

**FACTORS AFFECTING RENTAL INCOME TAX
COMPLIANCE AMONG REAL ESTATE INVESTORS IN EAST OF
NAIROBI REGION**

TOBIAS OGENDO

**RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS,
ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS IN PARTIAL
FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF POST
GRADUATE DIPLOMA IN TAX ADMINISTRATION AT JOMO KENYATTA
UNIVERSITY OF AGRICULTURE AND TECHNOLOGY.**

2019

DECLARATION

This research project is my original work and has not been presented for the fulfilment of any degree in any other University.

Signature..... Date.....

TOBIAS OGENDO

HDB336-C016-5178/2016

This research project has been submitted for examination with my approval as University supervisor.

Signature.....Date.....

Dr. Marion Nekesa

SUPERVISOR

DEDICATION

I dedicate this paper to the amazing people who believed in me and offered me support through this journey; my friend Protus Agufa.

ACKNOWLEDGEMENT

I would like to express my deep gratitude to Dr. Marion Nekesa, my research supervisor, for the patient guidance, enthusiastic encouragement and useful critiques of this research work.

Finally, I wish to thank my family for their support and encouragement throughout my study.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
LIST OF ABBREVIATIONS	x
ABSTRACT	xi
CHAPTER 1: INTRODUCTION	1
1.1 Background.....	1
1.1.1 Global perspective.....	2
1.1.2 Local Perspective	10
1.1.3 Financial Performance Context	Error! Bookmark not defined.
1.2 Statement of the Problem	17
1.3 Research Objectives.....	20
1.3.1 General Objective	20
1.3.2 Specific Objectives	20
1.4 Research Questions.....	21
1.5 Justifications of the study	21
1.5.1 Kenyan Government	21
1.5.2 Real Estate Investors	22
1.5.3 Kenya Revenue Authority (KRA)	22
1.5.4 Researchers and Academicians	22
1.6 The scope of the study.	22
1.7 Limitations of the study.	23
CHAPTER 2: LITERATURE REVIEW	24
2.1 Introduction	24
2.2 Theoretical Literature Review.....	24
2.2.1 The Allingham-Sandmo (AS) Theory	25
2.2.2 Fiscal Exchange Theory	26

2.2.3 Social Influences Theory.....	27
2.3 Conceptual Framework	27
2.4 Empirical Literature Review	29
2.4.1 Relationship between penalties and tax compliance	32
2.4.3 Knowledge on taxation.....	33
2.4.4 Compliance cost.....	34
2.5 Critiques of Existing Literature	36
2.6 Research Gap.....	36
2.7 Summary of the literature.....	37
CHAPTER 3: RESEARCH METHODOLOGY	38
3.1 Introduction	38
3.2 Research Design	38
3.3 Target Population.....	39
3.4 Sampling Procedure	39
3.5 Data Collection	39
3.5.1 Primary Data.....	40
3.5.1 Secondary Data	40
3.6 Data Analysis and Presentation	41
3.6.1 Models	Error! Bookmark not defined.
3.6.2 Test of Significance	Error! Bookmark not defined.
3.7 Test of data reliability.	Error! Bookmark not defined.
CHAPTER 4: RESEARCH FINDINGS AND DISCUSSION.....	42
4.1 Introduction	42
4.2 Response Rate.....	42
4.3 Reliability Analysis.....	Error! Bookmark not defined.
4.4 Demographics Factors	Error! Bookmark not defined.
4.4.1 Gender	Error! Bookmark not defined.
4.4.2 Ages.....	Error! Bookmark not defined.
4.4.2 Education level	Error! Bookmark not defined.
4.5 Fines and Penalties.....	42
4.6 Knowledge and Education	45
4.7 Compliance Cost.....	46
4.5 Regression Analysis.....	47
4.5.1 Model Summary.....	49

4.5.2 Analysis of Variance	50
4.5.3 Regression Coefficients.....	50
4.5 Interpretation of the Findings	52
CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATION	54
5.1 Introduction	54
5.2 Summary of the findings.....	54
5.2.1 Compliance cost.....	54
5.2.2 Fines and Penalties.....	54
5.2.3 Knowledge and Education.....	55
5.3 Conclusions	56
5.3.1 Compliance cost.....	56
5.3.2 Knowledge and Education.....	56
5.3.3 Fines and Penalties.....	56
5.4 Recommendations.....	56
5.4.1 Knowledge and Education.....	56
5.4.2 Fines and Penalties.....	57
5.4.3 Compliance cost.....	57
5.4 Suggestions for further research.....	57
REFERENCES	59
APPENDICES	64
Appendix A: Time Schedule.....	64
Appendix B: Research Budget.....	65
Appendix C: Questionnaire.....	66
SECTION A: BACKGROUND INFORMATION.....	66
SECTION B: FINES AND PENALTIES.....	68
SECTION C: KNOWLEDGE ON TAXATION	69
SECTION E: COMPLIANCE COST	70
SECTION E: RENTAL INCOME TAX COMPLIANCE.....	71

LIST OF TABLES

Table 3.1: Cronbach's Alpha Measures.....	Error! Bookmark not defined.
Table 4.1 Response rate.....	42
Table 4.2 Data reliability.....	Error! Bookmark not defined.
Table 4.3 Gender.....	Error! Bookmark not defined.
Table 4.4 Ages.....	Error! Bookmark not defined.
Table 4.5 Education level.....	Error! Bookmark not defined.
Table 4.6 Fines and Penalties.....	44
Table 4.7 Knowledge and Education.....	45
Table 4.8 Compliance Cost.....	46
Table 4.9 model summary results.....	49
Table 4.10 ANOVA.....	50
Table 4.11 Regression Coefficients.....	51

LIST OF FIGURES

Figure 2.1: Conceptual Framework.....	28
---------------------------------------	----

LIST OF ABBREVIATIONS

MRI	:	Monthly Rental Income
KRA	:	Kenya Revenue Authority
WHT	:	Withholding Tax
DR	:	Domestic Revenue
DTD	:	Domestic Taxes Department
FY	:	Financial Year
GDP	:	Gross Domestic Product
SAS	:	Self-Assessment
OECD	:	The Organisation for Economic Co-operation and Development
KERRA	:	Kenya Rural Roads Authority
SPSS	:	Statistical Package for Social Sciences

ABSTRACT

The main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulations of a tax system. Real estate sector is one of the fastest growing sectors of the economy in Kenya yet taxes collected from this sector have continually been on decline for the last five years. Taxation is the primary source of revenue for governments throughout the world to implement their social and political agendas and to deliver services to the citizens. In Kenya, increased government expenditure and the need to finance government activities using local sources of funds has called for the government to bring into the tax net sectors that have remained untaxed before. In 2012/2013 budget speech a lot of emphasis was put that rental income was subject to taxation. Previous statistics indicated that less than half of landlords and developers had complied with tax requirements. This study was carried out to establish how real estate investors had responded to the new taxation measures and the factors that affect their compliance such as taxation knowledge gaps, tax penalties and cost of compliance to rental income tax among landlords in East of Nairobi region that is Pipeline, Embakasi and Tassia. A sample of 100 respondents were selected to take part in the study using self-administer questionnaire as primary method to collect data since it's a convenient sampling technique. The data collected was analysed using descriptive and inferential statistics with the help of Statistical Package for Social Sciences version 21 for evaluation of relation between dependent and independent variables. Multiple regression models was adopted. The study found that the considered research variables explain 29.1% of variation in residential rental income tax compliance by estate investors thus the study recommends an additional study on the other factors that are represented by 70% and also influence compliance of residential rental income tax by real estate investors. Again further study also need to be done on the same topic but covering a different location other than in Nairobi so as to determine whether there exist some variances in the findings

CHAPTER ONE

INTRODUCTION

1.1 Background

A residential property refers to a land that is predominated by houses, though it is not for industrial and commercial use but rather for domestic use. Housing does vary significantly. These may include single-family, multi-family and so on (Vadde, 2014). Residential rental properties can be of various classes based on flats, stand-alone houses, apartments and so on. The demand for housing depends on one's ability and willingness to pay the required fee in form of rent. Rental housing has really expanded and most individuals or entities are investing in rental houses (Sani & Gbadegesin, 2015). Thus, understanding the compliance of rental income taxation is highly important for the government and for the reason that taxation of rental income influences the relationship between house owners and house renters (Berhane & Yesuf, 2013).

