainly includes; the maintenance of rural access roads; improving health care systems; establishment and maintenance of public markets; bus parks; providing clean water systems; slaughter houses; constructing of bridges; housing and implementation of social welfare programs .As a result, delivery services has been consistently regarded by the policy makers to be important function of the public sector entities in the context of the overall economic and social development(13rooksons,2002). However, County Governments in Kenya have been seen since the inauguration of the new constitution to be underperforming as the service delivery capacity has deteriorated to the extent that even most basic services are not always provided. Previous studies focused on challenges facing tax collection in public sectors. For instance, Wanjohi, (2003) undertook a study on modem local government in Kenya. Odhiambo, (2005) undertook a study on management of resources by local authorities. The current studies address the development of capable taxing authority at County level to provide services for enhancement of tax payers and economic welfare.

1.3 General Objective of the study

The main objective of the study was to establish the effects of tax collection on county governments' service delivery at county governments in Kenya. The study was guided by the following specific objectives;

i. To find out the effect of tax evasion on service delivery by the county government
ii. To determine the effect of tax laws on tax collection by county government
iii. To establish the effect of tax administration on tax collection by County Government

1.4 Significance of the study

This study will yield data and information that will be useful to the Kenyan government and county government in formulating sound financial management strategies in tax collection and helps them to adopt policies to enforce financial discipline among county governments. The study helps county government to develop techniques to ensure a pool of resources is available to provide their services more effectively and efficiently. It is also significant to researchers and other scholars as a background for reference in future studies and contributes to the existing knowledge of literature.

2.0 LITERATURE REVIEW

2.1 Tax Collection

Tax is a financial charge imposed on a taxpayer by a state, such that non-compliance is punishable by law. It is a compulsory levy payable by an economic unit to the government without reference to a particular benefit received by the tax payer. They are compulsory payments that do not necessarily bear any relationship to the benefits of government goods and services received (Bradley et al, 1494). It is usually viewed as a necessary evil. Government in both developed and developing countries collect taxes to fund public services. A larger portion of this expenditure is financed through levying taxes (Mason& Calvin 2004). Marina et at (2002) argue that, 'taxation is the only known practical manner for collecting resources in order to finance public expenditure for goods and services consumed by any citizenry. Taxation plays various roles. Tax is a source of revenue for the government to undertake its activities such as security, improving social welfare, and completion of its development projects e.g schools, hospitals, roads and power stations. Tax plays a key role in economic stability. This is done through regulation of taxes imposed to check on big fluctuations on prices of goods and services. At times of inflation, tax is increased to discourage buying while during deflation tax is reduced to encourage purchase or spending on goods and services. This way the economic stability of the country is maintained. Tax also ensures upholding of the protection policy by encouraging purchase of local commodities by imposing high taxes on imported goods hence making them expensive. It is therefore used to protect local industries from stiff competition posed by imported goods hence ensuring local development.

2.1.1 Tax Evasion

Tax evasion refers to escaping one's tax liability by methods that violate the provisions of tax codes and It's therefore an offence that if one discovered could lead to imposition of criminal proceedings against the tax payer. Tax evasion is a universal phenomenon which has been in existence for a long time and still imposes growing challenges on tax authorities and the government. Whiteman and Wheat Craft (1965) defined tax evasion as a reduction of tax liability by omitting certain items from returns. However this was opposed by Ruffin and Gregory (1938) that if people believe that taxes are un fairly levied, they will evade them. Iga (1999) differentiated it from tax avoidance explaining that tax avoidance involves using legal means to prevent or reduce tax liability which the tax payer would otherwise have incurred.Several writers have come up to suggest what really affects the tax payers' compliance leading to evasion of taxes, Chon and Reinikka (1999) argue that people engage in tax evasion when the expected benefits(low taxes) are equal to the expected costs(bribes and punishments). This *tends* to agree with Alongham and Sandmo (1972) who also suggested that a rational individual’s choice to evade will be based on the expected gains or losses associated with the decision. To further the argument, Bird(1989) asserts that evaders in most developing countries can realistically assign expected value of zero to the likelihood of being detected and penalized; that the more severe the penalty, the less likely it is to be applied which showed a weakness in administration. However he noted that, penalizing non compliers appeared to have had a healthy effect on stimulating compliance, a view Iga (1999) agreed to. Contrary to that view, Wentworth et al (1985) asserted that causes of tax evasion are the exchange, social class and chances available for evasion .Evaders in that study reported that they were not getting value for their money. tax rates were too high and that government did not spend payer's money wisely, that the burden of taxes fell on low income and salary earners. These view seem prevalent in Uganda(see Abigaba (1998), Muhumuza(2000), Lubega(2000) although on the issue of tax rate , YitZhalci(1986) and Etzioni(1986) argue that tax evasion is basically independent of the tax rate. WallSchutzky 1983) asserts that tax evasion is mainly as a result of the exchange relationship which considers the benefits from the government, the social orientation and administration officers may influence tax payer's response. To further the argument, Glasser and Denhardt (2000) asserts that citizens are.

