PERCEIVED EFFECTS OF TAX POLICY ON ORGANIZATIONAL PERFORMANCE OF GAMBLING AND LOTTERY COMPANIES IN NAIROBI COUNTY, KENYA

BY

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DECLARATION

Declaration by Candidate

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

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Declaration by the Supervisors

This project has been submitted for examination with our approval as the University Supervisors.

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DEDICATION

I dedicate this project to my family for all the support they have accorded me during its preparation.

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ABSTRACT

Organizational performance in the betting industry can be measured by the revenue they generate. The betting companies in Kenya have been recording good performance since 2015. For instance, in 2015, betting industry made Ksh. 2.1 billion, this rose to Sh204 billion in 2018. However, the Kenyan government concern with betting companies is on tax. In 2018, the betting industry made around Sh204 billion but only remitted Sh4 billion in taxes. Moreover, most of the companies did not submit the 20% withholding tax on payouts. Sportpesa, Betin and Betway who together accounted for 85 percent of the market were accused of undercutting the tax man and ordered to close operations immediately. Due to the issues between the Government and betting companies over tax compliance issues, large betting firms in Kenya halted their operations in Kenya owing to what it termed as a hostile operating environment, with the taxation regime on the betting industry making the company's operations in the country unviable. Given the aforementioned, the general objective of the study was to establish the perceived effect of tax policy on organizational performance of gambling and lottery companies in Nairobi County, Kenya. Specific objectives were; to establish the perceived effects of corporate tax, withholding tax and betting tax on organizational performance of gambling and lottery companies in Nairobi County. The study adopted an explanatory research design. The target population was 250 senior managers and middle level managers from gambling and lottery companies. Simple random sampling technique was utilized to choose the respondents in sports betting companies. The study sample size was 154 managers. Primary data was gathered by the use of structured questionnaires. Quantitative data gathered was examined by use of descriptive statistics and inferential statistics and presented as percentages, means, standard deviations and frequencies. A multiple regression analysis was conducted to determine the effect of tax policy on organizational performance of gambling and lottery companies in Nairobi County, Kenya. The study found that perceived corporate tax had a negative significant relationship with organizational performance (β = -0.467, P=0.003), perceived withholding tax had a negative significant relationship with organizational performance (β = -0.455, P = 0.003) and perceived betting tax had a negative significant influence on organizational performance (β = -0.472, P = 0.002). The study was important to betting and lottery companies. The companies would comprehend the tax policy. They would be skilled to comply with the tax requirements. The government assured the companies comply with the tax policy through regular analysis. The study recommends that the government should consider striking a balance between revenue generation goals of the government and organizational goals of the gambling and lottery companies. The study recommends that another study should be conducted on challenges facing gambling and lottery companies in Kenya like regulations imposed on the firms, legislation and competition.

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OPERATIONAL DEFINITION OF TERMS

Betting tax: It is the level to which the gross gaming revenue of a bookmaker is chargeable (Gallagher, 2014).

Corporate tax: It is the degree to which the government places a levy on a firm's profit (Christiansen, 2015).

Gambling: It is the wagering of money or something of value (referred to as "the stakes") on an event with an uncertain outcome, with the primary intent of winning money or material goods. It also refers to as the act of staking money or some other item of value on the outcome of an event determined by chance (Kahlil, 2013).

Lottery: It is a means of raising money by selling numbered tickets and giving prizes to the holders of numbers drawn at random (Griffiths, 2014).

Organizational performance: Involves analyzing a company's results as benchmarked to its corporate goals and the set objectives based on three primary outcomes namely financial performance, market performance and shareholder value performance (Majani, 2011).

Tax policy: It is the extent to which the government makes the choice as to what taxes to levy, in what amounts, and on whom (Pfister, 2014)

Tax: It is a compulsory financial charge or some other type of levy imposed upon a taxpayer (an individual or other legal

entity) by a governmental organization in order to fund various public expenditures (Smith, 2014).

Withholding tax: It is the degree to which an employer withholds an amount from employees' wages and pays directly to the government (Kendall, 2011).

ABBREVIATIONS

AGR	Adjusted Gross Receipts
BCLD	Betting Control and Licensing Board
GGR	Gross Gaming Revenue
KRA	Kenya Revenue Authority
SPSS	Statistical Package for the Social Sciences
UK	United Kingdom
US	United States
VAT	Value Added tax

CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter covered the background information of the study, statement of the problem, objective of the study, research hypotheses, and significance of the study and the scope of the study.

1.1 Background to the study

The gambling industry is one of the most lucrative businesses in the world but also the riskiest (Carnelley, 2014). Mayer (2016) contends that the online sports gambling sites generate considerable revenue. In the Great Britain, during the period October 2018 to September 2019, the regulated gambling industry generated gross revenue of £14.3bn.

Some European countries tax gambling companies have embraced several models of taxing their industry. For instance, bookmakers are taxed in some countries, as any other trading company while others assign diverse taxes contingent on the numerous gambling activities, that is, betting, casinos, prize competitions and lottery. For winnings of the players, numerous countries tax them as any other regular income; others attach a final withholding tax on the payments while others do not tax these winnings. In the United States, gambling winnings are entirely taxable and a winner must reveal these winnings in their tax return. In the United Kingdom, gambling winnings are not chargeable on the players. The bookmakers are however liable to a 15% tax on their gross profits. In Europe, outside of the UK, tax on players' winnings is uncommon (Thairu, 2017).

In Africa, extensive Internet connectivity has also shoved the boom in online gaming. Nigeria still will see yearly growth rate of 8.5 % and the sector produced nearly $69 million in revenue by 2019. In Kenya, the revenue of betting companies at the end of 2018 was between Sh20 billion and Sh25 billion. SportPesa the biggest betting company in Kenya then, had revenue of Sh20.1 billion in 2018. The revenue for betting firms was nearly $29 million in 2019, depicting an annual growth rate of more than 7%. The industry employs about 5,000 Kenyans. Further, the betting firms in Kenya pay 15 per cent of the Gross Gaming Revenue (GGR) to the government (Majani, 2019). In Kenya, the gross revenues from the industry are projected to be in the region of Sh3 billion and forecasts indicate that the industry will undergo stable growth over the subsequent five years.

Since ancient times, governments have regulated the extent and conditions under which gambling is permitted. Governments also developed an early financial interest in legalizing gambling, realizing that certain forms of gambling were a productive base for taxation (Smith, 2010). Government taxation on gambling companies is on the interests of consumer protection' and public morality. Therefore, in many countries where gambling is legal, gambling and lottery companies pay a tax on their gaming revenue, which is in part how economies and communities benefit from regulated gambling. Every country collects gaming revenue payments a little differently, but generally it's a percentage of the net profit that a gambling or a lottery company brings in (Chipeta, 2012). Since tax is an expense for any company, it can imply that it has an impact on organizational performance. This explains the choice of tax policy as a predictor of organizational performance in this study.

Tax policy is fundamental to the present economic development agenda for many countries in the world. It provides a steady flow of revenue to finance development

priorities, such as strengthening physical infrastructure and other numerous policy areas (Pfister, 2014). Tax policy forms the environment in which international trade and investment take place hence main challenge is locating the optimal balance between a tax regime that is business and investment friendly and one which can leverage adequate revenue for public service delivery to heighten the attractiveness of the economy (Bird, 2015). Additionally, to the economic input that the gambling industry makes, it also contributes to government revenue through taxation. The gambling industry is subject to numerous forms of taxation at both national and county level. Contributions to the national fiscus are made by way of usual income tax imposed on the proceeds of gambling operators, as well as VAT collected from gambling operators registered as VAT vendors (Desmond, 2011).

Kenyan gambling was first launched in 1966 with the introduction of the Betting Lotteries and Gaming Act. These Kenyan gambling laws established the Betting Control and Licensing Board which issues gambling licenses and enforces regulations in all sectors of gambling. Betting laws in Kenya are one of the oldest ones in Africa, and gambling in Kenya is legal since a long time (Government of Kenya, 2015). The government collects millions of dollars in revenue from the gambling industry every year and the games are very popular. According to Kenyan laws, the gambling companies are required to pay 15 percent betting tax, 30 percent corporation tax and 20 percent withhold winnings.

The gambling industry in Kenya has several sub-sectors including gaming, lotteries, sports betting and prize competitions. As at 2018 Kenya had more than 30 licensed betting firms and casinos. A gambling outlook 2017-2021 report by PWC showed that the yearly turnover of the sports betting industry in Kenya is worth $20 million, and will reach $50 million in 2020 as demand grows. The formal Kenyan betting industry,

which paid $28.3 million in taxes in 2015, is ranked third in Africa after South Africa and Nigeria (PWC, 2018). Statistics from Betting Control and Licensing Board (BCLB) (2018) showed that gross gambling revenue for the 2016/2017 financial year was nearly Ksh 20 billion ($198m) equivalent to about half of the annual health budget.

Due to the increase in gambling and lottery companies in Kenya, most companies evade tax. Therefore, Kenya is geared to repeal the gaming and lotteries in the country by introducing another Act of Parliament to streamline the rapidly growing industry in the country (GoK, 2019). In 2018, all the gambling and lottery companies were required to renew the licenses. Further, the betting and lottery firms were vetted afresh. However, BCLB declined the renewal of operational licenses for 19 betting companies awaiting crucial security vetting of their operations and their hierarchy (BCLB, 2019). The government aim was to regulate the availability, accessibility, and affordability of all forms of gambling.

The Kenyan government also introduced new tax policies for gambling and lottery companies. The government re-introduced a 20 per cent tax on winnings. The Tax Laws (Amendment) Bill 2018 sought to restore the tax charged on betting winnings that was dropped in 2016 due to hiccups in its implementation. Up to 2018, there were no taxes on winnings, yet the 1966 Act required that tax is chargeable on gaming revenue at the rate of 15 per cent (GoK, 2019). The law now requires that betting companies withhold winnings at the rate of 20 per cent. Besides the 35 per cent tax on revenues, betting firms pay 30 per cent corporate tax and must dedicate 25 per cent of sales to charities as a legal requirement, before taking care of winnings and other operating expenses. Before the flat tax of 35 per cent was introduced, lottery firms were taxed at five per cent of sales, betting firms at 7.5 per cent, casinos at 12 per cent

and competitions such as raffles at 15 per cent besides other taxes and levies (GoK, 2019). Gambling and lottery companies have described the taxation system as punitive. Therefore, this study seeks to establish the effects of tax policy on organizational performance of gambling and lottery companies in Nairobi County, Kenya.

In Kenya, the exponential expansion of the sector has certainly been of benefit to the taxman, with the government initiating new taxes that are anticipated to bring in millions of dollars in extra revenues. The Finance Act 2017 which came into effect in 2018 elevated the tax rate on betting, lotteries and gaming activities to 35 % whereby gambling firms are obliged to channel almost half of their turnover to the national coffers making it the largest tax adjustment in Kenya's history and is expected to create a dramatic paradigm shift in the profitable gambling industry in the country. Kenya's Cabinet Secretary of the National Treasury, Mr. Henry Rotich presenting his 2017/2018 budget to Parliament on 30th March 2017 stated that betting, lottery, gaming and competitions companies had grown massively while the sector is insufficiently regulated and therefore suggested that the taxes be increased from the current 7.5 % for betting, 12 % for lottery, 15% for gaming and 15 % for competition for all categories to 50% adding that all proceeds will be put in the newly established Sports Culture and Arts Fund to help support the development of sports culture and arts in the country (Finance Act,2017).

