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Revenue Penalties and Revenue Collection Performance of County Governments in Kenya

[1]Joy Gacheri Kithinji, [2]Willy Muturi, [3]Patrick Kibati

[1,2]Jomo Kenyatta University of Agriculture and Technology, P.O. Box 62000 - 00200, Nairobi, Kenya.
[3]Kabarak University, P.O Box 20157, Private Bag, Kabarak, Kenya

Abstract: *County governments in Kenya continue to experience challenges in achieving optimal own-source revenue collection despite the adoption of various revenue mobilization measures aimed at enhancing compliance and improving fiscal sustainability. Among the commonly used enforcement mechanisms are revenue penalties imposed on taxpayers for delayed payment and non-compliance. However, the effectiveness of these penalties in improving revenue collection performance among county governments remains unclear. This study therefore sought to establish the effect of revenue penalties on revenue collection performance of county governments in Kenya. The study was anchored on Deterrence Theory. A positivist research philosophy and descriptive research design were adopted. The study targeted all the 47 county governments in Kenya and employed a census approach. Secondary data were collected from annual audited financial statements, Controller of Budget reports, and county government reports for the financial years 2014/2015 to 2024/2025. Data were analyzed using descriptive and inferential statistics with the aid of GRETL econometric software. Panel regression analysis was used to determine the effect of revenue penalties on revenue collection performance. The findings revealed that revenue penalties had a positive but statistically insignificant effect on revenue collection performance among county governments in Kenya ($\beta = 0.086$, $p = 0.169$). The study concluded that penalties alone are not sufficient in enhancing revenue collection performance and that excessive reliance on punitive measures may not effectively promote compliance. The study recommends that county governments should adopt a balanced approach that combines fair enforcement mechanisms with taxpayer education, improved service delivery, and transparent revenue administration practices to enhance voluntary compliance and improve revenue collection performance.*

Keywords: Revenue penalties, revenue collection performance, county governments, Kenya

1 Introduction

County governments in Kenya depend heavily on own-source revenue to finance service delivery, infrastructure development, and local economic programs under the devolved system of governance established by the Constitution of Kenya (2010). Despite the importance of local revenue in supporting fiscal sustainability, many county governments have consistently experienced challenges in meeting their revenue targets due to weak enforcement mechanisms, low taxpayer compliance, administrative inefficiencies, and inadequate revenue management systems (Oguso, 2022; Smith et al., 2020). In response to these challenges, county governments have increasingly adopted enforcement measures such as penalties, fines, and surcharges to discourage delayed payment and non-compliance among taxpayers (Muhwa & Omboi, 2023). According to deterrence theory advanced by Becker (1968) and Allingham and Sandmo (1972), penalties are intended to enhance accountability and improve compliance by increasing the financial consequences associated with revenue default. However, although penalties are widely used as revenue mobilization tools, their effectiveness in improving revenue collection performance among county governments in Kenya remains unclear (Isabokey, 2021), with existing studies reporting mixed findings (Juma & Kinyanjui, 2025; Walubengo et al., 2023). It is therefore important to examine whether revenue penalties significantly influence revenue collection performance among county governments in Kenya

2 Statement of the problem

County governments in Kenya continue to experience persistent shortfalls in own-source revenue collection, resulting in increased dependence on transfers from the national government and constrained financing of essential public services and development programmes (Oguso, 2022; Boex & Smoke, 2020). Despite the devolved system of governance expecting counties to progressively strengthen local revenue mobilization, many county governments consistently fail to achieve their projected revenue targets due to weak enforcement mechanisms, administrative inefficiencies, low taxpayer compliance, and ineffective revenue administration systems (Smith et al., 2020; Isabokey, 2021). In response to these challenges, county governments have increasingly adopted enforcement measures such as penalties, fines, and surcharges to discourage delayed payments and non-compliance among taxpayers. Deterrence theory suggests that penalties increase compliance by raising the cost associated with revenue default (Becker, 1968; Allingham & Sandmo, 1972).