2.1.2 Enforcement of Tax Law

The tax code is enforced by systems of fines and penalties in order to promote tax compliance. Tax payers need to face certain threads of punishment if they do not truthfully declare all their income, (Feld & Frey 2005). According to the deterrence view, people carefully assess opportunities and risks, and disobey the law when the anticipated fine and probability of being caught are small in relation to the profits to be made through non —compliance. Tax payers understand a cost benefit analysis and will comply if the benefit exceeds the cost of compliance (Allingham and Sandmo. 1972).Thus the tax payer is a utility maximizer. Additionally, Allingham and Sandmo (1972) assert that taxpayers' behavior of non -compliance depends on their belief of the probability of being detected through an audit and the severity of legal penalties imposed. Mckerchar (2003) discusses this from the economic deterrence model perspective and traces its origin from Becker (1968) who believed that the deterrents to illegal behavior, the possibility of being caught and the type of the punishment were within the control of society (Mckerchar, 2003).Tax compliance can be boosted if expected fines and penalties are sufficiently high to deter tax payers from cheating (Feld & Frey, 2005).

Theoretically, views of the taxpayers and tax collectors are that tax compliance means adhering to the tax laws, which are different from one county to another. This means that tax payers need to provide correct information to the tax authorities at the right time and accurately file return to reflect the correct tax liability. According to Brown and Mazur (2003), tax compliance is multifaceted measure and it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance. In kenya, the benefit and exchange arguments as proposed by Wallschutzky (1983),Bird(1991), Bird et al (1995) and Mclure (1998) are some of the explanations of evasion especially in the urban areas (Abigaba,1998) like Kampala city. Edward, (1998) noted that a tax payer's probability of being audited reduces his probability to evade. However, Bird (1991) argues that tax evaders in most developing countries can realistically assign expected value of zero to the likelihood of being detected and penalized and that voluntary compliance is largely a myth. Bird (1992) added that one’s willingness to pay is also affected by existence of evading members in society. Although, improvement in tax collection in Uganda 1996 was attributed to the vigilance of the administration and people's willingness to pay (Kasumba 1997). Shalinzi and Shan (1991) with a broader perspective noted that tax structures in most developing countries (like Kenya) raise little revenue and the reason seems to be (Tirsk. 1991) weak administration, tax evasion and avoidance. He argues that to obtain better compliance, countries should strengthen tax administration activities including collection procedures.

According to Tanzi and Shome (1993), tax evasion is universal. It takes place in all societies, social classes and professions. They argue that tax evasion depends on the economic structures, level of income and tax payer's social attitudes. Tax evasion solely rests on attitudes towards risk, given full information regarding tax administrator's behavior. Since tax evasion impacts on revenue collection, it can as well be argued that economic and tax structures, tax payers, levels of incomes and social attitudes play a role in determining revenue collection. Obwana (1999) argues that concealing the income of self-employed households can lead to the conclusion that there is no enough revenue to be taxed. He argues that evasion occurs when some individuals fail to disclose their incomes or employment or both to the tax authorities. As a result, some activities are not recorded in the official statistics. The more people evade taxes, the more the tax base and tax revenue eroded. Successfully evasion may be due to administrative inefficiency, poor tax culture, political interference or a combination of these or other factors as this research seeks to establish, relating to businesses are: Keeping of up to date books of account by businessmen, acquiring of Personal Identification Numbers (PIN) by all potential taxpayers, determining the taxable income according to the stipulated rules and regulation, accurate determination of tax liability, filing of returns on income by the prescribed date, paying of tax dues by the prescribed date among others