The number of betting and gambling companies in Kenya is high, it comprises more than 30 licensed companies. They include Betika, 22bet, odibet, shabiki, powerbets, m-cheza, Betway, Mozzartbet, Ken Bookmakers, Lucky 2u, Eazi Bet, Kick off, Eastleighbet, Palms Bet, Bet Boss and helabet among others. The gambling industry in Kenya is controlled by the Betting Control and Licensing Board (BCLB). The

board regulates every gambling activities ranging from lotteries, casinos, sports betting, prize competitions and promotions (BCLB, 2017).

The gambling and lottery companies in Kenya comprise; Betway, Lotto, Pambazuka National, Shabiki, Powerbet, Mozzartbet and mCheza. According to PricewaterhouseCoopers (2017), Kenya is the third largest gambling market after South Africa and Nigeria respectively in Africa pertaining to revenues. However, on the subject of participants, Kenya could be ahead of its peers in the region. Kenya is the frontrunner in the most amount of money consumed on gambling, according to GeoPoll. Unlike youth in other African countries, many Kenyan youth bet once a week spending about $50 (Sh5, 000) per month mainly on football bets. Youth elsewhere expend less than $50 a month and most bet only once a month. The government seems to have resort to being penal on gambling firms instead of tightening regulation owing to the profitable nature of the betting industry. In early 2017, the government initiated a five-fold tax hike (35%) on betting in an attempt to raise funds that would sustain sports and cultural activities. In November, it also proclaimed a proposal to deliver preferential tax treatment to betting companies who pay their customers by buying them shares in blue-chip companies or in government bonds. The change is part of the Capital Markets Authority's strategy to get more people to invest at the Nairobi Securities Exchange.

Smith (2010) did an assessment on gambling taxation: public equity in the gambling business and discovered that gambling taxation is regressive, and increasingly so as access broadens. Kahlil (2013) did a normative examination of gambling tax policy and suggested that fixed license based taxes may be desirable to taxes on GGR. Paton, Siegel and Williams (2014) analyze taxation and the demand for gambling. It was noted that the demand for bookmaker gambling is highly subtle to the rate of taxation

and that the decrease in the rate of taxation resulted in a large increase in the demand for onshore betting. Botha (2014) reviewed the role of government in the South African gambling industry and found that only the winnings were dependent to a withholding tax system did not contribute to a regulator role to decline excessive gambling and thereby reducing negative externalities. Nel and Viviers (2015) did an exploration on tax options to limit excessive gambling in South Africa and concluded by proposing the option, namely, to impose an excise tax upon gambling tickets, chips and tokens vended. Walker and Jackson (2014) aimed to find out examined the influence of legalized gambling on state government revenue. The outcomes were that lotteries and horse racing have a tendency to upsurge state revenues, whereas casinos and greyhound racing tend to decline state revenues. This study sought to establish the perceived effects of tax policy on organizational performance of gambling and lottery companies in Kenya.

1.2 Statement of the Problem

The Kenyan government concern with betting companies is on tax. In 2018, the betting industry made around Sh204 billion but only remitted Sh4 billion in taxes. Moreover, most of the companies did not submit the 20% withholding tax on payouts. Due to the issues between the Government and betting companies over tax compliance issues, two large betting firms, SportPesa and Betin Kenya halted its operations in Kenya owing to what it termed as a hostile operating environment, with the taxation regime on the betting industry making the company's operations in the country unviable. Parliament passed the Finance Bill 2019, which has clauses that introduced 20 per cent excise duty on staked amounts. SportPesa was disappointed with the decision by the Kenyan legislature to impose a 20 per cent excise tax on all betting stakes (Odero, 2019).

The Kenyan betting industry has been performing well. In the first half of 2017, it was the fastest growing region around the globe with a growth rate of 5.6 per cent. The gross gambling revenue in Kenya stood at approximately Sh7bn monthly and about Sh100 billion annually (BCLB, 2018). The revenue for betting companies at the end of 2018 was between Sh20 billion and Sh25 billion. However, the companies pay huge taxes from their revenue. For instance, SportPesa records (2018) show that it paid Sh400 million in 2018 as withholding tax on winnings. This was in addition to Sh3.6 billion betting tax, Sh1.12 billion corporate tax, Sh722.9 million withholding tax, Sh183.4 million withholding value-added tax and Sh269.6 million pay-as-you-earn for its 367 employees. This amounted to Sh6.29 billion in taxes up from Sh3.63 billion paid in 2017. Betting tax jumped from Sh1 billion in 2016 to Sh3.6 billion in 2017. Due to the increase in taxes the organizational performance of the betting industry declined by 7% in 2019 (BCLB, 2019).

Due to the changes of taxation of gambling and lottery companies, some firms have closed their businesses in Kenya. It is therefore important to know how the tax policy affects the organizational performance of gambling and lottery companies that are still in operation. Karingi (2014) carried out an assessment on beer taxation in Kenya where they found out that there is need for the government to review taxes on beer as low taxes may create incentives to produce more. Kiringai (2013) assessing the tobacco industry argues that price elasticity of demand for tobacco is low. Therefore, an increase in price from increases in taxes on tobacco products is unlikely to reduce demand by so much, while instead increasing government revenue. Rongo, Njeru and Ojwang (2015) argues that implicit taxes means that the cost of production to farmer's increases and raising these taxes would have adverse effects on agriculture while assessing the agricultural sector. Njogu (2015) also assessed the general impact of

taxation on economic growth in Kenya. In the Gambling industry, Felix (2014) studied how sports–relating betting is organized in the country from a historical and policy perspective. Most research on gambling in Kenya has focused on the pathological sides of gambling, Wanjohi (2015) and Koross (2016) explored the impact of gambling on the youth. Mwandime (2017) explored the impact of robust growth of the sports betting industry in Kenya. This study therefore sought to establish the perceived effects of tax policy on organizational performance of gambling and lottery companies in Nairobi County, Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to establish the perceived effect of tax policy on organizational performance of gambling and lottery companies in Nairobi County, Kenya

1.3.2 Specific Objectives

The study was guided by the following specific objectives:

   i.   To establish the perceived effect of corporate tax on organizational performance of gambling and lottery companies in Nairobi County, Kenya

  ii.   To assess the perceived effect of withholding tax on organizational performance of gambling and lottery companies in Nairobi County, Kenya

 iii.   To examine the perceived effect of betting tax on organizational performance of gambling and lottery companies in Nairobi County, Kenya

1.4 Research Hypotheses

H_{01} Corporate tax has no significant perceived effect on organizational performance of gambling and lottery companies in Nairobi County, Kenya

H_{02} Withholding tax has no significant perceived effect on organizational performance of gambling and lottery companies in Nairobi County, Kenya

H_{03} Betting tax has no significant perceived effect on organizational performance of gambling and lottery companies in Nairobi County, Kenya

1.5 Significance of the Study

The study focused on the link between corporate tax, withholding tax and betting tax policies and organizational performance. This is important to betting and lottery companies. The companies would be in a position to negotiate with the government so that they strike a balance between the government goals and company goals.

The study is also valuable to the government and policy makers. It provides an understanding on corporate tax, withholding tax and betting tax policies and organizational performance. This would enable them to improve on the tax policies so that they minimize the high tax burden directed to betting and lottery companies.

The study is also vital to researchers and academicians. It provides an understanding of tax policies and how it affects organizational performance. The study can be used - as a reference for future studies.

1.6 Scope of the Study

The aim of the study was to determine the perceived effects of tax policy on organizational performance of gambling and lottery companies in Nairobi County, Kenya. The study variables were perceived effect of corporate tax, withholding tax and betting tax and organizational performance. The study geographical scope was gambling and lottery companies in Nairobi County. On methodological scope, the study used an explanatory research design. The target population was 250 senior managers and middle level managers from gambling and lottery companies. The study

sample size was 154 senior managers and middle level managers. Simple random sampling technique was utilized to pick out the respondents. The study collected primary data using questionnaires. On time scope, the study was conducted between Jan to Nov 2020.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter discussed the theoretical review and the frameworks that determine the perceived effects of tax policy on organizational performance of gambling and lottery companies. In particular, the study captured the concepts of organizational performance, corporate tax, withholding tax and betting tax, the theoretical literature review, empirical literature review, conceptual framework, summary of the literature, critique of existing literature and literature gaps.

2.2 The Concept of Organizational Performance

Organizational performance emanates from the concepts of efficiency and effectiveness. A business organization must produce the right products and services and it must produce them using the fewest possible inputs if it is to have a strong organizational performance (Upadhaya, Munir & Blount, 2014). Organization performance is determined by how well an organization manages its internal resources and adapts to its external environment and further reflects the accomplishment of its strategic objectives and growth goals (Hult, Hurley & Knight, 2014). It is thus related to the overall organizational achievements as a result of new and better efforts made to gain profit and growth (Agarwal, Erramilli & Dev, 2013).

Organizational performance can be measured by analyzing a company's performance as benchmarked to its corporate goals and the set objectives based on three primary outcomes namely financial performance, market performance and shareholder value performance. Companies aim at performing well in many areas. They strive to do well financially in terms of achieving high profitability and good returns on investment. Another area is where companies strive to achieve high market share by producing

products and services that are on demand and offer them at competitive prices in the market. They also strive towards value creation for their shareholders by ensuring continuous and sustainable value of growth and shareholders return (Buchanan, 2014). Performance measures in form of traditional accounting measures such as the market share, sales growth, return on assets, return on equities and profitability. Other measures include customer satisfaction and non-financial goals of the stakeholders which are important elements in measuring performance of firms (Cheng, 2011).

2.3 Tax Policy

Tax policy is an administrative apparatus that is built to levy and collect taxes, through application of different tariffs and basis of taxation (Bird, 2015). Taxes are levied in almost every country of the world, primarily to raise revenue for government expenditures, although they serve other purposes as well. In modern economies taxes are the most important source of governmental revenue. Taxes differ from other sources of revenue in that they are compulsory levies and are unrequited that is, they are generally not paid in exchange for some specific thing, such as a particular public service, the sale of public property, or the issuance of public debt (Lapatinas & Litina, 2018).

Tax policy should seek to be neutral and equitable between forms of business activities. A neutral tax will contribute to efficiency by ensuring that optimal allocation of the means of production is achieved (Overesch & Rincke, 2011). Tax rules should be clear and simple to understand, so that taxpayers know where they stand. A simple tax system makes it easier for individuals and businesses to understand their obligations and entitlements. As a result, businesses are more likely to make optimal decisions and respond to intended policy choices. Tax policy should produce the right amount of tax at the right time, while avoiding both double taxation

and unintentional non-taxation. In addition, the potential for evasion and avoidance should be minimized (Benhabib, Rustichini & Velasco, 2011). It is important that a tax system is dynamic and flexible enough to meet the current revenue needs of governments while adapting to changing needs on an ongoing basis. This means that the structural features of the system should be durable in a changing policy context, yet flexible and dynamic enough to allow governments to respond as required to keep pace with technological and commercial developments (Bird, 2015).

2.4 Concept of Corporate Tax

A corporate tax is a levy placed on a firm's profit by the government. The money collected from corporate taxes is used for a nation's source of income (Staneva, Bogossian & Wittkowski, 2015). A firm's operating earnings are calculated by deducting expenses including the cost of goods sold and depreciation from revenues. Then, tax rates are applied to generate a legal obligation the business owes the government. Rules surrounding corporate taxation vary greatly worldwide, but they must be voted upon and approved by a country's government to be enacted. Some areas are considered tax heavens, like Jersey, and are heavily prized by corporations (Galizzi, 2012).