Empirical studies have however reported mixed findings regarding the effectiveness of penalties on revenue collection performance. Muhwa and Omboi (2023) established that penalties positively influence tax compliance among small and medium-sized enterprises in Nairobi County, while Oguso (2022) observed that weak enforcement systems and administrative challenges continue to constrain optimal revenue mobilization among county governments in Kenya. Similarly, Walubengo et al. (2023) and Juma and Kinyanjui (2025) emphasized the importance of governance systems, monitoring mechanisms, and institutional capacity in improving revenue collection performance. Despite the growing adoption of penalties as revenue enforcement tools, limited empirical evidence exists

on the relationship between revenue penalties and revenue collection performance among county governments in Kenya. This study therefore sought to establish the effect of revenue penalties on revenue collection performance of county governments in Kenya.

3 Objective of the Study

To establish the effect of revenue penalties on revenue collection performance of county governments in Kenya

4 Research Hypothesis

H_{01}: Revenue penalties do not have a statistically significant effect on revenue collection performance of county governments in Kenya.

5 Literature Review

5.1Theoretical Framework - The Deterrence Theory

The study was anchored on Deterrence Theory advanced by Becker (1968) and later extended by Allingham and Sandmo (1972). The theory posits that individuals make rational decisions by weighing the potential benefits of non-compliance against the likelihood of detection and the severity of punishment. In taxation and revenue administration, deterrence theory explains that taxpayers are more likely to comply when penalties, fines, and interest charges increase the cost of non-compliance. The theory has widely been applied in studies on tax compliance and revenue administration because it emphasizes the role of sanctions and enforcement mechanisms in influencing taxpayer behaviour (Mohammed, 2015). In the context of county governments in Kenya, deterrence theory explains how penalties and interest imposed on defaulters can enhance compliance and improve own-source revenue collection.

Empirical evidence supports the applicability of deterrence theory in revenue collection among county governments in Kenya. Studies have established that imposition of tax penalties and interest positively influences tax compliance among small and medium-sized enterprises, thereby increasing revenue collection (Muhwa & Omboi, 2023). Similarly, effective governance systems, monitoring mechanisms, and administrative efficiency have been found to strengthen revenue optimization efforts within devolved units (Juma & Kinyanjui, 2025; Oguso, 2022; Walubengo et al., 2023). The theory therefore provides a relevant foundation for examining the relationship between penalties and revenue collection, since fair, transparent, and consistently enforced sanctions are likely to discourage non-compliance while promoting voluntary compliance among taxpayers.

5.2 Conceptual Framework

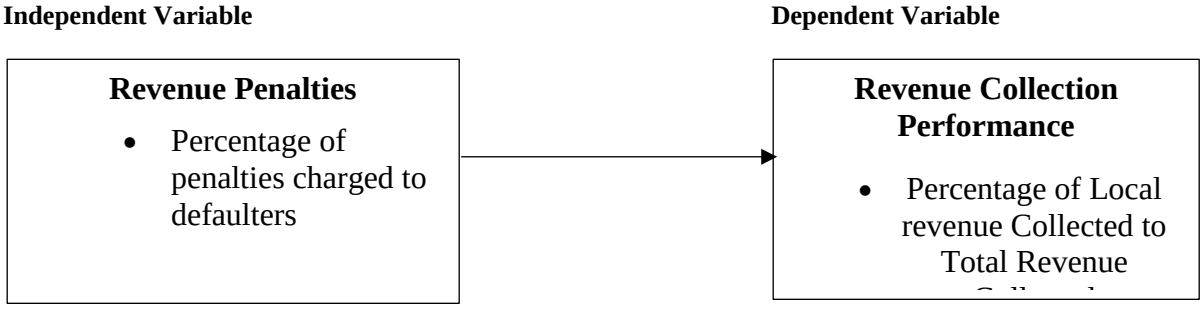

Figure 1 Conceptual Framework

5.2.1 Revenue Penalties

Revenue penalties refer to financial sanctions imposed by tax authorities on individuals or businesses that fail to comply with tax laws and regulations through acts such as late payment, non-remittance of taxes, underreporting of income, or tax evasion (Muhwa & Omboi, 2023). County governments use penalties as enforcement mechanisms aimed at discouraging non-compliance and enhancing taxpayer accountability in revenue remittance. Effective penalty systems are associated with improved tax compliance and increased own-source revenue collection among devolved governments in Kenya (Oguso, 2022). In this study, revenue penalties were operationalized using the percentage of penalties charged to defaulters.