Tax compliance refers to an accurate reporting of income and expenses claims in accordance with tax stipulated laws (Sapiei & Kasipillai, 2013). The main objective of taxation is actually to raise income to enable the government to finance development projects that are meant to improve the economy of a given country or the region. It's therefore important for the government to put in place a mechanism that will help in ensuring that all citizens are tax compliant (Ayuba, Saad & Ariffin, 2016). Tax is the main source of revenue for developing and developed countries (Vadde, 2014).

Tax compliance levels have steadily remained low, even after the use of sanctions like penalties, Armed monitoring, routine audits, fines and so on, but no much improvement in tax revenue collections (Karanja, 2015).

An improvement in tax compliance results in more tax revenue collection hence some improvements in economy since with more revenue, the government can invest more in development projects (Tilahun & Yidersal, 2014).

In Kenya, it is a law that any income generated from any investment in the country is subject to taxation (Karanja, 2014). However, the low tax revenue is more attributed to lack of good mechanisms to enforce tax collection. The Kenyan government needs to invest more on tax administration so as to ensure that no tax revenue is lost or uncollected. As such, Kenya is also ranked among countries with low compliance as far as tax revenue collection is concerned (Makori et al., 2013). Although there has been significant growth in tax collection by over 300% (2003-2011), the contribution by landlords has been very low despite all the efforts by government taxing all Kenyans to support the development of the economy by paying their fair share of taxes (Karanja, 2014).

1.1.1 Global perspective

Rental housing has really expanded and most individuals or entities are investing in rental houses (Sani & Gbadegesin, 2015). Tax compliance refers to an accurate reporting of income and expenses claims in accordance with tax stipulated laws (Sapiei & Kasipillai, 2013). The main objective of taxation is actually to raise income to enable the government to finance development projects that are meant to improve the economy of a given country or the region. It's therefore important for the government to put in place a mechanism that will help in ensuring that all citizens are tax compliant (Ayuba, Saad & Ariffin, 2016). Tax is the main source of revenue for developing and developed countries (Vadde, 2014).

This has enabled the government to finance 52% of the budget. Bustable (1971) defined tax as the compulsory contribution of the wealth of an individual or of legal person towards the service of the public. Since the 1980s, a large number of developing countries have been in the process of making reforms in their financial sectors and government sectors (Das, 2011). Cheeseman and Griffiths (2005) noted that, before the reforms, tax revenues in Kenya were as a result of heavy taxation of a limited tax-base, that is, a small group of people were charged large amounts; as well as high taxation of imports and exports. Reforms were introduced because of the increasing need to raise more revenue on behalf of the government through tax. Reisen and Trotsenburg (1988) observed that many developing countries urgently needed to mobilize resources to service their growing public debt. The purpose for these reforms was to improve tax collection and reduce revenue leaks. Fjeldstad and Rakner (2003) noted that, despite important differences in their economic and cultural background, developing countries tended to modify their tax systems towards roughly the same direction.

Rental income is derived from residential property by the owners of the property. A residential property refers to a land that is predominated by houses, though it is not for industrial and commercial use but rather for domestic use. Housing does vary significantly. These may include single-family, multi-family and so on (Vadde, 2014). Residential rental properties can be of various classes based on flats, stand-alone houses, apartments and so on. The demand for housing depends on one's ability and willingness to pay the required fee in form of rent. Rental housing has really expanded and most individuals or entities are investing in rental houses (Sani & Gbadegesin, 2015).

Thus, understanding the compliance of rental income taxation is highly important for the government and for the reason that taxation of rental income influences the relationship between house owners and house renters (Berhane & Yesuf, 2013).

Studies done in Africa suggest that most countries are competing against each other in giving more attractive tax incentives so as to attract more foreign direct investments to their countries but whether or not they are meeting the intended objectives is another issue (TJN – Africa, 2013). In its policy studies, the U.S Treasury policy studies department (2002) observed that the effects of tax policies should be analyzed within a general framework where one explicitly recognizes the effects of tax policies on the level of services demanded from the government. Tax policies affect factor prices and the allocation of resources by the private sector and in the long run, the quantity of services demanded from the government by its citizens.

Maseko (2014) investigated the impact of personal tax knowledge and tax compliance costs behavior of SMEs in Zimbabwe. The findings of the study revealed that unlike large companies, SMEs face different business conditions which make them to endure high tax compliance load. Berhane and Yesuf (2013) assessed the challenges and opportunities of house rental income business tax in Regional state of Tigray in Ethiopia. The study collected data via a survey questionnaire. The study findings established that there exists inefficiency and insufficient number of business house rent tax assessment and collection officers in the regional state of Tigray. Moreover, the study found that most taxpayers lack sufficient knowledge of tax assessment and collection procedures. Thus, most of business rent taxpayers do not know the existing applicable rules and regulations. Further, the study found

that due to negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of proper business house rental income taxes.

Kasipillai & Jabbar (2006) assessed whether gender and ethnicity differences occur in relation to tax compliance attitude and behavior. The results of t-test established that both male and female had similar tax compliant attitude and for ethnicity, similar results were also observed. In addition, regression results established that gender, education, and individual tax return preparation were statistically significant as the main determinants of non-compliant attitude.

The voluntary tax compliance is anchored in trustful climate and well embedded confidence building measures. The enforced tax compliance is whereby the tax man institutes framework for the tax payers to make tax payment involuntarily (Kogler et al, 2011). In United States of America, the concept of voluntarily tax compliance has elicited great debate among the publics. Internal Revenue Service (IRS) as a government agency has been mandated with the follow up of voluntary tax compliance (Manhire, 2014). According to IRS, voluntary tax compliance is the founding principle of the USA tax system without the existence of voluntary tax system, the USA tax system would be in jeopardy. It is a federal crime in USA not to file taxes as demonstrated by USA tax court. The citizens have always made assumptions and likened the term 'Voluntary' to same connotation of the charitable donations. IRS as agency of USA tax court has always maintained that it's obligatory on annual basis to file taxes bases on the tax heads as per the USA tax systems and laws (Manhire, 2015).

In Europe, consisting of more than 25 members states with the same tax system. The tax system has been in existence for about 14 years. The voluntary tax compliance in Europe is actually anchored in the slippery slope framework (SSF) concept (Kirchler et al, 2008). The

level of voluntary tax compliance has been determined by the government element in efficiency, absence of corruption and reliability.

As Kirchler (2008) posited, the aspect of trustworthiness was a determinant factor for the tax payers across Europe and is entrenched in the SSF model. Gangl et al (2009) in study of Dutch tax payers found out that the tax personnel had well entrenched self- respect for payers and this greatly contributed to a higher level of voluntary tax compliance. A study in UK, Austria and Czech Republic by Meuehlbacher et al (2011) found that the level of voluntary tax compliance was higher amongst the tax payers when trust, interaction and power were in the mix.

Australia, as a vibrant economy in Oceania has undergone numerous reforms from the 1990's with the thematic stand of improving the voluntary tax compliance (Pope, 2011). The government agency tasked with taxation is the Australian Agency Office (ATO). The ATO commissioned a reform strategy through a charter that articulated twelve rights of the tax payer. The major strategies were well aligned to accountability, responsiveness, openness, professionalism and fairness. The strategies formulated by the ATO compliance model actually originated from the Cash Economy Task Force (Devos, 2014).

In effort to increase the voluntary tax payment, a four stalked pyramid system was designed and called the enforcement strategies (Lignier, 2009). It was worth noting that the voluntary tax compliance became a daunting task when there was a large social distance between tax authorities and the tax payers in Australia (Weber et al, 2014).