2.1.3 Tax Administration

Byakusaaga (2000) noted that tax administration to a great extent depends on the tax collection machinery. Tax administration is largely blamed on the low levels of revenue collections in Kenya and in most low developed countries. This success of tax reform largely depends on the implementing machinery (tax administration). Stephen 12 (1984) says that the race of administration of any tax depends, to a large extent, on the number of tax payers and the average payment relative to the cost of collection from each one. The ease of administration also depends on the existence of records from other sources to crosscheck the report of any particular taxpayer. Finally, it depends on the voluntary compliance of most taxpayers with the law. In most developing countries, none of these conditions is likely to be favorable. Stephen (1984) say that an income tax covering a large share of the population would necessarily include many very low-income people whose tax payment would be small relative to the cost of collection. In addition, such abroad-based tax would include people whose incomes were mainly barter or subsistence. The administrative problems would be almost impossible, even if one could satisfactorily solve the conceptual problems of measurement. Stephen (1984) says that the absence of large firms in low-income countries hinders tax administration considerably. In high-income countries, larger firms employ a much larger percentage of the economically active population, and large firms contribute a much higher percentage of national income than they do in low-income countries. Byakusaaga (2000) further points out that one problem that seem to arise in many countries is bribery of tax officials. Poorly remunerated officials may be wide open to bribery because of relatively large amounts of tax he/ she due to collect. Moreover, this is not a question of low standard of public morality. The system itself may fail to provide adequate crosschecks to protect the officials against temptations. In addition, a low reward may fail to attract the more sophisticated opportunities for evasion, or may attract only more unscrupulous who enter the services in anticipation of rewards to be obtained from bribery. Room for bribery may also be created, officials can frequently do alter official regulations either to create new opportunities for bribery where non-existed because revenue collectors can also create new sources of bribery or to increase the revenues from the existing sources be altering officials regulations so as to increase the uncertainty associated with the supply of their services (control resources).

Ivanova.A. (2005), when it is complex and cumbersome to pay taxes, the temptation for corruption as a short cut could arise, to both save time and reduce uncertainty about how much tax to pay. If the fine on being caught depends on the amount of income or the amount of tax concealed, reducing tax rates may lead to an increase or decrease in compliance, If wages of revenue administration personnel are very low, corruption may be considered an acceptable way to supplement income. Khaliazadeh et al argues that the tax system comprises both structure and administration. It is therefore important that structural and administrative reform be considered together if tax reform is to accomplish the goal usually attributed to it. Local government taxes have been accused of involving high administration costs of collection. Contracting out tax collection in local authorities has therefore been seen as a solution to reduce such costs and losses of revenue through bribery and pilferage by local authority officials involved in revenue collection. Bird R (1992) agrees that the cost of taxation is a relevant consideration in shaping the tax structures. George (2002), Evidence from around the world has made it clear that corruption in revenue administration is a serious problem. In some countries, like Peru and Uganda, corruption in the tax administration was so endemic that the government closed it down and started a new one. In many developing countries, applications for poorly paid customs jobs are far higher than for a similarly paid government job, which suggests applicants saw as possibility of making extra money. Dos Santos P.S (1995), Anecdotal evidence has shown that where revenue administration processes have been modernized, as through the creation of a fully functional Large Taxpayer Office (LTO) and the computerization of customs procedures, revenue collections have improved and corruption has been reduced.

2.2 Service Delivery.

Service delivery is the process of extending basic services like education, healthcare, water, transport and communication where the end users are the public or local people within the country (Ray, 2007). Tax administration refers to the process of administering taxes like identifying the tax payers, assessing them and levying reasonable taxes they are capable of paying. Service delivery is tied with performance at the organizational level. It means fulfilling organizational goals and objectives, especially in satisfying customer needs, employee needs and the investor needs. This is only possible if there is clear mutual (management and employee) understanding of the purpose: At the heart of this concern was whether they are intended primarily to benefit the organization or the individual (Heskett. 2006). Government ministries services delivery standards and performance which are central to their mission have long been the concern of customers and this has affected quality of service delivery. Consequently delivery performance standards for Mail, Courier, Financial and Agency services must be specific, measureable, achievable, realistic and time bound of paramount importance is that the meet the expectations of the customer on service delivery (Westman, 2004). Service Delivery is a set of components that provide service delivery architecture (such as service creation, session control and protocols) for a type of service. Ross and Segal (2003) Service delivery available today in the healthcare sector tend to be optimized for the delivery of a service in modern technological innovations and expertise.

Service delivery programs are applicable to both the consumer and business applications. The business objective of implementing the service delivery programs is to enable rapid development and deployment of new converged services from basic services to complex services (Coyne, 2004). Amir, Carolyn and Aman (1993) listed five determinants of service quality by order of importance. They include reliability, responsiveness (willingness to help customers and prompt service assurance), and the ability to convey trust, empathy and individualized attention to customers. Other service quality measurement tools studies have found that well managed service companies have the following practices: strategic concept and top management support, high standards of service delivery, service monitoring systems, satisfying customer complaints and emphasis on employee satisfaction (Anthonyand Young, 2004).According to servequal model based on gap theory, there are two alternative ways of measuring service quality: internal and external measures (Fjeldstad, Katera, Msami, and Ngalewa, 2010). Internal measures of service quality are designed to provide objective measures of the firm's performance where external is concerned with measuring attitudes and opinions of customers. Provision of quality should exceed customer's expectation. Customers compare perceived service. If the perceived service is below expectation they lose interest with the provider while the opposite creates loyalty (Blazek, 2005).