A country's corporate tax may apply to: corporations incorporated in the country, corporations doing business in the country on income from that country, foreign corporations who have a permanent establishment in the country, or corporations deemed to be resident for tax purposes in the country (Galizzi, 2012). Company income subject to tax is often determined much like taxable income for individual taxpayers. Generally, the tax is imposed on net profits. In some jurisdictions, rules for taxing companies may differ significantly from rules for taxing individuals. Certain

corporate acts, like reorganizations, may not be taxed. Some types of entities may be exempt from tax (Leahy, Lyons & Tol, 2011).

Under the Income Tax Act of Kenya (the Income Tax Act), the income in respect of gains or profits from a business is charged a corporation tax rate of 30% of the taxable income of resident companies and 37.5% of the taxable income of non-resident companies with a permanent establishment in Kenya. Therefore, betting, lotteries and gaming entities (the gambling entities) that are incorporated in Kenya are chargeable to a corporation tax rate of 30% on their taxable income and foreign entities with a permanent establishment in Kenya chargeable at the rate of 37.5% (GoK, 2018).

2.5 Concept of Withholding Tax

A withholding tax is an amount that an employer withholds from employees' wages and pays directly to the government. The amount withheld is a credit against the income taxes the employee must pay during the year. It also is a tax levied on income (interest and dividends) from securities owned by a nonresident as well as other income paid to nonresidents of a country (Walker & Nesbit, 2014). Governments use withholding tax as a means to combat tax evasion, and sometimes impose additional withholding tax requirements if the recipient has been delinquent in filing tax returns, or in industries where tax evasion is perceived to be common (Philander, 2012). Philander (2012) adds that withholding taxes are used by the taxation authorities as an administrative mechanism to trap the relevant tax before the non-resident escapes from the grasp of such authority.

Typically the withholding tax is treated as a payment on account of the recipient's final tax liability, when the withholding is made in advance. It may be refunded if it is determined, when a tax return is filed, that the recipient's tax liability to the

government which received the withholding tax is less than the tax withheld, or additional tax may be due if it is determined that the recipient's tax liability is more than the withholding tax. In some cases the withholding tax is treated as discharging the recipient's tax liability, and no tax return or additional tax is required. Such withholding is known as final withholding (Thompson & Stream, 2005). The amount of withholding tax on income payments other than employment income is usually a fixed percentage. In the case of employment income the amount of withholding tax is often based on an estimate of the employee's final tax liability, determined either by the employee or by the government (Walker & Nesbit, 2014). In the USA, the withholding tax system is designed to mitigate the risk of taxpayers failing to declare gambling winnings. Only winnings over a certain amount are reported for tax purposes by the gambling house concerned (Oosthuizen, 2010).

In Kenya, the Income Tax Act imposes a tax on the winnings of a player in the form of a withholding tax, to be deducted and remitted by the gambling entities. The withholding tax is payable on payments in respect of gross winnings made to both resident and non-resident persons. The Income Tax Act provides for a withholding tax rate of 20% payable on gross winnings made to both resident and non-resident persons. This means that players and participants of gaming entities are taxed on their gross winnings without deducting any of the lost stakes. However, the withholding tax rate payable on gross winnings made to non-residents, could be varied depending on whether there is a double tax treaty between Kenya and the resident country of the player subject to the limitation of treaty benefits provisions (GoK, 2018).

2.6 Concept of Betting Tax

This is a tax charged on winnings from betting, gaming and lottery activities. Betting, gaming, and lottery businesses are required to withhold tax and pay to KRA, a

percentage of the winnings being paid out to winners in Kenya. Internationally, different countries have adopted various modes of taxing the gambling industry. For example, for bookmakers, some countries tax them as any other trading company while others ascribe different taxes depending on the various gambling activities, that is, betting, lottery, casinos and prize competitions. For winnings of the punters, some countries tax them as any other ordinary income, others attach a final withholding tax on the payments while others do not tax these winnings (Anderson, 2015).

In the US for example, gambling winnings are fully taxable and a winner must disclose these winnings in their tax return. One may deduct gambling losses but only if they are itemized and supported. However, the amount of losses one may deduct cannot be more than the amount of gambling income reported in the return (Gu & Tam, 2011). In the United Kingdom, gambling winnings are not taxable on the punters. The bookmakers are however liable to a 15% tax on their gross profits. In Europe, outside of the UK, tax on punters' winnings is rare (Loretz & Moore, 2013).

2.7 Theoretical Literature Review

Theoretical review section defined theories used to provide backing for the study and thus the variables forming the research are anchored on the theories. This study was based on; optimal tax theory, the ability-to-pay theory and the tax morale theory.

2.7.1 Optimal Tax Theory

According to Ramsey (1927) and Mirrlees (1971) optimal tax theory is concerned with the ideal level and form of economic redistribution. The optimal tax theory seeks to establish how government can maximize social welfare through taxes and transfers, without increasing the sacrifice on the part of tax payers. Whether conscious or not, optimal tax theory actually embodies a resource egalitarian view of distributive justice

to a large extent. However, the reasoning behind the theory's principles emphasizes incentives, efficiency, and the information that choices reveal about individual well-being.

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, Weinzierl & Yagan, 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, as we will see drawing policy conclusions from a model with a representative consumer can also in some cases lead to trouble (Mankiw & Weinzierl, 2009).

This theory indicates that optimal taxation is a function of tax charge and how this tax is collected to ensure fair redistribution of welfare. The optimal tax theory is used in this study to explain the effects of corporate tax on organizational performance of gambling and lottery companies.

2.7.2 The Ability-To-Pay Theory

The theory began from the sixteenth century and was scientifically broadened by the Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean Baptiste Say (1767-1832), the English economist John Stuart and Mill (1806-1873). The theory asserts that taxation should be imposed matching to an individual's ability to pay; that is, public spending should come from business. Essentially, this is in fact the foundation of progressive tax -the tax rate rises by the growth of the taxable amount and is the most equitable tax system, and has been extensively used in industrialized economics. The common and most reinforced defense of ability to pay is on bases of sacrifice. The payment of taxes is observed as a deprivation to the taxpayer since he relinquishes money to the government which he would have used for personal use.

On the other hand, there is no solid method for the measurement of evenhandedness of sacrifice in this theory, as it can be gauged in absolute, proportional or marginal terms. Therefore, equal sacrifice can be quantified for each taxpayer's surrenders similar absolute degree of utility gotten from their income or; every taxpayer foregoes the equivalent proportion of utility acquired from their income or; each taxpayer parts with the same utility for the last unit of income. This theory suggests that tax policies towards gambling and lottery companies should be thoughtful enough to ease their profitability, financial performance and existence and thus their compliance. This

theory elucidates the effects of withholding tax on organizational performance of gambling and lottery companies.

2.7.3 The Tax Morale Theory

The tax morale theory was first forwarded by German scholars focused on Gunter Schmolders known as Cologne school of tax psychology. Tax morale can be termed as the distinct factor that inspires a person to fulfil his or her tax obligations. As a determinant of tax behavior, tax morals aim to expound how and why a tax payer's morality affects his or her tax behavior. Many studies have discovered that tax evasion can be ascribed to the tax morale (Mocetti, 2013).

On the one hand, tax payers would be disposed to evade tax when the communities in which they live or operate censure tax evasion and conversely, tax payers are more likely to observe tax obligation if their friends, relatives and acquaintances comply with these obligations. Likewise, tax payers are expected to evade taxes if they feel that other people are getting away with tax evasion. In other words, if a society endures tax evasion, such a society would embolden tax evasion (Waweru, 2014). Religious beliefs are a variable in tax evasion as research have shown that tax payers who have strong religious obligations or beliefs would likely be tax compliant even if they sense that the tax rate is high (Gee, 2006).

In some cases, tax payers can feel ethically justified in evading taxes if they sense that the quality and quantity of public services and goods are inadequate while in economies where the provision of public goods and services is acceptable the evasion rates are low. Tax payers will have a tendency to comply with their tax obligation if they feel that their government is honest, democratic and participatory and also if the tax payers sense they play a meaningful role in governance. This theory elucidates the

effects of betting tax on organizational performance of gambling and lottery companies.

2.8 Perceived Effect of Tax Policy on Organizational Performance

Smith (2010) did an assessment on gambling taxation: public equity in the gambling business. The study analyzed the forces encouraging governments to provide extreme priority to guarding gambling revenues. It discovered that gambling taxation is regressive, and increasingly so as access broadens. 'Children, madmen and fools' are important to the market. The transition to a goods and services tax, accompanied by the recent investigation by the Productivity Commission into gambling, delivers an opportunity for gambling policy to be attained in a coherent social and economic context rather than as ad hoc and short-term resolutions to State governments' revenue glitches. Such a consequence rests on the Commonwealth government playing a leadership role.

Kahlil (2013) carried out a normative examination of gambling tax policy. The research examined the significance of gambling tax policy. The study suggests that fixed license based taxes may be desirable to taxes on GGR. Where output based taxes are expended, the classes of gambling whose demand is more price sensitive, and the categories that have positive links to other industries, ought to be assessed at comparatively lower rates. Sin-based taxes are observed to boost economic welfare, but only when applied with a rate analogous to harm that is peripheral to the gambler and the operator. Conclusively, inter-jurisdictional rivalry is pinpointed as a significant consideration in tax policy enforcement.

Paton, Siegel and Williams (2014) did a study on taxation and the demand for gambling: new evidence from the United Kingdom. The objective of the investigation

was to ascertain taxation and the demand for gambling: new evidence from the United Kingdom. In October 2001, the U.K. government executed a dramatic move in gambling taxation, ensuing in a considerable decline in taxes levied on U.K. bookmakers. Applying data before and after this event, the research displayed econometric evidence on the demand response to this tax reduction. The outcomes denoted that the demand for bookmaker gambling is highly subtle to the rate of taxation and that the decrease in the rate of taxation resulted in a large increase in the demand for onshore betting. The U.K. policy initiative provided valuable information for policy makers in other countries who are pondering changes in gambling taxation.

Botha (2014) reviewed the role of government in the South African gambling industry: Regulator versus Stakeholder. The aim of the study was questioned because excessive gambling dropped in South Africa during the last few years. This directed the Government altering their proposed method in 2012 from a withholding tax at 15 per cent to a national gambling tax, based on gross gambling revenue, on a standardized provincial gambling tax base, which comprises an additional 1% national levy. The study brought to light that only the winnings were dependent to a withholding tax system did not contribute to a regulator role to decline excessive gambling and thereby reducing negative externalities. Not every gambler was directly affected by this kind of tax. The provincial tax base levies all gambling activities, as all gamblers partaking in gambling were subject to the extra levy. The difficulty was that the gambler is not directly taxed.

Nel and Viviers (2015) conducted an exploration on tax options to limit excessive gambling in South Africa. The aim of the study was to evaluate tax options to curb unnecessary gambling in South Africa. Since 2010, the South African government has made numerous proposals to levy a gambling tax with the objective of disheartening

excessive gambling in South Africa. Even though the South African gambling industry is previously subject to several taxes on both a national and a provincial level, the absolute proposition was to initiate a national gambling tax based on gambling revenue to be charged at an extra one percent charge on a standardized provincial gambling tax base. Exploratory research was undertaken to examine five diverse tax options by gauging it against the features of good tax policy to deduce on their ability to discourage unnecessary gambling. The research concluded by proposing the option, namely, to impose an excise tax upon gambling tickets, chips and tokens vended. This option considers the features of good tax policy and may, in principle, back the objective of discouraging extreme gambling.