Ethiopia, as a developing country in Africa faces myriad of challenges. When it comes to collection of required tax revenues, Ethiopia, like other developing countries across the globe have both vertical and horizontal tax systems but not fully integrated

(Desta, 2010). The lack of integration of the two systems is accrued to poor administration and tax collection measures. Belay (2015) posits that voluntary tax compliance in Ethiopia is inconsistent. In the period 1993-2014, the collection of tax revenues, depicted both upward and downward trend. The attributing factors to this lie in the difference in age group, gender, simplicity of tax systems, lack of knowledge and socio-economic activities spanning across Ethiopia country. There has been a negative publicity of the Ethiopian tax man hence impacting negatively on the voluntary tax compliance (Ermias, 2014).

According to Gcabo and Robinson (2007), tax collection is important to any country even though it is not favoured or understood by the country's citizens. They went on to argue that, though the taxpayers acknowledges the need to pay taxes and enjoy the benefits offered by the government in form of public service, tax compliance is not favoured by the majority. It is critical that the importance of tax compliance is understood because it determines how the government shapes lives of citizens (oberholzer, 2008). According to Otieku (2008), a nation cannot have any significant economic development without optimistic spur from intelligent governments.

Though, the development agenda and programs of a country can merely be brought to certainty by the availability of finances. One of the most reliable sources of government revenue is through taxation. Several researches on tax compliance have conversely revealed that rental income tax compliance among the landlords leaves much to be desired. Tax system is of significant importance in running national income, particularly in developed countries and has played a vital part in cultured societies since their origin many years ago (Lymer and Oats, 2009).

However, it is important to note that not all payments to government are tax payments: for example, charges, tolls and other levies are paid to attain a specific service and are not strictly tax payments. In his book 'The Wealth of Nations' which was published in 1776, Adam Smith suggested that a good tax system is based on definite essential values, namely equity, convenience, certainty, and efficiency (Lymer and Oats, 2009). Bird (2012), Reveals that in most developing countries, more than half of the potential tax revenues tend to remain uncollected. This he further accredited to the large volume of the informal sector, dominated by the small business owners.

Flynn (2003) also noted that revenue loss from noncompliance by individual taxpayers, mainly the self-owned business were estimated to range from \$93.20 billion to \$95.30 billion for the tax year 1992. Kenya recognizing the high level of income tax non-compliance among the self-employed, has - 204 - employed several unusual way of taxation identified as self-assessment, block management, instalment tax payment. Song and Yarbrough (1978) demonstrate that in Ghana non-compliance by the self-employed is a major factor accounting for tax authorities receiving less than what the regulation requires.

An effective revenue taxation enforcement policy is therefore necessary but the existing studies in the field of taxation have mainly centered on the problems of tax administration (Otioku, 2008), public perception of tax evasion (Song and Yarbrough, 1978) and managing small taxpayers. Tax compliance is a worldwide worry since most countries would like fund their recurrent expenditure through mobilization of domestic revenue. The complexities of rental income are evident globally. In the US, for instance, forty percent of Americans, most of who are mostly in the informal sector, are not in compliance with remittance of rental income to the tax authority.

The reasons for non-compliance are instructive. Firstly, taxpayers lack the requisite knowledge of the rental tax law or may interpret the law differently from the Internal Revenue Service. Secondly, taxpayers lack record keeping ability sufficient to satisfy the Internal Revenue Service According to GIZ, (2010) developing countries still lag far behind the developed countries in terms of tax compliance with the statistics standing at 35% and 23% respectively for developed and developing countries.

On the other hand, Marti, (2010) observed that the budgetary deficits that are pushing developing countries into high levels of public debt might be attributed to the high gap between the expected tax targets and the actual tax collections. This drives the budget into constant deficits that are slowing down the extent of economic development in these countries. Martin further indicates that developing countries must come up with strategies that will improve on policy development and implementation in order to reduce prevailing shortfalls and unhealthy dependence on donor funds. Raising more domestic revenue is a priority for most Sub-Saharan African countries (Drummond et al. 2012). Mobilizing revenue is a way for governments to create fiscal space, provide essential public services, and reduce foreign aid and single resource dependence.

However, the domestic tax bases in most African countries are weakened by widespread tax avoidance and evasion (IMF 2011). Although taxpayer non-compliance is a continual and growing global problem (McKerchar and Evans 2009), many indications suggest that developing countries, mostly in Sub-Saharan Africa, are the hardest hit (Cobham 2005; Fuest and Riedel 2009). Li, (1999) noted that the main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulation of tax system.

This implies that there is a perceived lack of fairness between the two parties which this study sought to investigate and document on how this affects tax compliance in the rental income tax. Rummondet al. (2012) noted that of priority to many African countries is the need to raise more revenue domestically. The governments are after creating a more self-reliance in terms of mobilization of funds through effective revenue collection processes. This objective is hampered by among other things the low tax base, high level of tax evasion and avoidance (IMF 2011).

1.1.2 Kenya Perspective

From a regional point of view, rental income is one of the sources of government revenue but it has continued to perform poorly among developing nations. Collections rely heavily on the compliance level. Moreover, tax administrations in the Third World lack the capacity to enhance compliance in the real estate sector, Tanzi, (1980).

In Kenya, rental income compliance level is observed to be significantly low of about 500,000 landlords, Gor, (2005).The country experiences challenges in generating revenue to the required level necessary for economic growth. For years, the Kenya government has attempted different income tax reforms aimed at enhancing revenue collection. One of the measures was the presentation of self-assessment frameworks (SAS) in 1992. The objectives of this system were to increase voluntary compliance, reduce the burden of assessing tax returns and reduce tax collection costs.

Taxation on rental income has been in existence since implementation of the Income Tax Act of 1973. However, the majority of landlords have not been complying with the Act due to lack of government mechanisms to identify and bring landlords into the tax net. Many have also been collecting rent by themselves or using unregistered agents, thus making it difficult to trace their income for the purpose of taxation. The move by the government to tighten the law on taxation on rental income amid increasing costs of doing business in Kenya has received mixed reactions from landlords due to their impact on business.

Tax non-compliance is an area of concern for all tax authorities. The main problem is that it has never been easy to persuade all taxpayers to comply with the regulations of a tax system. In contrast to the majority of employed people, who in many countries are paid net salaries with taxes being deducted at source, real estate investors often need to self-assess and self-report their income and pay taxes voluntarily. They should only pay their income tax but also take account of various types of business taxes.

The KRA faces challenges in Tax compliance, tax avoidance and tax evasion. Most individuals in lower income bracket do not understand rental income due to lower levels of literacy. Another challenge experienced by tax payers is the discipline of keeping records especially those in sh.10 million bracket per annum. Due to this challenge, it has embarked to customer focused approaches such as tax payer's education and training seminars for both its employees and the taxpayers. Before focusing on training, KRA simplified rental income tax regime was introduced. KRA is aiming to net over 60,000 landlords by 2018, with an average collection of sh.3 billion expected in 2015 to 2016. Over 20,000 landlords are already on board.

The commercial real estate market worldwide is increasingly dominated by institutional investors. This presents a challenge to private real estate investments because individuals properties are not bought and sold on regular basis like estates and bonds, Kohnstamm, (1995).

This study will narrow down to individual investors who are in new and old regime. Old regimes are investors earning an income of over ksh. 834,000 a month which equals to over ksh. 10,000,000 a year and are taxed at 30% per annum in graduated scale. The beauty of the old regime is that taxpayers can claim for expenses of up to 40%. Payment can also be done in instalments. The new regimes are investors earning rental income of over ksh. 12,000 a month. Tax rate for new regime is 10% a month.

A residential property is land predominated by housing mainly for domestic use. Tax compliance is an accurate reporting and expense claims in accordance with tax stipulated laws (Sapiei & Kasipillai, 2013). Taxation is the primary source of revenue for government throughout the world in their quest to effectively implement their social and political agenda and to deliver services to the citizens. In Kenya over the past four years, the government has seen rapid upward surge and increased expenditure hence this has necessitated the need of the government to widen the scope of taxation to increase revenue collected by the tax collector, Kenya Revenue Authority (KRA). This has led the government to bring into tax net sectors that had remained untaxed before. In the 2012/2013 financial year, the budget speech put a lot of emphasis on the rental income as a subject of taxation. Previous statistics indicated that less than half of the property owners and property developers had complied with tax requirements. Increased demand by public for better services from tax authorities led to KRA heeding into it and responded through creation of taxpayer service unit to support and ensure it meets the increased demand for better taxpayer services

Otieku (2008) outlined that a nation cannot have significant economic development minus optimistic spur from intelligent government. Tax systems are of significance importance in running national income. Several researchers on tax compliance have revealed that rental income tax compliance among property owners is a major issue.