2.3 County Government

The County governments have power to raise and spend revenue. The Constitution through the taxation section gives County government power to generate revenue. The county government may impose property rates, entertainment taxes and any other tax that it is authorized to impose by an Act of Parliament (Public Financial Management Bill, 2012). In addition, a County government may borrow with the approval of the County government's assembly and only if the national government guarantees the loan. Once various taxes have been determined they will have to be collected. The practice has been that County Government collects local taxes within their jurisdiction. Experience indicates that most of the County Governments have limited capacity to discharge this function. With the new constitution, it is still a subject of debate whether the Kenya Revenue Authority (KRA) will collect revenue on behalf of the counties or whether it shall assist the counties in building their own capacities to collect their own revenue. In the long term, if the county governments are suppressed leaving in control of finances in the hands of the central government, then the whole concept of devolution was defeated. In fact, county governments without the power to control their own finances were political and administrative units, negating the whole idea of devolution of the county into counties with more efficient financial management systems. The purpose of establishing a county financing system is in recognition of the important role played by County Government as agents of decentralization; grassroots democracy; and engines for development.

Machakos County has been created following the 2013 elections as per the Kenyan Constitution, 2010, article 174 on Devolved Government. The policy implementers are the County Governor, who is the Chief Executive Officer, together with the Secretary and the executive team who oversees the day to- day management and administrative activities. The County Representatives are policy makers. They depend on revised the Local Government Act Cap. 265. Devolved Government Bill 2012. County Government Bill 2012 and Public Finance Management Act 2012, Urban Areas and City Areas Act No. 13 of 2012 Act. According to the County Government Bill 2011, Section 48 (1) Subject to subsection (3), the functions and provision of services of each county government shall be decentralized to (a) the urban areas and cities within the county established in accordance with the Urban Areas and Cities Act, 2011 No. 13 of 2011.

2.4 Relationship Between Tax Collection and Service Delivery

The spirit of decentralization is that county government should generally be in a better position than the central government to identify County needs, and to deliver public services accordingly (Brewer, Chandler and Ferrell, 2006). County government is therefore is enjoined to identify and raise revenue from county sources in form of rates, tolls, property tax, fees and fines among others to boost their financial base for development of the county. In addition to the Internally Generated Funds (IGFs), the county governments are expected to fashion out projects and programmes that allure to poverty reduction in their local areas (Bray, 2008). According to Bhatia (2006) revenue receipts are divided into tax revenue and non-tax revenue which include among others taxes on properties. Business revenue is income from activities that are ordinary for a particular corporation, company, partnership, or sole proprietorship. Revenue is important part of financial analysis as it contributes as part of measure to which assets inflow (income) compares with asset outflows. In Government revenue refers to receivables by the government for the purpose of financing its services, and the implementation of development programmes and they are collectable under the items of estimates specified by treasury as revenue items including all amount of money received from sources outside the government entity (Brooksons. 2002). A strong County revenues base is essential for the sustainability of decentralization programmes. County revenue forms a core means of building an independent and accountable County governance system (Republic of Uganda, 2010). County Governments with strong County revenue collection have greater scope for autonomy, and are more responsive to the needs and priorities of their citizens. The Constitution provides for various sources of County revenue to County governments which vary from area to area-based on economic practices, natural endowments. among other things (Waema, 2005). . The analysis of empirical review gives evidence that issues to do with tax collection have not been highlighted. Therefore, this study will take a focus on effects of tax collection in county service delivery and hence reduce the research gap.

2.5 Theoretical Review of Literature

2.5.1 Optimal Theory of Taxation.

The theory of optimal taxation can be seen as a recipe for minimizing the costs of taxation. The costs on which this literature focuses are, as already noted, the efficiency costs of a distorted tax system. But the more direct costs of administration and compliance play little or no role in the analyses, and the theories of tax evasion (Fowler James, 2002). So far, the potential gains from using the insights of the tax evasion literature in the study of optimal taxation have not been fully exploited, although for some aspects of taxation the evasion perspective is obviously highly relevant. This is true, at least to some extent, with respect to the degree of progressivity of the personal income tax, and even more so with respect to the interface between personal and company taxation and the degree of differentiation of the indirect tax system. The literature on tax evasion should be seen as a way to bring issues of tax administration into the focus of the theoretical literature on tax design (Ghura, 2006). 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 social welfare function is based on the utilities of individuals in the societies, 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 (Graham, 2000). To reduce the problem facing the revenue collection, 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. It is important 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 (Hazel, 2005).