Walker and Jackson (2014) examined the influence of legalized gambling on state government revenue in US. The aim of the review was to ascertain the influence of legalized gambling on state government revenue in US. This research put forward a more broad analysis of gambling industries and their effects on state revenues. The research utilized data on gambling volume and state government revenues net of federal government transfers for all 50 states from 1985 to 2000. The outcomes were that lotteries and horse racing have a tendency to upsurge state revenues, whereas casinos and greyhound racing tend to decline state revenues.

2.8.1 Perceived Effects of Corporate Tax on Organizational Performance

Lazăr and Istrate (2018) researched on corporate tax-mix and firm performance. Using a fixed-effect model, the results show that one percentage point increase in overall firm-specific tax rate triggers 0.15 percentage points decrease in return on assets. Moreover, tangibles, leverage and size have a negative effect on Romanian listed companies' performance, while liquidity, growth and lagged profitability have a positive effect. Kurawa (2018) researched on corporate tax and firm financial

performance. Data for the study was collected from the annual reports and accounts of the companies and regression analysis was used as a technique for data analysis. The study found that there is an insignificant negative relationship between corporate tax and financial performance using return on assets as a measure. Age and risk however exhibits a positive but not significant relationship with ROA. Size on the other hand shows a positive and significant relationship with performance confirming prior expectations.

Bizna (2018) researched on the impact of corporate income tax suspension on financial performance. The results showed that the corporate income tax reform would change capital structure of businesses and improve company's sustainability. Gatsi, Gadzo and Kportorgb (2013) researched on the effect of corporate income tax on financial performance of firms in Ghana. The study revealed that there was a significant negative relation between corporate income tax and financial performance. Cai, Chen and Wang (2018) evaluated the impact of corporate taxes on firm innovation in China. Results showed that lower taxes improve both the quantity and quality of firm innovation, and have a bigger impact on those firms that are either financially constrained or those that engage more in tax evasion.

Romero-Jordán, Sanz-Labrador and Sanz-Sanz (2019) did a study to determine if the corporation tax a barrier to productivity growth. It was revealed that corporation tax has a negative effect upon productivity growth in companies with the greatest profitability, whether large or small. However, in relative terms, this barrier is greater for small enterprises. Kurawa and Saidu (2018) focused on corporate tax and financial performance of listed Nigerian firms. It was established that there is an insignificant negative relationship between corporate tax and financial performance using return on assets as a measure. Age and risk however exhibits a positive but not significant

relationship with ROA. Size on the other hand shows a positive and significant relationship with performance.

Adefeso (2018) researched on Government tax policy and performance of listed manufacturing firms in Nigeria and found a positive relationship between corporate tax policy and the output performance of quoted manufacturing firms in Nigeria. Draft (2009) studied the effect of corporate taxes on investment and entrepreneurship. The study revealed that effective corporate tax rate has a large adverse impact on aggregate investment, FDI, and entrepreneurial activity. Corporate tax rates are correlated with investment in manufacturing but not services, as well as with the size of the informal economy. Gatsi (2013) studied the effect of corporate income tax on financial performance of firms. The study revealed that there is a significant negative relation between corporate income tax and financial performance. Otwani and Simiyu (2018) studied the effect of corporate income tax on financial performance of companies listed on the Nairobi securities exchange in Kenya. The study found that that there was a positive relationship between corporate income tax and financial performance of listed companies on the NSE in Kenya.

2.8.2 Perceived Effect of Withholding Tax on Organizational Performance

Bouet and Roy (2012) undertook sector specific research, 'Trade protection and tax evasion', for Kenya, Mauritius and Nigeria, found positive elasticities for evasion regarding comparatively higher tax tariffs. In the same length as the other Kenya studies, higher tax tariffs have a propensity to provide deterrents here too; hitherto, the outcome in this instance is evasion of taxes, ensuing in lower revenues for the state instead of the envisioned aim of increased revenue. Tax avoidance and evasion are prevalent in all countries, and tax structures are unequivocally tilted by this reality

that ultimately affects the real tax returns. Paradigm models of taxation and their conclusions must mull over these realities (Chipeta, 2012).

Nwanyanwu (2012) researched on withholding tax and corporate financial performance in Nigeria. Data were collected from published financial statements. Analyses are performed using descriptive statistics, scatter diagrams and Pearson's product moment coefficient of correlation. Findings indicated that withholding tax (an advance payment of tax) is significantly positively associated with cash flow and profit after tax. Riedle (2016) researched on withholding tax effects on the investment decision. Results showed that withholding taxes have a remarkable additional effect on the investment decision. It was also found that ten percentage point increase in the foreign corporate tax rate was associated with a 15.8% decrease in the affiliate's fixed assets. Furthermore, ten percentage point increase in the withholding tax rate reduces the affiliate's fixed assets by 4.4%.

Becker, Fooken and Steinhoff (2019) researched on behavioral effects of withholding taxes. Results showed that tax adjustments lead to effort adjustments, which suggests that withholding blurs tax incentives. Nyangau (2017) studied the effect of withholding value added tax on tax compliance in Kenya. The results for the three categories of taxpayers revealed that there was a significant difference in the one-way Anova. From the results, the research concludes that there was significance improvement in tax compliance after the enforcement of withholding VAT tax policies in Kenya.

2.8.3 Perceived Effects of Betting Tax on Organizational Performance

Vidal-Puga (2017) focused on the effect of taxation in the online sports betting market. The study analyzed the effect of taxation in the online sport betting market.

The study modeled the two most popular online sport betting bets: fixed-odds and spread, as compared with another traditional sport betting: pari-mutuel. The study characterized the odds and the bookmaker's payoff in (strong) sub game perfect equilibrium for each of the three types of bets under both taxation schemes. The results showed that taxation on gross profit maximizes the utilitarian social welfare. Moreover, the three types of bets were equivalent when the market is symmetric. Pickernell and Brown (2014) researched on gambling as a base for hypothecated taxation in UK. This study utilized two cases: the UK's National Lottery Scheme, and the effects of Electronic Gaming Machine (EGM) proliferation in a low socio-economic region (Logan), of Queensland Australia, in order to illustrate that, it was found that despite different contexts, scales, and gambling vehicles, the general distributional issues of cost and benefit exist in the two jurisdictions and as a result can also have geographically disproportionate impacts.

Leal, López-Laborda and Rodrigo (2012) studied the inside and outside revenue impact of regional gambling taxes in Spain. Using panel data methods, for all the Spanish Autonomous Communities and for the period 1999–2009, the study estimated the revenue of the casinos in each Autonomous Community on the basis of four variables of interest related to the taxation of gambling in each Community, the taxation in the neighboring Autonomous Communities and the expansion of online gambling, and certain economic and socio-demographic control variables. The estimation performed permits the verification of the hypotheses that the taxation of gaming in a region and the expansion of online gambling negatively affect the revenue accrued by the casinos located in that region, but does not offer evidence that the effect produced by the differences in taxation among neighboring regions is significant. The results obtained also confirm the expected impact on the casinos'

revenue of the existence of "type" gamblers (young males, and tourists) and of the economic situation (income and unemployment).

Roukka and Salonen (2019) studied the effects of gambling taxes on different sociodemographic groups in Finland. This study examined how different sociodemographic groups contribute to gambling taxes and how much they are expected to benefit from the redistribution of gambling revenues as public spending. The results show that people who are more disadvantaged (for instance, have lower income, less education, live in a rural area) pay more into gambling taxes. Yet, they can be expected to receive less benefit from the redistribution of gambling revenues.

Belotti, di Porto and Santoni (2016) researched on the effect of local taxes on firm performance. The study found that taxation exerts a negative impact on firms' employment, capital and sales to such an extent as to significantly affect total factor productivity. Gandullia & Leporatti (2019) researched on distributional effects of gambling taxes in Italy. Results showed that gambling taxes are highly regressive and opens important questions on possible reforms of the current system. Smith (2010) did a study on gambling taxation, public equity in the gambling business and found that gambling taxation is regressive and increasingly so as access widens

2.9 Summary of Literature

This chapter has tackled various theories used in the study to establish the perceived effects of tax policy on performance of gambling and lottery companies; it has reviewed the optimal tax theory, the ability-to-pay theory and the tax morale theory. The chapter has also reviewed the existing literature relevant to the study. Some studies have revealed that tax policies are significant to performance of firms while other others the relationship is insignificant. Further, the relationship between tax

policies and performance is also negative or positive. The chapter has also conceptualized the research problem through a conceptual framework, which shows the relationship between the study variable. The chapter also captures the critique of existing literature and research gaps identified from the existing studies.

2.10 Critique of the Literature

Smith (2010) did an evaluation on gambling taxation: public equity in the gambling business. The study analyzed the forces encouraging governments to give excessive priority to protecting gambling revenues. Though the study focused on taxation of gambling companies it failed to explain how the taxation affects performance of the firms. Kahlil (2013) did a normative analysis of gambling tax. The study surveyed the application of normative tax theory to gambling tax policy. However, the study mainly focused on gambling tax and failed to indicate how it affects performance. Paton, Siegel and Williams (2014) did a review on taxation and the demand for gambling: new evidence from the United Kingdom. This study was based in UK which is more advanced in terms of development hence the findings cannot be generalized to a Kenyan situation.

Botha (2014) studied the role of government in the South African gambling industry: Regulator versus Stakeholder. This study was based in South Africa which is in a more advanced stage of development than Kenya; the findings cannot be generalized to betting companies in Kenya. Nel and Viviers (2015) did an exploration on tax options to curb excessive gambling in South Africa. This study was based in South Africa which is in a more advanced stage of development than Kenya; the findings cannot be generalized to betting companies in Kenya. Walker and Jackson (2014) reviewed the effect of legalized gambling on state government revenue in US. This study provided a more general analysis of gambling industries and their effects on

state revenues. The current study focused on tax policy perceived effects on organizational performance of gambling companies. This study was based in US; which is more advanced in terms of development hence the findings cannot be generalized to a Kenyan situation.

2.11 Literature Gaps

Nel and Viviers (2015) conducted an exploration on tax options to curb excessive gambling in South Africa. Walker and Jackson (2014) reviewed the effect of legalized gambling on state government revenue in US. Botha (2014) studied the role of government in the South African gambling industry: Regulator versus Stakeholder. The analysis mainly focused on taxation of the gambling industry. Further, most of the studies were not carried out in Kenya. The literature on gambling tax policy is also minimal as seen from the identified literature. The current study sought to establish the perceived effects of tax policy on organizational performance of gambling and lottery companies.

2.12 Conceptual Framework

Smith (2014) describes conceptual framework as a hypothesized paradigm recognizing the model under study and the association between the dependent and independent variables. The independent variables are corporate tax, withholding tax and betting tax while the dependent variable is organizational performance of gambling and lottery companies.