The focus of this study based on tax compliance by property owners on rental income generated from rent paid by their tenants, as it is a law that any income generated from investment in Kenya is to be subjected to taxes. In Kenya, KRA has sought to boost tax compliance by introduction of sanctions such as electronic monitoring, audits, compliance checks, investigations and shutting of non-compliant taxpayers' businesses, heavy penalties and prosecution of tax evaders. There is also a whistle browsers rewards to those who volunteer information that leads to recover of taxes. These sanctions and the reward has helped in improvising the general level of tax compliance.

While there is an increase in collection figures and compliance, the tax compliance ratio on rental income is still below the global average of 20% and the sub Saharan average of 18% (KRA 2013). The Kenyan taxation on income scheme works on a self-assessment basis. Since the government anticipates individual to determine their own tax requirements and voluntarily pay whatever is due both regularly if monthly salary and annually. By assigning the responsibility on individuals, the government eludes the expensive alternative of determining each taxpayer's obligation and exploit alternatives to collect it.

Nonetheless, one cost of depending so greatly on the voluntary compliance of individual tax payers is that not all individuals voluntarily pay their taxes when due. Bird (2012) approximations is that the overall individual income tax gap, the difference between the actual tax paid voluntarily and timely and what taxpayers ought to pay.

Kenya is rated amongst the low-income countries or low compliance countries with hard task of ensuring efficient and effective tax administration Kenya Revenue Authority (KRA) performs education monthly to all newly registered taxpayers so as to improve tax compliance. Whether the increased taxpayer education has led to improved tax compliance has not been captured in any observed study (KRA, 2011).

The main focus of this paper will be based on tax compliance by the landlords and landladies on rental income generated from the rent obtained their house. It is a low that any income generated from any investment in the Kenyan country to be subjected to taxes. The government of Kenya since 2003 has focused on mobilizing the domestic resources for purposes of financing the recurrent expenditure. The 2011 recurrent expenditure was financed to the level of 94% through taxes. Although there has been significant growth in tax collection by over 300%(2003-2011), the contribution by landlords has been very low despite all the efforts by government tasking all Kenyans to be support the development of the economy by paying their fair share of taxes. There is an increased demand by the public for better services from tax authorities over the last ten years in Kenya (Grampert, 2001).

The Kenya Revenue Authority (KRA) responded to the demand by the public, through creation of a taxpayer services unit in April 2000, to support and ensure that KRA meets the increased demand for better taxpayer services.

The taxpayers usually visits revenue authorities offices for various purposes although most significantly, they are looking for information on tax matters, registering as taxpayers, The tax revenue organizations as service providers are therefore under obligation to offer quality service to their customers, who are mainly taxpayers.

The tax revenue collector need to meet the attributes of a quality service that include among others: promptness, urgency, precision, tax knowledge, pleasantness and clarity. The attitude of the revenue officers in providing a quality taxpayer's service is very decisive and as such, frontline officers in revenue organizations

While previous studies on tax compliance have focused on the general factors affecting tax compliance, the focus of this study is on the specific factors affecting tax compliance in the real estate sector. The study specifically sought to determine the effect of compliance cost, knowledge of taxation, attitude and behavior, fines and penalties and change in tax regime of rental income on tax compliance in the real estate sector. The study will focus on individual real estate investors that operate in Kenya, East of Nairobi region which is Pipeline, Embakasi, etc. Other areas of Nairobi will be left out since East of Nairobi has the highest number of individual investors, also east of Nairobi has Kenya Revenue Authority station and it will be of ease to pick data and to ask questions from the officers involved since they are well conversant with the region.

1.1.3 Rental income

Rental income tax is the tax imposed on income from rent of residential buildings. Since any income that is received from renting out a property is legally chargeable to income tax, the owners of the property are required to declare this income on their tax return. This income could be from renting out land or buildings (Berhane & Yesuf, 2013). The rental income tax rate of 10% tax on gross rent took effects on 1st January 2016 and applies to rental income received from calendar month January 2016. Eligible persons are required to file their tax return via iTax System (KRA, 2015).

Some of the benefits of the residential rental income tax include simplified tax computation at 10% flat rate on gross rent and not at 10% -30% rates. There is a growing body of research into taxpayer compliance behavior that is helping to develop a better understanding of what motivates taxpayers to comply, or not, with requirements of the tax system (Gayer & Mourre, 2012). According to Mwangi (2014) one of the main tax evasion reason is the high personal income tax rates, which tend to lead taxpayers to evade tax. It is generally believed that a high tax rate is the main cause of tax evasion. Incentives to evade tax depend on the marginal rates of taxation because these govern the gains from evasion as a sum of the tax evaded. High tax may be a disincentive to work which can lead to low tax revenue collection (Kołodziej, 2011).

Fines and penalties are part of the coercive approach, which advocates hard actions against tax non-compliance. Penalties and fines usually encourage tax compliance. The only problem lies with detection of such individuals or entities that are likely to avoid paying taxes (Mukabi, 2014). Thus, it's crucial for the tax authority to have an effective system that can help in detection of non-compliance and penalize or fine tax evaders.

Tax knowledge and education are also considered to be a vital part of attitudes towards tax compliance. Kirchler et al. (2008) posits that knowledge of tax is crucial since when an individual knows what is supposed to be done at any time he/she will always comply. Knowledge is power as they say. Poor knowledge on taxation can lead to a distrust and negative attitude towards tax; while good tax knowledge, correlates with a positive attitude towards tax (Hofmann, Hoelzl & Kirchler, 2008).

Landlords shall not be required to produce records to account for expenses. In addition to simplifying the taxation of rental income, the Finance Act also provides for an amnesty on taxes, penalties and interest on rental income for the period prior to 2014 (KPMG, 2015).

Price Water Coopers, a consultancy firm ranked Kenya among low compliance countries with hard task of ensuring efficient and effective tax administration. The report ranked Kenya 166 out of 189 countries in the ease of paying taxes. Despite the low ranking, the country has made some gains on the time it made online filing a mandatory in 2015 this was to ensure optimal tax compliance and raise more revenue. Administration of tax in Kenya is under the mandate of the Kenya Revenue Authority (KRA), which was established through an Act of Parliament July 1st 1995 (Cap 469).

The purpose of KRA is assessment, collection, administration and enforcement of tax laws with professional governed integrity and fairness (CIAT, 2006). Even though there has been very many tax reforms, Kenya's tax code is still complex and cumbersome characterized by uneven and fair taxes. There are still many challenges that hamper setting up of an efficient and effective tax system in Kenya (Karingi et.al, 2005). Impediments include repeal of tax holidays, high effective protection, high dispersion of tariff rates, rigid custom rules, poor response of VAT reforms, and weak capacity to process large volumes of returns and refunds for zero-rated goods or services. Poor quality of basic data and politics also provide major impediment in recent past as the political elite may use their political influence to oppose the opposition of wealth and property taxes (Karingi et.al, 2005)

1.2 Statement of the Problem

Noncompliance is closely linked to tax evasion except that it incorporates apart from evading taxes, aspects of complying with other r income tax rules and regulations such as deadlines for submission of tax returns.

Taxes from rental income is not proportionate to the growth of economy and this has compelled the government to come up with incentives to any member of the public who voluntary gives information leading to collection of additional taxes (KRA, 2011) and granting amnesty to landlords in 2016, who fully declared their 2014 and 2015 rental income and paid their tax due.