2.5.2 The Agency Theory

In the Agency Theory a contractual relationship is entered by two persons that is the principal and the agent so as to perform some service. This involves delegating some decision making authority to the agent by the principal (Jensen and Meckling. 1976). At the same time an agent is a person employed for the purpose of bringing his principal into a contractual relationship with a third party. He does not make a contract on his own behalf. The legal doctrine which applies is qui facit per aliumfacit per se (he who does something through another does it himself) (Kanbur, 2009). Agency Theory is directed at the person presenting the agency relationship. This is where one party delegates work to another party who performs the duty on behalf of the principal: (Eisenhardt. 1989). This person is authorized to perform legal acts within his competence and not on his own behalf but for the principal. A growing view in the modern literature recognized however that the two are strange bed fellows. An Insurance Broker is an agent employed to buy and sell on behalf of another. However, in performing his role, he owes a duty to his principal. The level of care expected will vary; a higher level of care will he expected from a professional broker than from a part-time insurance agent (Wright and Oakes, 2002). According to the English and American law the liability of a principle for his agent torts in the ordinary course of his employment depends upon the existence of a master servant relationship. The master is vicariously liable for his servant tortuous conduct committed within the course of employment, (Yin, 1989). There are cases where an agency relationship arises when an individual group called principal hires someone called an agent to perform some service, where the principal delegates decision-making power to the agent. This kind of relation includes those between stock holders and managers and between stockholders and debt holder. According to Amir (1993) Agency Theory is a theory concerning the relationship between a principal (shareholder) and an agent of the principal (company's managers). It further says that Agency Theory is a very academic term which essentially involves the costs of resolving conflicts between the principals and agents and aligning interests of the two groups.

2.5.3 Benefit Received Theory

This is a theory of income tax fairness that says people should pay taxes based on the benefits received from the government(investopedia).This theory was put forward by Erik Lindahl of Sweden in 1919. According to this theory, the state should levy taxes on individuals according to the benefits conferred on them. For example if road construction and maintenance were funded entirely from gasoline taxes and highway tolls, this would be in line with the benefit received theory. Those who used the highway more would pay more of these taxes, while those who only walked would not pay any taxes at all for a road system that they did not use. This theory has been criticized in that if the state maintains a certain connection between the benefits conferred and the benefits derived, it will be against the basic principle of taxation, it could lead to tax injustices. This is because the poor will have to pay the heaviest taxes because they benefit more from the services of the state this is unworkable or in part unacceptable .If we get more from the poor it is against the principal of justice.

Most of the expenditure incurred by the state is for general benefit of its citizens, it is not possible to estimate the benefit enjoyed by a particular individual every year it is thus difficult to charge tax on this principle. Tax is a compulsory contribution made to the public authorities to meet the expenses of the government and provision of general benefit, therefore if the state maintains a connection between benefits conferred and benefit derived, this will be against the basic principle of taxation, and there is no quid pro quo in the case of taxation. This theory has been associated with free rider problems because some people might assert that they want little or none of the services offered. Crafty types might even try to get tax credits by asserting that the good harms them. This problem arises because most public goods are non-exclusive and non-rival. If we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state.

2.4 Ethics and Fairness in Taxation

An individual can use different criteria in making ethical choices. One of the criteria is to focus on justice or fairness (Robbins, 2001). Fairness is seen as a fundamental human right in social, economic and academic organizations. Since perception is reality to affected individuals, fairness can powerfully influence personal behavior (Henridon. 1992). Fairness is perceived as a basic entitlement; consequently, instances of perceived unfairness could produce intense personal emotions. Jack and Milliron (1986) argue that tax fairness encompasses at least two different dimensions. One dimension appears to involve the equity of trade — the benefits received for the tax dollars given. The other dimension appears to involve the equity of the taxpayer's burden in reference to the other individuals (taxpayers' perceptions of the horizontal and vertical equity of the tax system). In the other words, tax liability among taxpayers should be consistent with the ability to pay. Basically, taxpayers who have the same ability to pay must be imposed the same tax liability, while taxpayers who have different ability to pay must be imposed differently. Kirchler and Hoelzl (2006) argue that fair treatment of taxpayers and trustworthiness of tax authorities will enhance voluntary tax compliance.