Independent variables   **Dependent variable**

```
┌─────────────────────────┐
│  Corporate tax          │ ──────┐
│                         │        │
└─────────────────────────┘        │
                                    ↓
┌─────────────────────────┐   ┌─────────────────────────┐
│  Withholding tax        │ → │  Organizational         │
│                         │   │  Performance            │
└─────────────────────────┘   │                         │
                              └─────────────────────────┘
┌─────────────────────────┐        ↑
│  Betting tax            │ ──────┘
│                         │
└─────────────────────────┘
```
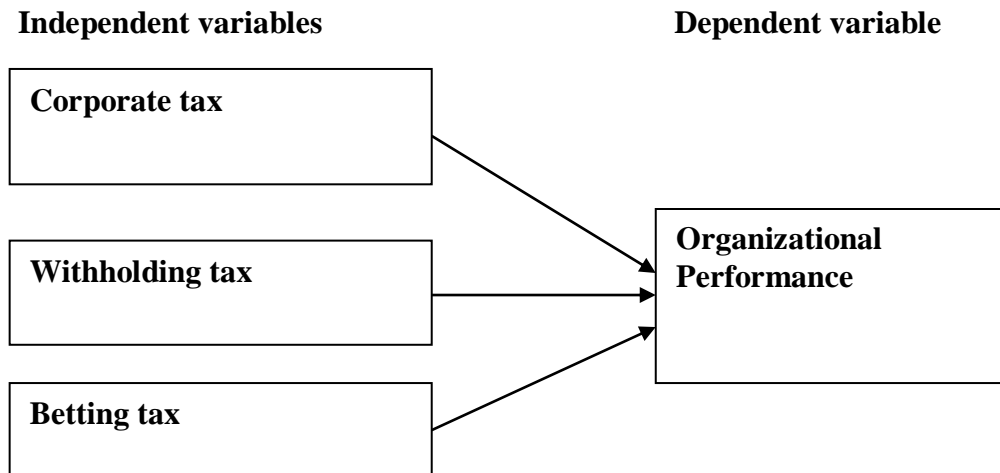
Figure 2.1: Conceptual Framework

Source: Researcher (2020)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design and methodology that was utilized in carrying out the research in the study. It also delved into research design, population and sampling design, data collection methods, research procedures and data analysis methods.

3.2 Research Design

A research design is the general blueprint that details how a research is going to be conducted (Bryman & Bell, 2011). The research design refers to the overall plan used to assemble the different sections of the study in a manner that can be comprehended so as to make sure that the research problem is attended to and fathomed; it offers a guide for the collection, measurement, and analysis of data. The study used an explanatory research design. Explanatory research is conducted in order to identify the extent and nature of cause-and-effect relationships. It focuses on explain the aspects of the study in a detailed manner. It is meant to provide details where a small amount of information exists about the study problem (Bryman & Bell, 2011). The objective of the study was to establish the perceived effects of tax policy on organizational performance of gambling and lottery companies in Nairobi County, Kenya.

3.3 Target Population

A population is a cumulative of all the things, issues or affiliates that assimilate to a set of stipulations. It is a great compendium of individuals or objects that is the principal focus of a scientific inquiry (Chikkodi & Satyaprasad, 2009). Population relates to group of items, objects or persons from which samples are chosen. This

group of people, objects or observations has a common trait (Kombo & Tromp, 2006). As per the Betting and Licensing Control Board currently there are 30 sports gambling and lottery companies in Nairobi County, Kenya with bookmakers licenses (BLCB, 2019) (Appendix IV). Therefore, the target population for this research was the senior managers and middle level managers in the gambling and lottery companies in Nairobi County, Kenya. From the human resources report of the gambling and lottery companies there were a total of 250 managers. Therefore, target population of 250 senior managers and middle level managers from gambling and lottery companies. The senior and middle managers were selected because they are involved in the management of the company and are in a position to explain how tax policy has affected performance. The betting companies were targeted because they provide platforms for gambling which is the focus of the study.

3.4 Sampling Design

This is a technique in statistical analysis utilized for the aim of selection of a characteristic group of the population being studied. According to Cooper and Schindler (2011), a sampling frame is an inventory of elements from which the sample is really drawn and closely related to the population. In this study, the sampling frame was drawn from employees in gambling and lottery companies in Kenya. This was used so as to make sure that the sampling frame is current, comprehensive and pertinent for the achievement of the study objective.

Simple random sampling technique was utilized to pick out the respondents obtained from managers in sports betting companies. In simple random sampling each individual was chosen entirely by chance and each member of the population had an equal chance of being included in the sample. This sampling technique was used since it offers an equal chance of selection for everyone within the population group. The

respondents were picked randomly by the researcher during data collection. The table of random numbers was used. By using a random number table, all members in the population had an equal and independent chance of being selected for the sample group.

The sample size was determined by use of Yamane (1967) formula for calculating sample size.

The formula is   n= N / [1+N (e) 2]

Where n = sample size,

N = population size

e = error term (0.05)

Hence, n = 250/ [1 + 250 (.05)2] = 154.   The study sample size was 154 senior managers and middle level managers. This was 61.6% of the target population.

Table 3.1: Sample Frame

Category	Frequency
Managers	154

3.5 Data Collection Instruments

Data collection denotes the method of counting or calculating and recording of data. It consists of gathering of data assembled and processed from the environment from which the study is being conducted (Mugenda & Mugenda, 2013). In this research, Primary data was used. The data was collected through a structured questionnaire as this enriched the compilation quantitative data in addition to ensure cost efficiency owing to its cost effectiveness. Questionnaires are advantageous in that large amounts of information can be collected from a large number of people in a short period of time and in a relatively cost effective way. The results of the questionnaires can

usually be quickly and easily quantified and can be analyzed more 'scientifically' and objectively than other forms of research.

3.6 Data Collection Procedure

The questionnaires was administered through the drop and pick later method by the researcher with the aid of four trained research assistants. A follow up on the issued questionnaires was done through telephone calls and visits to the respondents' location. The study used a table of random numbers to administer 154 questionnaires out of the total population.

3.7 Pilot Test

There was a pilot test questionnaire to ensure efficiency in gathering data. The purposive of the pilot test was to determine the validity and reliability of the questionnaire. The pilot test was done by administering questionnaire to individuals who were not part of the actual study. The pilot test was conducted in Machakos County. This is because it is neighboring to Nairobi County where the study was conducted. At the pilot stage the questionnaire was issued to 10 individuals in selected betting firms in Machakos County who were not engaged in the actual data collection process. The feedback received from the pilot test aided in the comprehending and relevance of the inquests in the questionnaire.

3.7.1 Validity

Validity refers to the degree to which an instrument measures what it purports to measure. It estimates how accurately the data in the review represents a given variable or construct in the study (Kothari, 2014). Face validity is the extent to which a test is subjectively viewed as covering the concept it purports to measure. Face validity was determined by reviewing the questionnaire items. The items showed a good

representation of what was to be tested then the study achieved face validity. Construct validity indicates the extent to which a measurement method accurately represents a construct. To achieve face and construct validity, the study ensured that the indicators and measurements were carefully developed based on relevant existing knowledge. Content validity of the research instrument was ascertained through careful definition of the research on the basis of the reviewed literature. Additionally, opinion was sought from professionals in the field of tax administration especially the Kenya Revenue Authority officer. The submissions made enabled the necessary revision and amendment of the research instrument thereby enhancing its validity.

3.7.2 Reliability

Reliability is the tendency towards consistency and as a result, different measures of the same concept or the same measurements replicated over time must produce the same outcomes (Treiman, 2009). Reliability is tantamount with the consistency of a test, survey, observation, or other measuring device. Cronbach's alpha based on internal consistency was computed to determine the reliability of the survey instrument. This methodology gauges the mean of measurable items and its correlation. Field (2009) argues that Cronbach's alpha value that is at least 0.70 suffices for a dependable research instrument. In this study a threshold of 0.70 was espoused to establish the reliability of the data collection instrument.

3.8 Data Analysis and Presentation

3.8.1 Descriptive statistics

Collected data was coded using SPSS (version 21). Quantitative data collected was analyzed by the use of descriptive statistics which include percentages, means, standard deviations and frequencies. The information was displayed by use of tables. This was achieved by tallying up responses, computing percentages of variations in

response over and above describing and interpreting the data in line with the study objectives and assumptions.

3.8.2 Inferential Statistics Analysis

The study conducted a correlation analysis to establish the strength of the relationship between the independent and the dependent variable. The correlation coefficient values ranged between -1.0 and 1.0. Correlation value of 0, showed that there was no relationship between the dependent and the independent variables. On the other hand, a correlation of ±1.0 meant that there was a perfect positive or negative relationship. The values were interpreted between 0 (no relationship) and 1.0 (perfect relationship). The relationship was considered small when r $_=$ ±0.1 to ±0.29, while the relationship was considered medium when r $_=$ ±0.3 to ±0.49, and when r$_=$ ±0.5 and above, the relationship was be considered strong.

3.8.3 Statistical Modelling

A multiple regression analysis was conducted to determine the perceived effect of tax policy on organizational performance of gambling and lottery companies in Nairobi County, Kenya. The regression model was;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y= Organizational performance

β_0 = Constant term

X_1= Corporate tax

X_2= Withholding tax

X_3= Betting tax

ε=error term

$\beta_1, \beta_2, \beta_3$ and β_4 are coefficients of determination and ε is the error term. ANOVA was used to establish the level of significance of the established model.

3.9 Testing Multiple Linear Regression Assumptions

This study used regression analysis and therefore the following assumptions were checked; normality and linearity, multicollinearity and heteroscedasticity.

3.9.1 Normality

Data is said to have a normal distribution if it is symmetrically distributed around the centre and its curve is bell shaped (Field, 2009). Data that is not normally distributed are characterized by skewness and kurtosis. This study assessed normality by assessing skewness and kurtosis. Grissom and Kim (2012), stated that if the absolute value of the skewness is greater than three it is described as being extreme and if the absolute of the kurtosis level is greater than eight it is regarded as being extreme. If the acceptable level of skewness and kurtosis is violated then the issue has to be dealt with before multiple analyses is performed.

3.9.2 Linearity

The association existing between the response and the predictor variable must be linear for accuracy in estimation of multiple linear regressions (Osborne & Waters, 2012). Linearity relationship was tested using ANOVA table, where the statistics F= $(R^2/k – 1) / (1- R^2)/ (n-k)$ was used. If it is significant then the linearity assumption applies.

3.9.3 Multicollinearity

Multicollinearity is the linear inter-correlation among predictor variables. Presence of Multicollinearity in a data results to increase in the standard errors which could make the variables to be insignificant when they really are significant (Osborne and Waters,

2002). Multicollinearity was tested using (variance inflation factor). If VIF >5 but less than 10, this is an indication of moderate presence of multicollinearity. If VIF ≥10, this indicates high multicollinearity.

3.9.4 Heteroscedasticity

Heteroscedasticity occurs when the variance of the errors of the dependent variable are not the same across the data. Tabachnick and Fidel (2001) agreed that heteroscedasticity happens when there is variance of the error term is different among the predictor variable values. Heteroscedasticity occurs when the residuals aren't scattered evenly on the horizontal line. To ascertain, heteroscedasticity, graphical examination of squared residuals was used.

3.10 Measurement of Variables

3.10.1 Organizational Performance

Organizational performance is the results of activities of an organization. Fakii (2015) adopted profitability, liquidity, productivity and efficiency to measure organizational performance. Ahmed and Shafiq (2014) measured performance using financial perspective and customer perspective. Matui (2017) measured organizational performance using profitability, customer satisfaction, market performance and shareholder return. This study measured performance using the following items the organization profits have declined, organization return on assets have declined and organization return on investments have declined. The questionnaire was used to collect data on organizational performance.