5.2.2 Revenue Collection Performance

Revenue collection performance refers to the ability of a government entity to mobilize adequate financial resources to support public service delivery and fiscal sustainability through efficient revenue administration mechanisms (Agrawal et al., 2024). County governments rely on own-source revenue collection to reduce dependence on intergovernmental transfers and strengthen financial

sustainability within devolved systems (Boex & Smoke, 2020). Previous studies have associated effective revenue administration systems, monitoring mechanisms, and enhanced compliance practices with improved revenue performance among county governments in Kenya (Anne et al., 2022; Walubengo et al., 2023). In this study, revenue collection performance was operationalized using the percentage of local revenue collected to total revenue collected.

5.3 Empirical Review

Empirical studies indicate that revenue collection performance among county governments in Kenya is significantly influenced by enforcement mechanisms, institutional capacity, governance systems, and revenue administration practices. Studies by Isabokey (2021) and Juma and Kinyanjui (2025) established that effective governance structures, competent revenue personnel, and improved institutional frameworks enhance county revenue collection performance. Similarly, Muhwa and Omboi (2023) found that the imposition of tax penalties and interest positively influences tax compliance among small and medium-sized enterprises, thereby increasing revenue collection efficiency. Further evidence by Oguso (2022) and Walubengo et al. (2023) showed that monitoring systems, accountability mechanisms, and administrative efficiency are critical in optimizing own-source revenue mobilization among county governments. In addition, Anne et al. (2022) observed that counties with stronger revenue administration strategies and enhanced compliance mechanisms demonstrated improved growth in own-source revenue collection. These findings collectively suggest that effective enforcement measures, particularly revenue penalties, play an important role in enhancing compliance and improving revenue collection performance among county governments in Kenya.

6 Research Methodology

This study adopted a positivist research philosophy and employed a descriptive research design to examine the effect of penalties on revenue collection performance among county governments in Kenya. The study targeted all the 47 county governments established under the Constitution of Kenya (2010) and adopted a census approach to include all counties in the analysis. Secondary data were collected using a data collection sheet from annual audited financial statements obtained from the Office of the Auditor General, Controller of Budget reports, and official county government websites for the financial years 2014/2015 to 2024/2025. Quantitative data analysis was conducted using GRETL econometric software and involved both descriptive and inferential statistics. Descriptive statistics including mean, median, minimum, maximum, and standard deviation were presented using tables, while inferential analysis was conducted using panel regression analysis to establish the effect of penalties on revenue collection performance of county governments in Kenya. Diagnostic tests including multicollinearity, normality, autocorrelation, and heteroskedasticity tests were conducted prior to regression analysis to ascertain the validity and reliability of the model. The use of panel data was appropriate because it enabled the analysis of variations across county governments and over time, thereby enhancing the robustness and reliability of the study findings.

The study adopted the following panel regression model:

$Y = \beta_0 + \beta_1 X_1 + \mu.$

Where Y = Revenue Collection Performance, β_0 = Constant term, β_1 = Regression Coefficient, X_1 = Revenue Penalties and μ = Error term

7 Research Findings and Discussion

7.1 Descriptive Statistics for Revenue Penalties

The study sought to comprehensively describe and examine the variable of penalties as an important component of revenue mobilization measures implemented by county governments. To achieve this objective, the researcher systematically summarized the collected data by computing relevant descriptive statistics, which included key measures such as the mean and standard deviation in order to provide a clear understanding of the central tendency and variability of the data. These statistical indicators were essential in assessing the extent to which penalties were applied and the degree of variation across different county governments. The results of this descriptive statistical analysis are presented and illustrated in detail in Table 1 below.