Employees were also required to file self-assessment returns and give details of their property owners for purpose of enhancing compliance (KRA 1992). KRA has put many efforts and employed resources by aggressively reaching out to landlords through the media, road shows and block management systems as well as talk shows to declare their rental income. Unrelenting low levels of compliance can cause the government failure to recognize the necessary targets for financing the country's budget (Flynn, 2003). Tax compliance has been a crucial subject to researchers in many countries around the globe. In most third world countries house rental taxation has been classified as economic. (Tilahun & Yidersal, 2014; Palil, 2014). Like the other tax systems, the system of house rental taxation has been confronted with many challenges both on the side of the tax payers and the officials (Berhane & Yesuf, 2016). In most third world countries house rental taxation has been classified as economic transactions which a bit difficult to detect given the large number of citizens involved (OECD, 2012).

In Kenya, taxation has been the main source of revenue to the government. The taxes are used by the government to provide public goods and/or services to general public. Over the past years, though revenue collections by the Kenya Revenue Authority have increased, the revenues collected have not been sufficient to fund the budget proposals resulting into budget deficits (Alegana, 2014).

In addition, the rise in government expenditure has forced the government to bring each and every sector into taxation bracket so as to be able to fund such crucial goods and services to the public. Thus, there is need to examine the factors affecting rental income tax compliance among real estate investors in East of Nairobi region.

In addition, several studies have also been carried on tax compliance around the globe. A study by Hargreaves (2008) explored the influence of tax system on New Zealand's housing market and revealed that owner-occupiers do not pay tax from a rental income.

Dube (2014) explored tax administration of informal sector in Zimbabwe and revealed that a high rate of tax and sheer ignorance are the main tax compliance disincentive in informal sector which leads to a low tax revenue collection. Palil (2010) also investigated tax knowledge and tax compliance determinants in self-assessment system in Malaysia and established that compliance of tax is influenced by probability of being audited, penalties, personal financial constraints and referent groups. However, the above international studies did not concentrate on residential rental income taxes. In Kenya, a study by Osebe (2013) analyzed factors which affect tax compliance in Kenyan real estate sector and established that compliance costs, knowledge of tax and education, penalties and the perceived tax evasion opportunities influenced tax compliance.

Mwangi (2014) also investigated the factors which influence tax compliance with a focus on SME's which operates in Industrial area, Nairobi and revealed high tax rates, lack of adequate information on tax matters and costs of tax compliance affected tax compliance. However, many local studies on tax compliance focus more on tax compliance by SMEs.

In addition, few studies on rental income taxation in Kenya are based on the old method of taxation where landlords were taxed at a rate of 30% on their net rental income in comparison to the current 10% tax rate on gross income. Since the residential rental income tax regime was introduced as an incentive to attract more people into the tax net, the main drive or purpose of this study is to investigate various factors which affect attainment of this objective.

1.3 Research Objectives

1.3.1 General Objective

The general objective of this study is to investigate factors affecting rental income tax compliance among real estate investors in East of Nairobi region.

1.3.2 Specific Objectives

- i. i. To determine the effect of compliance cost on rental income tax compliance among real estate investors in East of Nairobi region
- ii. ii. To examine the effect of tax knowledge and education on rental income tax compliance among real estate investors in East of Nairobi region
- iii. iii. To assess the effect of fines and penalties on rental income tax compliance among real estate investors in East of Nairobi region

1.4 Research Questions

- iv. Do fines and penalties affect rental income tax compliance among real estate investors in East of Nairobi region?
- v. Does compliance cost affect the compliance among real estate investors in East of Nairobi region?
- vi. Does knowledge and education influence tax among real estate sector in east of Nairobi region?

1.5 Significance of the study

The findings of the study will be of great help in providing relevant information and knowledge to Kenyan government, Landlords, Kenya revenue authority. Study will make taxpayers appreciate and understand their responsibilities with regards to filing their returns and making payment of the tax due.

1.5.1 Kenyan Government

The study aid in policy making by the government which can improve compliance levels of tax payment by the Kenyan landlords. This is to help the government raise more domestic revenue from tax collection which can be used in realizing the government goals in Vision 2030. The findings of the study is of great help in providing relevant information and knowledge to Kenyan government in the planning for its expenditure, tax policy formulation and execution

1.5.2 Real Estate Investors

The Kenyan real estate investors can understand the critical role of rental income tax compliance as an engine to economic development and reduce noncompliance costs. This in return is going to improve the performance of the government and they will enjoy the low cost of doing business due to improved services by the government.

1.5.3 Kenya Revenue Authority (KRA)

This study gives an insight to KRA to understand the challenges the landlords face in their quest to meet their tax obligation. This study helps KRA to come up with policies and regulations that will enhance voluntary tax compliance on rental income among taxpayers not only in Nairobi but all over the country. Treasury together with the Revenue authority which will also be assisted to develop new policies on how to enhance tax compliance and broaden the tax base.

1.5.4 Researchers and Academicians

The study adds to the body of knowledge of attention to both researchers and academicians who pursue to discover or examine the factors affecting rental income tax compliance among real estate investors in East of Nairobi region or any other area. It lays the basis of other studies to be carried on the same topic.

1.6 The scope of the study.

This study focuses on rental income tax compliance among real estate investors in East of Nairobi Region.

Geographically, the study was conducted within KRA Station along Mombasa road, East of Nairobi Region. The study specifically focused on aspect such as tax knowledge and awareness, compliance cost and penalties and fines as the major factors of tax compliance. Registered real estate investors East region of Nairobi and compliance officers from KRA compliance division formed the population of interest in this study.

1.7 Limitations of the study.

It is well known that, no job or occupation whether small or big may be very easy to undertake. Finance is a major problem for many undertakings; as a lot of funds are needed to come out with very comprehensive research work like this. There was a problem of getting the needed data both primary and secondary, as in the case of primary data, respondents have the notion that they will be exposed to the tax officials. These kinds of fear were allayed by assuring the respondents that the study is for academic purposes only and confidentiality is to be observed regarding all disclosed information.

CHAPTER

LITERATURE REVIEW

2.1 Introduction

This chapter outlines various theories in relation to tax compliance. The chapter also analyses literature related to other factors that may influence MRI tax compliance.

2.2 Theoretical Literature Review

Tax compliance is the extent to which tax payers are willing to adhere to the tax regulations in place or comply with tax policies. The level of tax compliance can be assessed based on the level the tax gap which is the difference between the actual revenue collected and the anticipated collection.

Taxpayers' attitudes towards compliance are determined by various factors. Some of the major factors include tax benefits, tax audits, fines and penalties and changes in tax regimes and amnesty. Other non-economic factors include gender, age, efficiency in the tax system, the culture and ethical or morality practices of the people in the economy.

Tax compliance among investors in the real estate sector has become an area of interest in Kenya since 2015 when the Cabinet Secretary of treasury made new proposals on rental income taxation. This literature review focuses on two aspects of tax compliance in the real estate sector as per the findings from past research findings. These include the lessons derived from the literature review and the conceptual framework.

2.2.1 The Allingham-Sandmo (AS) Theory

The Allingham-Sandmo (AS) theory is also known as the economic deterrence theory emanated from the seminal work of Allingham and Sandmo (1972). This theory affirms that the behavior of a taxpayer is usually influenced by the factors which determine the benefits and cost of tax evasion (Allingham & Sandmo, 1972).

The economic deterrence model in its basic form views the individual taxpayer as a rational economic agent, who assesses the costs (determined by probability of detection and penalties or a fine for the fraud) and benefits (determined by tax rate) of evading taxes, and thus chooses not to pay, if the benefit of non-compliance outweighs the costs (Walsh, 2012). The theory assumes taxpayer maximizes expected utilities of noncompliance tax gamble. That is, balancing between tax cheating benefits against detection and sanctions (Sandmo, 2005). The basic premise is that individual usually takes part in activities which have the potential of maximizing their returns or rewards as well as minimizing their costs, tax amnesty being one of those activities. If sanctions are probable enough, and the costs severe enough to outweigh the rewards of an act, the act will not be performed (Mengere, 2014).

This theory concludes that tax compliance depends more on tax audit and the penalties or fines. This implies that, all taxpayers only pay their taxes because they fear being sanctioned. Thus, an increase in sanctions or fines and penalties will increase tax revenue (Awa & Ikpor, 2015). It is on the basis of this assumption that the model advocates stricter audit and heavy penalties for offenders as a basis for reducing non-compliance (Fjeldstad, Schulz-Herzenberg & Sjursen, 2012).