3.10.2 Corporate Tax

Chatib, Mayara, Rema and Olken (2019) measured perceived corporate taxes using tax rates and tax administration. This study used the following items corporate tax

rates charged by the government are high, failure to pay corporate tax leads to huge fines, corporate tax system takes away a lot of funds from the company, high corporate taxes led to reduced betting operations in the organization and corporate taxes highly burden the consumer and the worker.

3.10.3 Withholding Tax

Uddenäs (2015) indicated that withholding tax comprises resident withholding tax and nonresident withholding tax. This study used the following items; organization pay withholding tax on all wins from betting, organization also pays withholding VAT, late payment of withholding tax attracts high penalty, withholding tax cause short-term loss of income, withholding tax leads to loss of investment interest income and withholding tax leads to disconnect from actual earnings.

3.10.4 Betting Tax

Koross (2017) noted that betting tax comprises corporate tax and winnings tax. This study used the following items; organization pays tax levied on firms' gross gaming revenues, organization pays a gaming levy at one per cent of total monthly revenue, organization is required to pay a renewal fee annually which results to high costs, gaming and lottery attracts high security fees which affects performance, companies' premises licences costs are high therefore affecting performance and betting tax has affected the operations in the organization.

3.11 Operationalization of Variables

Table 3.2: Operationalization of Variables

Variable	Operationalization	Measurement	Supporting literature
Dependent variable			
Organizational performance of gambling and lottery companies	• The organization profits have declined • Organization return on assets have declined • Organization return on investments have declined	Five point Likert scale	Fakii (2015) Ahmed and Shafiq (2014) Matui (2017)
Independent variables			
Corporate tax	• The corporate tax rates charged by the government are high • Failure to pay corporate tax leads to huge fines • The corporate tax system takes away a lot of funds from the company • High corporate taxes led to reduced betting operations in the organization • Corporate taxes highly burden the consumer and the worker.	Five point Likert scale	Chatib, Mayara, Rema and Olken (2019)
Withholding tax	• The organization pay withholding tax on all wins from betting • The organization also pays withholding VAT • Late payment of withholding tax attracts high penalty • Withholding tax cause short-term loss of income • Withholding tax leads to loss of investment interest income • Withholding tax leads to disconnect from actual earnings	Five point Likert scale	Uddenäs (2015)
Betting tax	• The organization pays tax levied on firms' gross gaming revenues • The organization pays a gaming levy at one per cent of total monthly revenue • The organization is required to pay a renewal fee annually which results to high costs • Gaming and lottery attracts high security fees which affects performance • Companies' premises licences costs are high therefore affecting performance • The betting tax has affected the operations in the organization	Five point Likert scale	Koross (2017)

Source: Researcher (2020)

3.12 Ethical Considerations

The researcher obtained an introduction letter from the university requesting for consent to collect data. The researcher also obtained a research permit form NACOSTI. The researcher expounded the objective of the study to the respondents. Further, the respondents were notified of the objectives of the research before they were furnished with the questionnaire. The respondents participated in the study voluntarily. The respondents anonymity was ensured as they were not required to include their names or those of their company in the research tool. The information provided was kept confidential and is only accessible to authorized people. The study was purely made for academic purposes.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter covers the analysis and presentation of data collected from the fields. It will cover the descriptive statistics and inferential statistics.

4.2 Response Rate

The study targeted 154 respondents, all of them were issued with questionnaires, out of which 148 dully filled and returned their questionnaires which translated to a response rate of 96%. The rate of response was considered excellent and suitable to make inference on the study population because according to Mugenda and Mugenda (2009), a rate of response of 50% is considered to be adequate to make analysis and make a report, while a rate of 60% is considered to be good and that of 70% and above is considered to be excellent. In this study our response rate was above 70% and was therefore considered to be excellent.

Table 4.1: Response rate

Category	Frequency	Percent
Response	148	96.0
Non-Response	6	4.0
Total	**154**	**100.0**

Source: Researcher (2020)

4.3 Reliability Test

The reliability of the questionnaire was determined by conducting a reliability analysis. Cronbach's Alpha was used. According to Field (2009) 0.7 is the threshold value of Alpha which was used as the benchmark in this study. Reliability of each objective was determined using Cronbach's alpha. From the findings shown in Table

4.2 corporate tax has an alpha of 0.793, withholding tax has an alpha of 0.764 and betting tax as an alpha of 0.759. This shows that all the variables are reliable since they exceeded the threshold value of 0.7.

Table 4.2: Reliability Analysis

Scale	Cronbach's Alpha	Number of Items
Corporate tax	0.793	6
Withholding tax	0.764	6
Betting tax	0.759	6

Source: Researcher (2020)

4.4 Descriptive Statistics

4.4.1 Perceived Effects of Corporate Tax on Gambling and Lottery Companies

The respondents were asked to indicate their level of agreement with the following statements. Scale 1-strongly disagree, 2-disagree, 3-moderate 4-agree, 5-strongly agree. The results were as presented in Table 4.3

Table 4.3: Perceived Effects of Corporate Tax on Gambling and Lottery Companies

Statements	1	2	3	4	5	Mean	Std. Dev
The corporate tax rates charged by the government are high	5	9	12	78	44	3.993	0.941
Failure to pay corporate tax leads to huge fines	6	7	14	69	52	4.041	0.921
The corporate tax system takes away a lot of funds from the company	5	8	10	81	44	4.020	0.978
High corporate taxes led to reduced betting operations in the organization	4	6	10	91	37	4.020	1.052
Corporate taxes highly burden the consumer and the worker.	3	7	11	72	55	4.142	0.983
High corporate income tax rates encourage betting firms to store their foreign earnings abroad instead of investing it into expansion and employment	6	7	12	59	64	4.135	0.983
Aggregate						**4.059**	**0.976**

Source: Researcher (2020)

From the findings in Table 4.3, the respondents agreed that corporate taxes highly burden the consumer and the worker as shown by a mean of 4.142 and standard deviation of 0.983, high corporate income tax rates encourage betting firms to store their foreign earnings abroad instead of investing it into expansion and employment as shown by a mean of 4.135 and standard deviation of 0.983, failure to pay corporate tax leads to huge fines as shown by a mean of 4.041 and standard deviation of 0.921, the corporate tax system takes away a lot of funds from the company as shown by a mean of 4.020 and standard deviation of 0.978, high corporate taxes led to reduced betting operations in the organization as shown by a mean of 4.020 and standard deviation of 1.052 and the corporate tax rates charged by the government are high as shown by a mean of 3.993 and standard deviation of 0.941. The findings disagree with Kurawa (2018) who found an insignificant negative relationship between corporate tax and financial performance using return on assets as a measure. The findings agree with Gatsi, Gadzo and Kportorgb (2013) who found that there was a significant negative relation between corporate income tax and financial performance. Gatsi (2013) also found a significant negative relation between corporate income tax and financial performance.

4.4.1.1 Model Summary for Corporate Tax

Table 4.4: Model Summary for Corporate Tax

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.615[a]	.378	.369	.10447
a. Predictors: (Constant), corporate tax				

Source: Researcher (2020)

From the findings, R^2 was 0.378 which suggests that there existed 37.8% variation of organizational performance of gambling and lottery companies due to the changes in corporate tax. The remaining 62.2% suggest that there exist other factors that affect

organizational performance of gambling and lottery companies that were not covered in this study.

4.4.1.2 Analysis of Variance for Corporate Tax

Table 4.5: ANOVA for Corporate Tax

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	39.718	1	39.718	273.388	.000[b]
1	Residual	21.211	146	0.145		
	Total	60.929	147			

Source: Researcher (2020)

The findings from ANOVA analysis showed that the population parameters had a p-value of 0.001. This suggests that the data was suitable for making conclusion on the population under investigation because the p-value was less than 0.05. The F critical was less than F calculated ($3.906 < 273.388$). This shows that data used in the study was significant.

4.4.1.3 Coefficients for Corporate Tax

Table 4.6: Coefficients for Corporate Tax

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	**Std. Error**	**Beta**		
1	(Constant)	.401	.118		3.398	.003
	Corporate tax	-.372	.097	-.305	-3.835	.002

Source: Researcher (2020)

The regression equation was

$$Y = 0.401 - 0.372X_1$$

From the findings, holding corporate tax to a constant zero, it would significantly influence organizational performance of gambling and lottery companies as shown by

constant =0.401. The findings agree with Gatsi (2013) who found a significant negative relation between corporate income tax and financial performance.

4.4.2 Perceived Effect of Withholding Tax on Performance of Gambling and Lottery Companies

The respondents were asked to indicate their level of agreement with the following statements. Scale 1-strongly disagree, 2-disagree, 3-moderate 4-agree, 5-strongly agree. The results were as presented in Table 4.7

Table 4.7: Perceived Effect of Withholding Tax on Performance of Gambling and Lottery Companies

Statements	1	2	3	4	5	Mean	Std. Dev
The organization pay withholding tax on all wins from betting	3	5	14	86	40	4.047	1.005
The organization also pays withholding VAT	2	6	15	75	50	4.115	0.959
Late payment of withholding tax attracts high penalty	4	4	12	91	37	4.034	1.051
Withholding tax cause short-term loss of income	3	4	15	80	46	4.095	0.979
Withholding tax leads to loss of investment interest income	2	5	10	98	33	4.047	1.121
Withholding tax leads to disconnect from actual earnings	1	6	16	85	40	4.061	0.990
Aggregate						**4.067**	**1.018**

Source: Researcher (2020)

From the findings in Table 4.7, the respondents agreed that the organization pays withholding VAT as shown by a mean of 4.115 and standard deviation of 0.959, withholding tax cause short-term loss of income as shown by a mean of 4.095 and standard deviation of 0.979, withholding tax leads to disconnect from actual earnings as shown by a mean of 4.061 and standard deviation of 0.990, withholding tax leads

to loss of investment interest income as shown by a mean of 4.047 and standard deviation of 1.121, the organization pay withholding tax on all wins from betting as shown by a mean of 4.047 and standard deviation of 1.005 and late payment of withholding tax attracts high penalty as shown by a mean of 4.034 and standard deviation of 1.051. The findings concur with Nwanyanwu (2012) who indicated that withholding tax (an advance payment of tax) is significantly positively associated with cash flow and profit after tax. Findings by Riedle (2016) showed that withholding taxes have a remarkable additional effect on the investment decision.

4.4.2.1 Model Summary for Withholding Tax

Table 4.8: Model Summary for Withholding Tax

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.682[a]	.465	.458	.21560

a. Predictors: (Constant), Withholding Tax

Source: Researcher (2020)

From the findings, R^2 was 0.465 which suggests that there existed 46.5% variation of organizational performance of gambling and lottery companies due to the changes in withholding tax. The remaining 53.5% suggest that there exist other factors that affect organizational performance of gambling and lottery companies that were not covered in this study.

4.4.2.2 Analysis of Variance for Withholding Tax

Table 4.9: ANOVA for Withholding Tax

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	45.161	1	45.161	221.787	.000[b]
1	Residual	29.729	146	0.204		
	Total	74.89	147			

Source: Researcher (2020)

The findings from ANOVA analysis showed that the population parameters had a p-value of 0.001. This suggests that the data was suitable for making conclusion on the population under investigation because the p-value was less than 0.05. The F critical was less than F calculated (3.906 < 221.787). This shows that data used in the study was significant.