Table 1: Descriptive Statistics for Revenue Penalties

Parameters	Pen
Mean	2.017
Median	0.000
Std. Deviation	5.202
Minimum	0.0000
Maximum	32.32

The descriptive statistics results presented in Table 1 above provide important insights into the application and distribution of penalties among county governments as part of revenue mobilization efforts. The findings indicate that penalties recorded a mean value of approximately 2.017 and a standard deviation of 5.202, suggesting a notable level of variation in the imposition and collection of penalties across different county governments. This variation implies that while some county governments actively enforce penalties as a mechanism to enhance compliance and revenue collection, others may apply them less frequently or with lower intensity.

Further examination of the results reveals that the minimum penalties recorded were 0.0000, indicating that certain county governments did not impose or collect any penalties during the period under review. In contrast, the maximum value recorded was approximately 32.32, demonstrating that some county governments generated substantial amounts from penalties. The wide disparity between the minimum and maximum values highlights differences in enforcement practices, administrative capacity, and policy approaches among county governments in utilizing penalties as a tool for strengthening revenue collection.

7.2 Descriptive Statistics for Revenue Collection Performance

The study examined the descriptive statistics of revenue collection performance measured using the ratio of actual local revenue collected to expected revenue collection among county governments in Kenya. The findings presented in Table 2 indicate that revenue collection performance recorded a mean value of 0.6597 and a standard deviation of 0.2557, suggesting moderate variation in the ability of county governments to achieve their revenue targets. The minimum value recorded was 0.1867 while the maximum value was 2.0477, indicating substantial disparities in revenue performance across county governments. The findings imply that, on average, county governments were able to achieve approximately 65.97% of their targeted own-source revenue during the study period.

Table 2: Descriptive statistics for Revenue Collection Performance

Parameters	RC
Mean	0.6597
Median	0.6351
Std. Deviation	0.2557
Minimum	0.1867
Maximum	2.0477

7.3 Diagnostic Tests

Diagnostic tests were conducted prior to regression analysis to ascertain the suitability of the model. The Variance Inflation Factor (VIF) values were all below 10, indicating absence of multicollinearity among the study variables. The Durbin-Watson statistic of 2.031 showed the absence of autocorrelation, while the Shapiro-Wilk test confirmed that the data was normally distributed ($p > 0.05$). In addition, the heteroskedasticity test indicated constant variance of residuals. Panel diagnostic tests, including the F-test and Breusch-Pagan test further confirmed that the pooled Ordinary Least Squares (OLS) model was the most appropriate model for the study analysis

7.4 Regression Between Revenue Collection Performance and Revenue Penalties

The study sought to examine the effect of revenue penalties on revenue collection of county governments in Kenya. To achieve this objective, a regression analysis was conducted to determine the extent to which penalties influence revenue collection among county governments. The analysis was important in establishing whether there was a statistically significant relationship between penalties and revenue collection. The findings of the regression analysis are discussed in this section. Table 3 presents the regression model summary, which shows the strength of the relationship between the variables, Table 4 presents the ANOVA results, which indicate the overall fitness and significance of the model, and Table 5 presents the regression coefficients used in explaining the study variable and interpreting the effect of penalties on revenue collection.

Table 3: Model Summary of Revenue Collection and Revenue Penalties

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.090[a]	.008	.004	.010131176973

a. Predictors: (Constant), Revenue Penalties
b. Dependent Variable: Revenue Collection

As presented in Table 3, the coefficient of determination (R Square) was 0.008. This indicates that approximately 0.8% of the total variation in the dependent variable, which is revenue collection, can be explained by the independent variable, namely revenue penalties. In other words, penalties accounted for only a very small proportion of the changes observed in revenue collection among county governments in Kenya. This suggests that penalties had a minimal contribution in influencing revenue collection performance during the period under study. The remaining 99.2% of the variation in revenue collection was explained by other factors that were not included in this regression model. Therefore, although revenue penalties exhibited a positive relationship with revenue collection performance, their explanatory power was very low.