3.0 RESEARCH METHODOLOGY

3.1 Research Design

Cooper and Schindler (2003) summarizes the essentials of research design as an activity and a time based plan; always based on the research question; guides the selection of sources and types of information; framework for specifying the relationship among the study variables and outlines the procedures for every research. The research design therefore was the blueprint that enables the investigator to come up with solutions to problems and guides in the various stages of research. This study is a descriptive research design. This is because the study intended to obtain an in depth understanding of the effects of tax collection on service delivery in the County Governments of Kenya.

3.2 Population of the Study, Sampling Procedure and Sample Size

The target population refers to the group of people or study subjects who are similar in one or more ways and which forms the subject of the study in a particular study .The study comprise of tax administrators in Machakos town; County Government of Machakos. A tax administrator according to English dictionary is defined as a person who is licensed and certified to collect taxes on behalf of revenue authority in the county. For the case of this research, the researcher went to those tax administrators in Machakos town the headquarters of Machakos County. The target population was 15 tax administrators as presented in table 1 below.

Table 1: Population of study

Department	Target Population
Administration officer	1
Treasury	1
Departmental heads	1
secretary	5
technician	7
Total	15

Source; (County Government of Machakos)

Sampling design is the techniques or procedure that researcher adopted in selecting items for the sample and the number of people that a researcher collected information from. The researcher conducted a survey of 15 tax administrators. The researcher used census survey procedure to collect the required information from the respondents. The researcher used census survey since it enhances accuracy making the data collected to be more reliable and accurate. This increased the level of confidence on the findings and minimizes sampling errors.

3.3 Data Collection, Analysis and Presentation

Primary data for the research was obtained from the tax administration officials where the questionnaires were used to obtain their opinions and perceptions in relation to tax collection and service delivery. The questionnaire sought information relating to the key variables of tax collection. The research instruments used in this study were the questionnaires. Data of this study was collected through a questionnaire distributed among tax administration managers and employees in various departments of tax administration and questionnaire was given to the respondents to fill and collected after a week. This method is economical in terms of time and cost and thus able to cover a large area. The researcher developed the questionnaires based on the research questions. The questionnaires were consisted of both open and closed ended questions to be answered by the respondents. Open ended questions sought to achieve in-depth responses from the subjects while closed ended responses remained controlled for the sake of analysis.

Mugenda and Mugenda, 2013 described data analysis as coding, categorizing, data entry, manipulation and summarization of data. The filled questionnaires were checked, cleaned and edited to ensure that they are correctly and completely filled. The data was then coded and analyzed using Statistical Packages for Social Sciences. The raw data collected from the study will be organized through descriptive statistical methods to help analyze and interpret the data obtained. Descriptive statistics such as frequencies and percentages was used. Inferential statistics mainly the chi-square were used for testing the hypothesis. A 5% level of significance was considered in testing the hypothesis. Results of data analysis were presented in cross tabulations, frequencies and percentage.

4.0 RESULTS AND DISCUSSIONS

4.1 Demographic Information

This information was sought for the purpose of establishing respondents' gender, level of education, position held and working experiences. This section seeks to establish issues pertinent to the objectives of this study.

4.1.1 Gender of the respondents

The researcher saw it important to seek on the difference of gender of the employees in the tax administration. The specific variables were male and female. Equality in employment should be of key consideration and all employees need to be treated the same. The specific frequency and percentage are tabulated in the table 2 below

Table 2: Gender of the respondents

Gender	frequency	%
male	7	58
female	5	42
total	12	100

From the findings in the table above it was evident that a majority of the employees are male 58% and the remaining 42% represent the female respondents. However irrespective of the imbalance both the male and the female respondents do understand the role tax plays in the development of Machakos County.

4.1.2 Age of the respondents

The researcher found it important to establish on the age of the respondents. This is a demographic feature that affects behaviours or perception of respondents. This issue was important to the study in that in the Kenyan aspect there is an age limit of employment. This was operational zed as below 25 years, 25 to 34, 35to 44, 45 to 50years and above 51 years. The frequencies and percentages were tabulated as shown in table 3

Table 3: Age of the respondents

Age	Frequency	Percentage
<25 years	1	8
25-34 years	5	42
35-44 years	3	25
45-50 years	2	17
Above 51	1	8
Totals	12	100

From the findings it was evident that those aged between 25 and 34 years were 42%, 35and 44 years were 25%, 4Sto 50years were 17%, below 25 years 8% and above 51 years 8%. This implies that the employment age bracket of the respondents is good as a majority of the respondents are in their productive years of employment. In addition it implied that the organizations management has tried to maintain a productive age bracket