4.4.2.3 Coefficients for Withholding Tax

Table 4.10: Coefficients for Withholding Tax

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.384	.112		3.429	.002
Corporate tax	-.351	.099	-.335	-3.545	.002

Source: Researcher (2020)

The regression equation was

$Y = 0.384 - 0.351X_2$

From the findings in Table 4.10, holding withholding tax to a constant zero, it would significantly influence organizational performance of gambling and lottery companies as shown by constant =0.384

4.4.3 Perceived Effects of Betting Tax on Performance of Gambling and Lottery Companies

The respondents were asked to indicate their level of agreement with the following statements. Scale 1-strongly disagree, 2-disagree, 3-moderate 4-agree, 5-strongly agree. The results were as presented in Table 4.11

Table 4.11: Perceived Effects of Betting Tax on Performance of Gambling and Lottery Companies

Statements	1	2	3	4	5	Mean	Std. Dev
The organization pays tax levied on firms' gross gaming revenues	2	5	9	103	29	4.027	1.173
The organization pays a gaming levy at one per cent of total monthly revenue	1	3	11	88	45	4.169	1.066
The organization is required to pay a renewal fee annually which results to high costs	3	4	10	96	35	4.054	1.105
Gaming and lottery attracts high security fees which affects performance	2	5	12	92	37	4.061	1.062
Companies' premises licences costs are high therefore affecting performance	4	5	9	89	41	4.068	1.053
The betting tax has affected the operations in the organization	1	3	14	78	52	4.196	1.011
Aggregate						**4.096**	**1.087**

Source: Researcher (2020)

From the findings, the respondents agreed that the betting tax has affected the operations in the organization as shown by a mean of 4.196 and standard deviation of 1.011, the organization pays a gaming levy at one per cent of total monthly revenue as shown by a mean of 4.169 and standard deviation of 1.066, companies' premises licences costs are high therefore affecting performance as shown by a mean of 4.068 and standard deviation of 1.053, gaming and lottery attracts high security fees which affects performance as shown by a mean of 4.061 and standard deviation of 1.062, the organization is required to pay a renewal fee annually which results to high costs as shown by a mean of 4.054 and standard deviation of 1.105 and the organization pays tax levied on firms' gross gaming revenues as shown by a mean of 4.027 and standard deviation of 1.173. The findings concur with Leal, López-Laborda and Rodrigo (2012) who noted that the taxation of gaming in a region and the expansion of online gambling negatively affect the revenue accrued by the casinos. Belotti, di Porto and

Santoni (2016) found that taxation exerts a negative impact on firms' employment, capital and sales to such an extent as to significantly affect total factor productivity.

4.4.3.1 Model Summary for Betting Tax

Table 4.12: Model Summary for Betting Tax

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.629[a]	.396	.388	.25127

a. Predictors: (Constant), Betting Tax

Source: Researcher (2020)

From the findings, R^2 was 0.396 which suggests that there existed 39.6% variation of organizational performance of gambling and lottery companies due to the changes in betting tax. The remaining 60.4% suggest that there exist other factors that affect organizational performance of gambling and lottery companies that were not covered in this study.

4.4.3.2 Analysis of Variance for Betting Tax

Table 4.13: ANOVA for Betting Tax

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	32.538	1	32.538	190.754	.000[b]
1	Residual	24.904	146	0.171		
	Total	57.442	147			

Source: Researcher (2020)

The findings from ANOVA analysis in Table 4.13 showed that the population parameters had a p-value of 0.001. This suggests that the data was suitable for making conclusion on the population under investigation because the p-value was less than 0.05. The F critical was less than F calculated (3.906 < 190.754). This shows that data used in the study was significant.

4.4.3.3 Coefficients for Betting Tax

Table 4.14: Coefficients for Betting Tax

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.418	.119		3.513	.002
Corporate tax	-.392	.101	-.359	-3.881	.002

Source: Researcher (2020)

The regression equation was

$Y = 0.418 - 0.392X_3$

From the findings, holding betting tax to a constant zero, it would significantly influence organizational performance of gambling and lottery companies as shown by constant =0.418

4.4.4 Organizational Performance

The respondents were asked to indicate their level of agreement with the following statements. Scale 1-strongly disagree, 2-disagree, 3-moderate 4-agree, 5-strongly agree

Table 4.15: Organizational Performance

Statements	1	2	3	4	5	Mean	Std. Dev
The organization profits have declined	6	11	116	12	6	3.865	1.329
The organization return on assets have declined	7	13	103	23	7	3.932	1.155
The organization return on investments have declined	5	10	120	11	5	3.899	1.384
Aggregate						**3.899**	**1.289**

Source: Researcher (2020)

From the findings in Table 4.15, the respondents agreed that the organization return on assets have declined as shown by a mean of 3.932 and standard deviation of 1.155,

the organization return on investments have declined as shown by a mean of 3.899 and standard deviation of 1.384 and the organization profits have declined as shown by a mean of 3.865 and standard deviation of 1.329.

4.5 Inferential Statistics

4.5.1 Correlation Analysis

The relationship that existed between the response and the predictor variables was analyzed using correlation analysis. This study used Pearson Moment Correlation in determining the relationship between corporate tax, withholding tax, and betting tax with organizational performance of gambling and lottery companies. The suitability of Pearson correlation is that it shows the information about the magnitude of the association, or correlation of variables, as well as the direction of the relationship. The results were as shown in Table 4.16.

Table 4.16: Correlations Coefficient

		Organizational Performance	Corporate Tax	Withholding Tax	Betting Tax
Organizational Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	148			
Corporate Tax	Pearson Correlation	-0.781**	1		
	Sig. (2-tailed)	0.001			
	N	148	148		
Withholding Tax	Pearson Correlation	-0.794**	.371	1	
	Sig. (2-tailed)	0.001	.023		
	N	148	148	148	
Betting Tax	Pearson Correlation	-0.788**	.312	.309	1
	Sig. (2-tailed)	0.001	.037	.049	
	N	148	148	148	148

**. Correlation is significant at the 0.001 level (2-tailed).

Source: Researcher (2020)

From the findings in Table 4.16, corporate tax was found to have a strong, negative and significant relationship with organizational performance of gambling and lottery companies (r = -0.781, p-value = 0.001). The relationship was considered significant because the p- value obtained (0.001) was less than the selected significance level (0.05). These findings therefore suggest that corporate tax causes a decline in organizational performance of gambling and lottery companies.

Withholding tax was found to have a strong, negative and significant relationship with organizational performance (r = -0.794, p-value = 0.001). The relationship was considered significant because the p- value obtained (0.000) was less than the selected significance level (0.05). These findings therefore suggest that withholding tax causes decline in organizational performance of gambling and lottery companies.

Betting tax was found to have a strong, negative and significant relationship with organizational performance of gambling and lottery companies (r = -0.788, p-value = 0.001). The relationship was considered significant because the p- value obtained (0.000) was less than the selected significance level (0.05). These findings therefore suggest that betting tax causes decline in organizational performance of gambling and lottery companies.

4.5.2 Diagnostic Test for Regression Analysis

4.5.2.1 Normality Test

Normality of the variables was examined using the skewness and kurtosis. According to Kline (2011) the univariate normality of variables can be assumed if the skewness statistic is within the interval (-3.0, 3.0) and the kurtosis statistic lying in the interval (-10.0, 10.0). The study conducted a normality test the findings were as shown in Table 4.17.

Table 4.17: Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Corporate tax	0.127	148	0.239	0.887	148	0.212
Withholding tax	0.153	148	0.104	0.834	148	0.501
Betting tax	0.126	148	0.141	0.924	148	0.397

Source: Researcher (2020)

From the results the statistic of Shapiro-Wilk test is 0.887, 0.834 and 0.924 with a significance of 0.212, 0.501 and 0.397 for corporate tax, withholding tax and betting tax respectively. If the significance value of the Shapiro-Wilk Test is greater than 0.05 then the null hypothesis that the data came from a normally distributed population, if it is below 0.05 then the data is not normally distributed then the null hypothesis is rejected and there is evidence that the data tested are not from a normally distributed population (Sekaran & Bougie, 2009; Saunders *et al.,* 2012). From the results the significance level of corporate tax, withholding tax and betting tax respectively are above 0.05 therefore the null hypotheses cannot be rejected. This also implies that data tested was from a normally distributed population.

4.5.2.2 Multi Collinearity Test

The study carried out a multi collinearity test. Results were as shown in Table 4.18

Table 4.18: Summary of Collinearity Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
Corporate tax	0.524	2.728
Withholding tax	0.486	1.423
Betting tax	0.534	1.352

Source: Researcher (2020)

To help assess multicollinearity, Variance Inflation Factor (VIF) was used, which measures multicollinearity in the regression model. The general rule of thumb is that VIF exceeding 4 warrant further investigations, if there are two or more variables that will have a VIF around or greater than 5, one of these variables must be removed from the regression model (Bryman & Cramer, 2012). The VIF values found in Table 4.18 show that, there was no multicollinearity among the independent variables, since all the values are below 5. Further, if the value of tolerance is less than 0.2 or 0.1, then the multicollinearity is problematic. From the findings the tolerance values are more than 0.2. This implies that there was no multicollinearity among the independent variables, since all the values are below 0.2. This implies that the results of the multiple regression equation are not misleading, since the independent variables in the multiple regression equation are not highly correlated among themselves.

4.5.2.3 Heteroscedasticity Test

Heteroscedasticity is a situation where the variability of a variable is unequal across the range of values of a second variable that predicts it (Vinod, 2008). In this study Heteroscedasticity was tested by performing the Breuch-pagan / cook-weisberg test. Breusch-Pagan / Cook-Weisberg test the null hypothesis that the error variances are all equal versus the alternative that the error variances are a multiplicative function of one or more variables. Homoscedasticity would be evident when the value of "Prob > Chi-squared" is greater than 0.05 (Park, 2008). Table 4.19 shows that the constant variance ($Chi^2 = 2.6874$) is insignificant (P = 0.541).

Table 4.19: Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

Ho: Constant variance			
Statistics	df	Stat value	p-value
Chi-squared	3	2.6874	0.5412

Source: Researcher (2020)

4.5.3 Multiple Regression Analysis

4.5.3.1 Model Summary

Changes in response variable as a result of changes in predictor variables were determined using the model summary. Variations of organizational performance of gambling and lottery companies due to the changes of corporate tax, withholding tax, and betting tax was analysed in this study.

Table 4.20: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.836[a]	0.699	.691	0.21658

Source: Researcher (2020)

Adjusted R^2 was 0.691 which suggested that there existed 69.1% variation of organizational performance of gambling and lottery companies can be explained changes in corporate tax, withholding tax, and betting tax. The remaining 30.9% suggest that there exist other factors that affect organizational performance of gambling and lottery companies that were not covered in this study.

4.5.3.2 Analysis of Variance

In order to determine whether the data that was used in the study was significant, ANOVA was performed. The findings from ANOVA analysis showed that the population parameters had a p-value of 0.001. This suggests that the data was suitable

for making conclusion on the population under investigation because the p-value was less than 0.05.

Table 4.21: Analysis of variance

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.319	3	11.773	56.754	.001[b]
	Residual	29.871	144	0.207		
	Total	**65.19**	**147**			

Source: Researcher (2020)

The F critical was less than F calculated (2.667<56.754). This shows that corporate tax, withholding tax, and betting tax had a significant relationship with organizational performance of gambling and lottery companies.