Table 4: ANOVA Table of Revenue Collection Performance and Revenue Penalties

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	1	0.000	1.903	.169[b]
	Residual	.024	233	0.000		
	Total	.024	234			

a. Dependent Variable: Revenue Collection Performance
b. Predictors: (Constant), Revenue Penalties

The ANOVA results presented in Table 4 indicate that the regression model examining the relationship between revenue penalties and revenue collection performance was not statistically significant. This is evidenced by the obtained p-value of 0.169, which is greater than the 0.05 level of significance. Since the p-value exceeded the accepted significance threshold, the findings imply that revenue penalties did not have a statistically significant influence on revenue collection performance among county governments in Kenya during the study period. Consequently, the null hypothesis, which stated that revenue penalties do not have a statistically significant effect on revenue collection performance of county governments in Kenya, was accepted, while the alternative hypothesis was rejected.

Table 5: Coefficients of Revenue Collection Performance and Revenue Penalties

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.004	.001		5.468	.000
	Revenue Penalties	0.086	.062	.090	1.379	.169

a. Dependent Variable: Revenue Collection Performance

The coefficient results presented in Table 5 show that revenue penalties did not make a statistically significant contribution to changes in revenue collection performance among county governments in Kenya. Although the regression coefficient value was positive (β = 0.086), implying that a one-unit increase in revenue penalties would result in a corresponding increase in revenue collection performance, the effect was not statistically significant. This is evidenced by the t-value of 1.379 and the associated p-value of 0.169, which was greater than the 0.05 level of significance. The findings therefore indicate that revenue penalties did not have a significant influence on revenue collection performance among county governments in Kenya during the study period. The estimated regression model was expressed as:

$Y = 0.004 + 0.086X_1 + \mu$; Where Y = Revenue Collection Performance, X_1 = Revenue Penalties and μ = Error term.

The results presented in Table 3, Table 4, and Table 5 indicate that penalties did not have a statistically significant effect on revenue collection performance among county governments in Kenya. This conclusion is supported by the regression results ($\beta = 0.086$, $t = 1.379$, $p = 0.169$), which show that the relationship between penalties and revenue collection performance was statistically insignificant since the p-value exceeded the 0.05 significance level. Consequently, the null hypothesis H_{01}, which stated that penalties do not have a statistically significant effect on revenue collection performance among county governments in Kenya, was accepted.

8 Summary, Conclusions and Recommendations

The study sought to establish the effect of penalties on revenue collection performance of county governments in Kenya. The findings revealed that penalties had a positive but statistically insignificant effect on revenue collection performance, implying that fines, surcharges, and late payment charges did not significantly improve own-source revenue collection among county governments during the study period. The findings further indicated that although penalties are intended to enhance compliance by discouraging tax default and delayed payment, their contribution towards improving revenue performance remained minimal.

The study concluded that penalties alone are not sufficient as a revenue mobilization strategy for county governments in Kenya. The insignificant relationship between penalties and revenue collection performance suggests that excessive reliance on punitive measures may not effectively encourage compliance, particularly where taxpayers perceive the revenue system as unfair, inconsistent, or overly punitive. The study further concluded that frequent waiver and amnesty programs may have weakened the deterrent effect of penalties by creating expectations among taxpayers that penalties would eventually be waived.

The study recommends that county governments should adopt a balanced revenue mobilization approach that combines fair and consistent enforcement with taxpayer education, improved service delivery, transparent administration, and limited use of amnesty programs. County governments should ensure that penalties are predictable, consistently enforced, and supported by effective administrative systems in order to strengthen voluntary compliance and improve revenue collection performance. In addition, policymakers should minimize excessive waiver programs that undermine the effectiveness of penalties as enforcement tools.

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