4.1.3 Level of professional qualification

The research sought to establish the level of professional qualification of the respondents so as to verify on employees understanding of their job performance and what is expected of them in the firm. The level of education of the respondents was done using certificate, diploma, degree, masters and PhD. Data on level of professional qualification has been presented on table 4 below

Table 4: Education qualification distribution

Qualification level	Frequency	Percentage
Certificate level	2	17
Diploma level	1	8
Bachelor's degree level	6	50
Masters level	2	17
PhD	1	8
Total	**12**	100

It was evident from the table above that50% of the respondents are degree holders. 17% are master's degree holders, 17% have certificate level of education, 8% are Diploma holders, and 8% of the respondents are PhD holders. The result shows that majority of the employees are well educated. This implies that most of the employees do understand the goals and intentions of taxation on maintaining and developing County projects.

4.1.4 Working experience of the respondents

This study sought to establish the years of service for which the employees have worked. It was important to establish the years of service since an employee with a longer period of working understands the counties requirement. Experience contributes to employee job understanding and maintenance of law and order required in a given environment. The findings of this enquiry are presented in table 5 below.

Table 5: Working Experience

Time	**frequency**	**%**
<2 years	2	17
2-5 years	4	33
6-10 years	5	42
6-10 years	1	8
>10 years	12	100

The results from the table indicated that42% have worked for 6-10 years, 33% have worked for 25 years, 17% have worked for less than 2 years, and 8% have worked for over 10 years. The highest numbers of respondents have a good working experience as they have worked with the organization for more than 5 years which shows that they are aware of the organization requirement and performance are or may meet organizational goals and objectives.

4.2 Determination of effects of tax evasion on service delivery

Table 6: Effects of tax evasion on service delivery

Items/Description	strongly agree	Agree	neutral	disagree	strongly disagree
There are strict measures implemented by the Firm to prevent and avoid tax evasion which boost service delivery	35%	45%	10%	6%	4%
Tax authority with set penalties for non-compliance with tax regulations has improved service delivery than those without	55%	33%	7%	0.00%	5%
There is benefit to a person who is tax compliant as compared to one who is evading tax	23%	34%	17%	6%	20%

The results of the study as presented on table above shows that, most of the respondents 45% agreed while 35% strongly agreed that they have implemented strict measures to curb tax evasion, 10% were neutral while 6% disagreed and 4% strongly disagree. This implies that measures put in place to prevent tax avoidance plays a great deal in improving service delivery. The study findings are also in agreement with (Slemrod et al. (2001) in a study where taxpayers were informed that their tax files would be closely examined. Small business owners who had an opportunity to evade payment of tax reacted to this message by increasing their tax payment in order to avoid errors. This confirms that those taxpayers facing high opportunities for evasion might feel less certain about how to pay their taxes correctly. Consequently, threats may also elicit partly unintentional over-reporting; just to be on the safe side (Ahmed and Braithwaite, 2005). It is also noted that most of the employee 55% strongly agreed while 33% agree, seven per cent were neutral and 5.0% strongly disagreed, that there are penalties set by the tax authority for compliance with tax regulations. This implies that service delivery improves as the penalties for tax evasion are imposed on those who evade taxes. Higher fines for instance simply reduce the cases of tax evasion thus encouraging tax compliance. This in agreement with studies by Friedland et al. (1978) that compliance was strongly affected by the amount of fines than by audit probabilities. Studies by Allingham and Sandmo (1972) indicate that penalties as well as audit probability have an effect on tax compliance, thus the higher the penalty and the potential audit probability the greater discouragement for potential tax evasion.

Similarly the results presented show that 34% and 23% of the respondent agreed and Strongly agreed respectively that it is beneficial to be tax compliant than to evade paying taxes. Among the respondents 20% strongly disagree, 17% neutral while 6% disagreed. Basing on the highest percentage 34% of the respondents of the study notes that it is beneficial to be tax compliant person

4.3 Determination of effects of tax laws in county tax collection

This study sought to establish whether the tax laws had an effect in the county tax collection. The respondents gave their views and opinions which were presented in table 7.Five statements were used and the respondents were required to respond to each of them using the liken- scale as follows

Table 7: Effects of tax laws on tax collection at the county level

Description	strongly agree	agree	neutral	disagree,	strongly disagree
Tax laws are well enforced in -Machakos county.	48%	32%	18%	2%	0.0%
Tax penalty greatly contributes to the tax revenue collections	4%	39%	13%	5%	0.0%
Penalties appear to be very common in County tax system.	35%	40%	25%	0.0%	0.0%