4.5.3.3 Hypothesis Testing

The regression equation was

$Y = 0.968 - 0.467X_1 - 0.455X_2 - 0.472X_3 + \varepsilon$

The equation above revealed that holding corporate tax, withholding tax, and betting tax to a constant zero, organizational performance of gambling and lottery companies would be at constant value 0.968 as shown in Table 4.22.

Table 4.22: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	**(Constant)**	0.968	0.149		6.497	0.001
	Corporate Tax	-0.491	0.123	-0.467	-3.992	0.003
	Withholding Tax	-0.489	0.135	-0.455	-3.622	0.003
	Betting Tax	-0.496	0.124	-0.472	-4.000	0.002

Source: Researcher (2020)

The findings showed that corporate tax had a significant influence on organizational performance of gambling and lottery companies (p-value=0.003<0.05). This is because the p-value (0.003) was less than the selected level of significance (0.05). The results also show that corporate tax had a negative significant effect on organizational performance of gambling and lottery companies (β = -0.467). Therefore, a unit increase in corporate tax will result to decrease in organizational performance of gambling and lottery companies by 0.467 units.

This implies that we reject the null hypothesis and conclude that corporate tax has a significant effect on organizational performance of gambling and lottery companies in Nairobi County, Kenya.

The findings showed that withholding tax had a significant influence on organizational performance as shown by (β = -0.455, P = 0.003). This shows that withholding tax had a negative significant influence on organizational performance of gambling and lottery companies. This implies that a unit increase in withholding tax will result to decrease in organizational performance of gambling and lottery companies by 0.455 units.

This implies that we reject the null hypothesis and conclude that withholding tax has a significant effect on organizational performance of gambling and lottery companies in Nairobi County, Kenya.

The findings showed that betting tax had a significant influence on organizational performance as shown by (β = -0.472, P = 0.002). This shows that betting tax had a negative significant influence on organizational performance of gambling and lottery companies. This implies that a unit increase in betting tax will result to decrease in organizational performance of gambling and lottery companies by 0.472 units.

This implies that we reject the null hypothesis and conclude that betting tax has a significant effect on organizational performance of gambling and lottery companies in Nairobi County, Kenya.

4.6 Discussion of Findings

The study found that corporate tax had a significant influence on organizational performance of gambling and lottery companies. The findings disagree with Kurawa (2018) who found an insignificant negative relationship between corporate tax and financial performance using return on assets as a measure. The findings also concur with those of Kportorgb (2013) who indicated that there was a significant negative relation between corporate income tax and financial performance. Romero-Jordán, Sanz-Labrador and Sanz-Sanz (2019) also found that corporation tax has a negative effect upon productivity growth in companies with the greatest profitability, whether large or small.

The study also established that withholding tax had a significant influence on organizational performance. The findings concur with Nwanyanwu (2012) who indicated that withholding tax (an advance payment of tax) is significantly positively associated with cash flow and profit after tax. The findings are also in agreement with those of Riedle (2016) who found that withholding taxes have a remarkable additional effect on the investment decision. Nwanyanwu (2012) indicated that withholding tax (an advance payment of tax) is significantly positively associated with cash flow and profit after tax.

The study found that betting tax had a significant influence on organizational performance. The findings concur with Leal, López-Laborda and Rodrigo (2012) who noted that the taxation of gaming in a region and the expansion of online gambling

negatively affect the revenue accrued by the casinos. The findings also agree with Belotti, di Porto and Santoni (2016) who found that taxation exerts a negative impact on firms' employment, capital and sales to such an extent as to significantly affect total factor productivity. Pickernell and Brown (2014) found that despite different contexts, scales, and gambling vehicles, the general distributional issues of cost and benefit exist in the two jurisdictions and as a result can also have geographically disproportionate impacts.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected the following discussions, conclusions and recommendation were made. The responses were based on the objectives of the study. The researcher had intended to establish the perceived effects of corporate tax, withholding tax and betting tax on organizational performance of gambling and lottery companies in Nairobi County, Kenya.

5.2 Summary of Findings

5.2.1 Perceived Effects of Corporate Tax on Gambling and Lottery Companies

The research established that corporate tax had a significant influence on organizational performance of gambling and lottery companies (p-value=0.003<0.05). The study also found that corporate tax had a negative significant effect on organizational performance of gambling and lottery companies (β = -0.467).

5.2.2 Perceived Effect of Withholding Tax on Performance of Gambling and Lottery Companies

From the findings, it was established that withholding tax had a significant influence on organizational performance as shown by (β = -0.455, P = 0.003). Further, withholding tax had a negative significant influence on organizational performance of gambling and lottery companies.

5.2.3 Perceived Effects of Betting Tax on Performance of Gambling and Lottery Companies

The study further established that betting tax had a significant influence on organizational performance as shown by (β = -0.472, P = 0.002). This implied that

betting tax had a negative significant influence on organizational performance of gambling and lottery companies hence the null hypothesis was rejected.

5.3 Conclusions

The findings revealed that the null hypothesis on corporate tax was rejected. This therefore concluded that corporate tax had a strong, negative significant relationship with organizational performance of gambling and lottery companies in Nairobi County.

The study found that a unit increase in withholding tax resulted to a decrease in organizational performance of gambling and lottery companies. From the findings, the study concludes that withholding tax negatively affects organizational performance of gambling and lottery companies in Nairobi County.

The findings established that betting tax had a strong, negative significant influence on organizational performance of gambling and lottery companies thus concluded that betting tax negatively affects organizational performance of gambling and lottery companies in Nairobi County.

5.4 Recommendations

5.4.1 Recommendations to Practice/Policy

The study found that corporate tax, withholding tax and betting tax negatively affects organizational performance of gambling and lottery companies in Nairobi County. The study recommends that the government should consider striking a balance between revenue generation goals of the government and organizational goals of the gambling and lottery companies. This can be achieved through reduction of the tax rates or providing incentives for the companies to cover the high corporate tax, withholding tax and betting tax which is paid to the government.

5.4.2 Recommendation for Further Research

This study sought to establish the perceived effects of tax policy on organizational performance of gambling and lottery companies in Nairobi County, Kenya. The study recommends that another study should be conducted on challenges facing gambling and lottery companies in Kenya like regulations imposed on the firms, legislation and competition.

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APPENDICES

Appendix I: Introductory Letter

Shedho Mohamed,

Dear Participant,

RE: DATA COLLECTION

I am a student at Moi University pursuing a Master of Tax and Customs Administration and currently writing my Research Proposal. This study seeks to determine the ***PERCEIVED EFFECTS OF TAX POLICY ON ORGANIZATIONAL PERFORMANCE OF GAMBLING AND LOTTERY COMPANIES IN NAIROBI COUNTY, KENYA.*** This is to request you to assist me in responding to the questions in the attached questionnaire.

Your contribution and comments will be treated in utmost confidentiality and no names of staff members will be published in the final research document. Your assistance and cooperation will be highly appreciated.

Yours Sincerely,

Shedho Mohamed.

Appendix II: Authorization Letter from NACOSTI

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: **925648**

Date of Issue: **16/October/2020**

RESEARCH LICENSE

This is to Certify that Ms. **SHEDHO MOHAMED LIBAN** of Moi University has been licensed to conduct research in Nairobi on the topic: **PERCEIVED EFFECTS OF TAX POLICY ON ORGANIZATIONAL PERFORMANCE OF GAMBLING AND LOTTERY COMPANIES IN NAIROBI COUNTY, KENYA** for the period ending : 16/November2020.

License No: **NACOSTI/P/20/872**

925648
Applicant Identification Number

Director General NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application

Appendix III: Authorization Letter from KESRA/Moi

KENYA REVENUE AUTHORITY
ISO 9001:2015 CERTIFIED

Kenya School of Revenue Administration

REF: KESRA/NBI/036

14th September, 2020
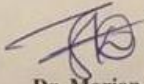
TO WHOM IT MAY CONCERN

RE: REQUEST FOR RESEARCH PERMIT:

NAME ; SHEDHO MOHAMED
REG. NO.; MU/KESRA/0162/2016

This is to confirm that the above named is a student at Kenya School of Revenue Administration (KESRA) Nairobi Campus pursuing Masters in Tax & Customs Administration.

The named student is undertaking Research on **"Influence of Tax Policy On Performance of Gambling and Lottery Companies in Nairobi County, Kenya."**

The purpose of this letter is to request your good office to assist the above student with the information to enable him work on his project.

Thank you.

Dr. Marion Nekesa PHD,
Head Academic Research
KESRA

1 4 SEP 2020

P. O. Box 48240 – 00100, Nairobi   Email: kesratraining@kra.go.ke   Tel: +254715877535/9

Tulipe Ushuru Tujitegemee !

Appendix IV: Questionnaire

Section A: Corporate Tax

1. Indicate your level of agreement with the following statements. Scale 1-strongly disagree, 2-disagree, 3-moderate 4-agree, 5-strongly agree

Statements	1	2	3	4	5
The corporate tax rates charged by the government are high					
Failure to pay corporate tax leads to huge fines					
The corporate tax system takes away a lot of funds from the company					
High corporate taxes led to reduced betting operations in the organization					
Corporate taxes highly burden the consumer and the worker.					
High corporate income tax rates encourage betting firms to store their foreign earnings abroad instead of investing it into expansion and employment					

Section B: Withholding Tax

2. Indicate your level of agreement with the following statements. Scale 1-strongly disagree, 2-disagree, 3-moderate 4-agree, 5-strongly agree

Statements	1	2	3	4	5
The organization pay withholding tax on all wins from betting					
The organization also pays withholding VAT					
Late payment of withholding tax attracts high penalty					
Withholding tax cause short-term loss of income					
Withholding tax leads to loss of investment interest income					
Withholding tax leads to disconnect from actual earnings					

Section C: Betting Tax

3. Indicate your level of agreement with the following statements. Scale 1-
   strongly disagree, 2-disagree, 3-moderate 4-agree, 5-strongly agree

Statements	1	2	3	4	5
The organization pays tax levied on firms' gross gaming revenues					
The organization pays a gaming levy at one per cent of total monthly revenue					
The organization is required to pay a renewal fee annually which results to high costs					
Gaming and lottery attracts high security fees which affects performance					
Companies' premises licences costs are high therefore affecting performance					
The betting tax has affected the operations in the organization					

Section D: Organizational Performance

4. Indicate your level of agreement with the following statements. Scale 1-
   strongly disagree, 2-disagree, 3-moderate 4-agree, 5-strongly agree

Statements	1	2	3	4	5
The organization profits have declined					
The organization return on assets have declined					
The organization return on investments have declined					

THANK YOU

Appendix V: List of Betting and Lottery in Kenya

1. 22bet
2. AGB lottery and gaming
3. Bet boss
4. Betika
5. Bet lion
6. Betway
7. Cheza Cash
8. Chezabet
9. Dafabet
10. Eastleighbet
11. Eazibet
12. Elitebet
13. Helabet
14. Ken Bookmakers
15. Kenya Sports Bet
16. Kwikbet
17. Lotto
18. Lucky2u
19. M-bet
20. M-cheza
21. Mozzartbet
22. Odo bet
23. Palmsbet
24. Powerbets
25. Safrai bets Kenya
26. Sahara games
27. Saharabet
28. Shabiki.com
29. Sportybet
30. Supabet247