The relevance of the AS model in residential rental income tax compliance is that when there are low probability of audit and penalties, tendency for evasion by property owners will be higher, while if there is a high tendency for detection and penalties are severe, fewer property owners will evade residential rental income tax.

2.2.2 Fiscal Exchange Theory

This theory is acclaimed to have evolved from the economic deterrence and social psychology models. It is premised upon the existence of a social, relational or psychological contract between the government and the taxpayers (McKerchar & Evans, 2009). This theory suggests that government expenditures are the main motivate of tax compliance and the governments has the ability to ensure that its citizen comply by offering more improved public goods and services with the little they collects in form of tax (Ali, Fjeldstad & Sjursen, 2013). Another major proposition of this theory is that of tax bargaining between taxpayers and the government, which is considered as fundamental to building a relation of accountability and obligations between state and society (Fjeldstad, et al., 2012).

This theory affirms that government expenditures serves as a motivating factor for taxpayer compliance, especially when the taxpayers value the goods and services they perceive to be receiving from the government (Bello & Danjuma, 2014). Thus, the taxpayers will be more willing to comply when they are satisfied with provision of services from government, even in the absence of detection and punishment. Conversely, they are also likely to adjust their terms of trade, by reducing compliance when they are dissatisfied with services provision from the government, or even when they dislike the way their taxes are spent (Torgler, 2003).

The relevance of this theory is that property owners may be willing to pay residential rental income tax since they value public goods and services being offered by their government and believe that the more they pay taxes, they will be offered more improved and better goods and services. Conversely, the property owners may not be willing to comply if they feel that they do not derive any benefit from the taxes collected by the government or that there is wasteful spending and looting in public coffers.

2.2.3 Social Influences Theory

This theory affirms that, tax compliance by citizens is specifically influenced by their individual behavior and social norms. The theory assumes that individual behavior in taxation is basically influenced by social interactions like other forms of behavior (Ali et al., 2013). The theory follows that an individual is most likely to comply with tax requirements if he believes members of his reference groups also comply, just as he is also likely not to comply if he believes that members of his referent group do not comply (Walsh, 2012).

The social influence theory presupposes that individual behavior in taxation is basically influenced by social interactions like other forms of behavior (Bello & Danjuma, 2014). The theory also presupposes that the fear of social stigmatization as one of the possible deterrent factor to tax compliance (Kirchler, 2007), and that existence of the social norms effect on compliance behavior. The relevance of this theory is that property owners are likely to be influenced by social groups, family members, friends and other property owners to comply on payment of residential rental income tax.

2.3 Conceptual Framework

This study sought to conceptualize how tax compliance among real estate investors in East of Nairobi is affected by tax fines and penalties, compliance cost, tax knowledge and education

and finally the perceived opportunity of tax evasion. Its main purpose is to establish how strongly these factors affect the level of tax compliance. Tax compliance is the dependent variable in the study while tax compliance cost, tax knowledge and education, fines and penalties and perceived opportunity of tax evasion are some of the independent variables. The conceptual framework is shown below.

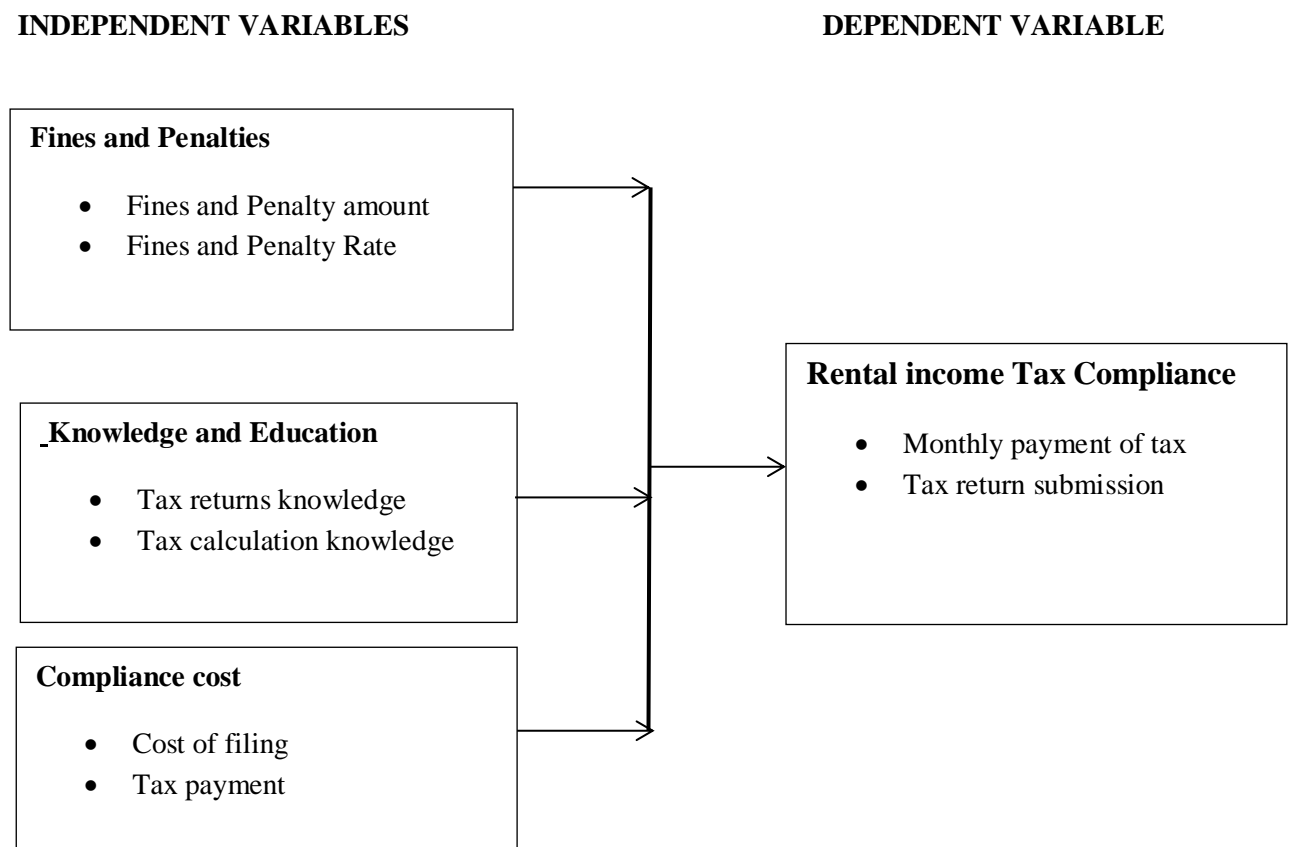


Figure 2.1: Conceptual Framework

Tax compliance as part of tax payer behavior is determined by a series of factors, some of which may not be outlined as one of the independent variables in this study.

Moreover, tax compliance in the real estate sector changes when one or more of these parameters change. For example, an increase in penalties and fines on real estate investors is likely to raise levels of tax compliance. Improved Knowledge and better education to the taxpayers and compliance cost result in higher levels of compliance.

2.4 Empirical Literature Review

Empirical research on tax compliance has helped raise awareness to the public, the revenue authorities and governments regarding the complexity surrounding compliance and tax defaulting across the world. Firstly, due to the diversity in the composition of any sector or society, it is important to focus on common factors such as costs of doing business, both social and material, which influence tax payer decisions on whether to comply or evade tax. Secondly, there is a need to identify benefits that can be introduced to enhance tax compliance. Lastly, there is need to develop risk profiling systems or mechanisms for tax collection agencies that would ensure that non-compliance is minimized, Jackson and Milliron, (1986).

Maseko (2014) investigated the impact of personal tax knowledge and tax compliance costs behavior of SMEs in Zimbabwe. The findings of the study revealed that unlike large companies, SMEs face different business conditions which make them to endure high tax compliance load.