The results presented on table 7 shows that majority of the respondents 48% strongly agreed. 32% agreed. 18% neutral and 2% disagreed respectively, that tax laws are well enforced in Machakos County. This implies that the tax laws ensure that the tax payers adhere to the laws that County tax authority is not compromised. Authorities who do not enforce tax laws are likely to be compromised and hence they also compromise the service delivery. As supported by (Feld & Frey 2005) who argues that tax payers need to face certain threads of punishment if they do not truthfully declare all their income. Majority of the employees 43% strongly agreed with the fact that tax penalty greatly contributes to the tax revenue collection, 39% agreed, 13% were neutral and 5% disagreed. This indicates that effective tax penalty can bring about good results in tax collection among the Counties. According to the deterrence view people carefully assess opportunities and risks, and disobey the law when the anticipated fine and probability of being caught are small in relation to the profits to be made through non —compliance. The results further that reveals that the highest response of 40% agreed while 35% strongly agreed with the statement that, penalties are common in the County tax system. Only 25% of the respondents were neural with the statement. This indicates that the tax penalties have key roles to play in ensuring that the taxes are made to the county government to enable service delivery to improve.

4.4 Determination of effects of tax administration on tax collection

In order to establish whether there tax administration has an effect on the tax collection in the county Government, the respondents were required to give their views on various statements given in table 8. The results were presented in table 8.

Table 8: Effects of tax administration on tax collection

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
The Tax Office respects each individual's rights as a Citizen	56%	44%	0.0%	0.0 %	70.0%
The tax office considers the concerns of average citizens when making Decisions	44%	46%	10%	0.0%	0.0%
The tax authority treats every one as honest in their tax affairs unless he / she act otherwise.	58%	32%	0.0%	3%	7%

The results from the table indicate that 56% and 44% strongly agreed and agree respectively that the tax office respects individual's rights. This means that the tax collector's respect to the citizens boosts tax collection in the county. The study noted that it is not just enough to have tax officers with respect to all tax payers but also the way the tax authorities considers their concerns while making decisions affecting them. It is noted that when the concerns of average citizens are taken into account while making decisions tax revenue collection rises. Most of the respondents 46% and 44% agreed and strongly agreed respectively that tax officers takes into consideration the concerns of average citizens while making decision that affects them. The rest 10% were neutral with the statement. This implies that citizen's concerns are considered while making any tax decision. This study also established that 52% and 32% strongly agreed and agreed respectively that the tax authority treats every one honestly in their tax affairs based on a policy governing all the tax authorities to ensure uniformity. This was quite high compared to 7%and3%thatdisagreed and strongly disagreed with the statement. The result of the study shows that there is a positive relationship between the best treatment of tax payers and the amount of tax collected by the county government.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Conclusions

The researcher aimed at establishing the effects of tax evasion on service delivery at the County Government. The study examined the relationship between tax evasion, tax law enforcement, tax administration with service delivery. The study concluded that tax collection being one of the terms involved in tax collection has an adverse effect on functions of the County Government in service delivery. High rates of tax evasion makes the Counties to perform poorly because it will reduce the amount of revenue collected it was evident from the finding that the tax authorities has put in place strict measures to prevent tax evaders as majority of the respondents strongly agrees. On the tax law enforcement, the study concluded that tax penalties are well enforced and is the most appropriate mechanism for enforcing tax compliance as most of the respondents strongly agree, this has an effect the of improving tax payers' willingness to pay tax hence raising the revenues collected by the county government . The success of tax collection largely depends on the tax administration. The study concluded that the tax officers respects individuals' rights of tax payers as they consider them while making decisions and treats every one honestly in tax affairs, this has a positive effect on tax collection which improves service delivery.

5.2 Recommendations

From the results of the findings the researcher thinks that the following were recommendations made.

Most people like to feel that those they work for trust them. Hence the council needs to create trust between the tax authorities and the citizens to avoid people evading tax and instead facilitate payment of all the revenues in time.

There is need for the tax authority to tell the people on the importance of paying tax. This will include describing on the projects being funded by the taxes so collected by the authority in the various parts in the County. This will help the tax authority to progress in County service delivery. The staffs who deal with the financial reports need to have knowledge on how to operate the standard financial reports which require in the current competitive world hence continuous training of the staff members is recommended so as they can perform well and put them at a better competitive advantage.

Leadership should be from the front: by encouraging the people and leading by example. It is not achieved by sitting in an office and demanding people do something, at least not successfully. If you lead people will follow willingly, if you push people will go forward with reluctance. Therefore, those who are charged with collection of taxes should act as examples by paying taxes as required and not to default in any way.

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