Berhane and Yesuf (2013) assessed the challenges and opportunities of house rental income business tax in Regional state of Tigray in Ethiopia. The study collected data via a survey questionnaire. The study findings established that there exists inefficiency and insufficient number of business house rent tax assessment and collection officers in the regional state of Tigray.

Moreover, the study found that most taxpayers lack sufficient knowledge of tax assessment and collection procedures. Thus, most of business house rent taxpayers do not know the existing applicable rules and regulations. Further, the study found that due to negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of proper business house rental income taxes.

Kasipillai & Jabbar (2006) assessed whether gender and ethnicity differences occur in relation to tax compliance attitude and behavior. The results of t-test established that both male and female had similar tax compliant attitude and for ethnicity, similar result were also observed. In addition, regression results established that gender, education, and individual tax return preparation were statistically significant as the main determinants of non-compliant attitude.

Musau (2015) assessed factors influencing tax compliance among SMEs in Nairobi County. The study picked a sample of 398 respondents and collected data using questionnaires which was analyzed using the binary probit regression model. The study findings revealed that when an individual perception about difficulties of evading taxes increases, the high likelihood of being tax compliant among SMEs in Nairobi County. The findings also revealed those individuals who are satisfied with what the government is offering as public goods and service from taxes; have enough tax information; trust government officials in handling their taxes; and have the perception that if tax filing procedures are less complex, tax payers are likely to comply with tax payment.

Mukabi (2014) explored factors influencing turnover tax compliance in the Kenya revenue authority domestic taxes department in Nairobi County. The study used a sample of 56 respondents selected via stratified sampling and data collected using questionnaires.

The study findings revealed that the perceptions of taxpayers towards the tax system greatly determine the level of compliance for turnover tax. The findings also found that other factors like cost of compliance and complicated systems result into the low levels of compliance. The study also established that increased tax knowledge had a significant effect on perception of tax system.

Thananga, Wanyoike and Wagoki (2013) carried out a study on how landlords in Nakuru Municipality responded to new taxation measures, and factors which influence compliance. The study used a sample of 94 respondents and questionnaires for data collection. The findings of the study revealed that compliance level to provisions of rental income tax policy by landlords was very low and non-compliance was due to expenses overstatement and deductions which would in turn reduce taxable pay.

Karanja (2014) examined factors affecting voluntarily tax compliance in Kenya by landlords in Nairobi County. The study adopted a descriptive research design and a sample of 45 respondents was selected and questionnaire used for data collection. The findings of the study established that attitude and perception that politicians misuse taxes, financial and family obligation had strong positive responses. The study findings also revealed that social norms and respondent's income levels strongly influenced tax noncompliance level among the Kenyan taxpayers on rental income. The study concluded that attitude factors, high tax rate, unfair tax system, social norms, gender and education level factors are significant and play a great role towards the compliance or noncompliance of Kenyan taxpayers.

2.4.1 Penalties and fine and tax compliance

Penalties are made with the goal of keeping taxpayers afraid to violate the Tax Law. Taxpayers will comply with their tax payments if the view that penalty will be more detrimental, Jatmiko, (2006). Penalties is a guarantee that the tax provisions of taxation legislation (taxation norms) will be followed, observed ,complied with, in other words the tax penalty is a deterrent to the taxpayer does not violate the norms of taxation ,Mardiasmo, (2011).Therefore, the views of taxpayers suspected of tax penalties will affect taxpayer compliance in paying taxes.

Failure of the taxpayer to file returns on or before 20th of the following month attracts penalty of ksh. 20,000 a month and interest of 2% per month. Initiative by the KRA authority through the income tax Act to make taxpayers comply. Fines and Audit rates may substitute each other due to their multiplicative linkages as long as neither of them is set to zero (Kirchler et al 2007).Higher fines simply make evading taxes more hazardous for taxpayers and should deter from evasion. Alm et al., (1992) supports the evidence that fines do affect tax compliance though the impact was virtually zero. Friedland et al, (1978) compliance was stronger affected by the amount of fines than by audit probabilities. Several studies however found no support for the deterring effects of fines since it was weak (Andreoni 1998). Some of the findings suggest that a policy based on deterrence is effective only in combination with frequent Audits (Kirchler et al., 2007).

The most extreme penalties will have no effect, if it is common knowledge that audits virtually do not occur. The increasing tax avoidance and tax resistance due to an increase of fines puts into question how fines should be assessed to be effective.

On the one hand fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent effect on tax payers. On the other hand, if fines are too high, the tax system would be perceived as unjust and unfair and taxpayers would use any possibility to legally avoid taxes (Kirchler et al., 2007). In Kenya for instance, the maximum penalty for tax evasion is 200% of the evaded amount (Sec 72 D IT Act cap 470)

2.4.3 Knowledge and education

Knowledge about taxation, the benefits of taxation and the dangers of non-compliance remain a key impediment to tax compliance in many countries. Countries such as the US, Canada, Japan, New Zealand, Australia, the UK and Malaysia have all been implementing a continuous tax education for taxpayers and children as future taxpayers (Palil, 2010). Various countries such as the USA, the UK and Australia also have developed interactive websites, disseminated leaflets together with tax returns, opened call centers', created advertisements or supplied reminders via television and radio (e.g. to remind taxpayers of deadline dates for filings). In addition to tax education, knowledge about tax laws also plays a major role in determining taxpayers' compliance behavior (Eriksen and Fallan, 1996). Carroll (2011) on taxation among women in the informal sector in Ghana found out that despite the fact that more than half (65 per cent) of the women surveyed were aware that they have to pay taxes, more than half were not well informed as to why they paid tax and more than 50 per cent did not enjoy' the benefits of paying it. However, tax education alone cannot guarantee continued tax compliance. Palil (2010) states that, in addition to tax education, knowledge about tax laws also plays a major role in determining taxpayers' compliance behaviour.

Therefore, a step ahead, for example continuous education programs and effective monitoring mechanisms must be taken into account by tax authorities to ascertain that taxpayers have a good and reasonable knowledge and understanding of tax matters. On the contrary, awareness and attitude of the taxpayer himself is more important since the effectiveness of tax education depends on the readiness, acceptance and honesty of taxpayers.

This study holds that tax education and knowledge has several roles to play in compliance to rental income taxation. First is the declaration of property and income for the purpose of taxation, it is important that landlords have the right knowledge on what to declare for the purposes of taxation. Secondly proper financial records should be kept to ensure accurate calculation of taxes and thirdly, filing and payments of the taxes to the Kenya revenue authority and finally auditing. The fact that currently filling of tax returns and claims are done online in Kenya, it makes the process even more complex and time consuming. This also requires one to have a wide knowledge on the financial processes involved, the legal implications of every step and remedies to challenges encountered. Lack of one or a combination of these skills may therefore hinder one from compliance.

2.4.4 Compliance cost

Economic theories on taxation hold that, taxpayers are amoral utility maximize. They are influenced by economic motives such as profit maximization, therefore, they analyze alternative compliance paths for instance whether or not to evade tax. Secondly there is a wide perception by the tax payer that tax is a burden especially the small and medium enterprises (Vihanto, 2000) Therefore, the cost of compliance to taxation play a key role in determining taxpayers willingness to pay tax.

Compliance costs refer to the costs a taxpayer has to bear to gather the necessary information, file tax returns etc, can be an additional reason for tax evasion and avoidance. A study by Atawodi and Ojeka (2012) on the factors that affect tax compliance among small and medium enterprises (SMEs) in North Central Nigeria found out that tax rates are a major challenge facing micro and small enterprises across the globe. Despite the fact that they face other tax related issues, it is the problem of high tax rate that mostly promotes non-compliance and pushes most SMEs to remain in the informal sector. This concurs with another study by Carroll (2011) in Ghana, who found out that the impact tax payments had on women's businesses and livelihoods was varied. Thirty-seven per cent of women surveyed reported that these had no impact on their livelihoods, while in the focus group discussions, some said it had a positive impact on their livelihoods as their taxes pay for hospitals, schools and so on. Others who formed majority reported a reduction in profits as a result of paying tax, and some said their ability to provide for their families was negatively impacted by the amount of tax they had to pay.

The World Bank's (2008) world development indicator for "time to prepare and pay taxes" shows that while preparing and paying taxes requires 210 hours on average in high income OECD countries, the required time extends to 1080 hours in Bolivia and Vietnam and even 2600 hours in Brazil. In Kenya the time for preparing and paying taxes amount to 417 hours in a year. In countries where compliance costs are very high, the probability of the taxpayer complying with such a great variety of taxes is low. This study conceptualizes that, compliance to tax policies implies that, one has to honor their tax payments, fines and penalties. Also one has the responsibility to provide accurate information to the tax authority for the purposes of tax calculations and finally, do tax filling.

Costs are incurred in acquiring and organizing information, hiring internal auditors and purchase of materials and stationeries. A lot of time is spent in calculation and filing of taxes, an average of 210 hours in a year (OECD,2009). In most cases, this requires hiring of professional services. All these amount to compliance costs in addition to the tax payable which may discourage landlords from complying with rental income taxes.

2.5 Critiques of Existing Literature

There has been a considerable amount of research which has been carried out on tax compliance (AL, 1998). Studies on the economic factors that affect tax compliance have been consistently inconclusive leaving researchers to state that the more important question is why people pay taxes and not why they evade them ((SLEMROD A. E., 1992).According to (WEBLEY, 2002)there are very minimal studies on rental income tax compliance. The main purpose for pushing for increased tax compliance through educating the tax payers and penalising non payers and non-filers is to increase tax collections. The effects of audits, penalties and criminal sanctions vary sometimes even within the same context (Witte & Woodbury, 1985; Dubin& Wilde, 1988).

2.6 Research Gap

From the above literature review, its evidence that there is no documentary evidence or scholarly literature on Rental Income compliance among real estate Investors In East of Nairobi Region. Real estate is one of the sectors that contribute to economic development of any nation/state thus revenue from the sector is very crucial to a county's tax revenue generation. The available scholarly literature the concentration of taxation researchers is closing taxation gap without showing sectorial contribution of tax revenue.

Others such as Murithi and Moya (2003); African Trade Policy Centre, (2004); Kenyan Ministry of Planning and National Development Kenya, (2003); Cheeseman and Griffith's, (2005); have focused on closing the taxation gap, expanding the tax base, tax reform and trade liberalization. No such studies have been conducted to establish factors influencing tax compliance among real estate investors. This study thus aims to fill this research gap in literature as no one has actually done the research on factors affecting rental income tax compliance among real estate investors in East of Nairobi Region.

2.7 Summary of the literature

This section has reviewed existing literature on tax compliance by various organizations. In addition, several studies have also been explored. For instance, Vadde (2014) and Berhane and Yesuf (2013) assessed the factors which influence attitudes of rental taxpayers and compliance behavior with tax system. Mas'ud, Aliyu and Gambo (2014), Nicoleta (2011) and Kasipillai and Jabbar (2006) also examined various factors that influence tax compliance in the respective countries while Thananga, Wanyoike and Wagoki (2013), Karanja (2014) and Kuria (2013) examined the factors affecting voluntarily tax compliance by landlords in Kenya. Additionally, Maseko (2014), Musau (2015), Mukabi (2014) and Makori et al (2013) assessed the various factors which influence tax compliance by SMEs in various parts of Kenya. However, most of the existing and reviewed studies have focused more on small and medium enterprises compared to residential rental property owners. Moreover, taxation of rental properties in Kenya is still a young concept since residential rental property owners did not have a specific tax regime in the past years.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology, which was used to carry out the study on factors affecting rental income tax compliance among real estate investors in East of Nairobi region. It further describes the type and source of data, the target population and sampling methods, the data collection and analysis method.

3.2 Research Design

According to Cooper and Schindler (2006), the process through which data is gathered and analyzed so as to achieve the purpose of the study through economical experimental data is called research design. This study adopted a descriptive research design. A descriptive research design was the best for this study as it describes characteristics associated with the subject population, and in particular factors that make them behave the way they do.

Descriptive research designs help in explaining how a variable influences the other. Therefore, the adoption of descriptive design is regarded as suitable whenever there is a need for clarification of a supposed difficulty. Any time a difficulty arises it is imperative to fully comprehend it prior to looking for its solution; therefore, it is advisable to employ a descriptive study to deal with it (Gill and Johnson, 2010).

To fully determine factors affecting rental income tax compliance among real estate investors in East of Nairobi region, this study used descriptive research design.

3.3 Target Population

In Mugenda & Mugenda (2008) and Yin (2013) a population is defined as an entire group of individuals, events or objects having a common observable characteristic (Mugenda & Mugenda, 2008; Yin, 2013) A population element is the subject on which the measurement is being taken and is the unit of study Donald Cooper,(2010). The population of interest for this study accommodated 100 real estate investors. Eastland area was of particular focus for this study due to the fact that the landlords leave within their/near their rented apartments.

3.4 Sampling Procedure

A sample design refers to a plan to be used in obtaining a sample from a population. It is a technique or procedure which a researcher adopts when selecting sample items (Kothari, 2004). The study used simple random sampling. A simple random sample is a subset of statistical population in which each member of the subset has an equal probability of being chosen. Simple random sampling was chosen since it gives the elements an equal chance of being included in the sample.

3.5 Data Collection

The research used both primary and secondary data. Primary data was gathered and generated for the project at hand directly from respondents mainly using questionnaires. Secondary data was mainly obtained from past published statistics, financial and economic reports and budget reports.

It was collected and compiled from the Kenya Bureau of Statistics, World Bank Database and the Kenya Revenue Authority.

Data collected is checked for reliability and validity and to ensure that valid conclusions can be drawn from the data (Saunders et al, 2009). A research permit was obtained from KESRA registrar office Nairobi to give permission to the researcher to carry out data collection exercise. An introductory letter was sent to department and section heads two weeks prior to commencement of the exercise to enable the relevant Authorities to prepare for the exercise in advance to a void inconvenience.

3.5.1 Primary Data

I used questionnaire geared at Likert Scale, open and closed ended questions and secondary data which was collected from East of Nairobi station audit report summaries and monthly and yearly reports. This was to enable me to analyse data efficiently.

3.5.1 Secondary Data

I used secondary data collected on a period spanning 4 years from the year 2014 to 2017 on yearly basis on yearly rental income, Monthly rental income and total revenue Kenya Revenue Authority reports and on GDP growth from Kenya National Bureau of Statistics (KNBS) for the same period. A data collection sheet attached (Appendix I & II) was used to collect the primary.

3.6 Data Analysis and Presentation

This study analyzed the gathered information through inferential statistics by specifically conducting the regression and correlation tests. To analyze the gathered information, the study employed the use of the statistical Package for Social Science (SPSS Version 22).

The study findings were detailed in form of figures or tables so as to provide a preview and a more understanding of the study results. The findings of the study were presented using trend analysis so as to detail the changes and variations in the rental income and revenue growth in relation to tax compliance over a 4-year study period. In evaluation of relation between variables, that is dependent variables and independent variables, a multiple regression model was adopted. Regression analysis is a technique used to estimate relationships between two or more variables. The multiple linear regressions were as follows

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon.$$

$\beta_1 \dots \beta_5$ = the slope which represents the degree with which tax compliance changes as the independent variable change by one unit variables.

Where,

α = Constants

Y= Compliance level

X_1 : Fines and penalties

X_2 : Compliance cost

X_3 : Knowledge and education

ϵ = error term

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter shows response rate, the results of data reliability, and descriptive statistics of the study variables, regression analysis and an interpretation of the study findings.

4.2 Response Rate

The researcher administered a total of 78 questionnaires and 74 were completed and returned. This represents a response rate of 94.9% as shown in Table 4.1. This response rate was adequate to allow the researcher to continue with the analysis. The questionnaires were composed of questions that addressed the objectives of the study.

Table 4.1 Response rate

Category	Frequency	Percentage
Completed and returned	74	94.9
Not returned	4	5.1
Total	78	100

4.3 Reliability test results

Reliability is measure of the degree to which a research instrument yields consistent result after repeated trials (Mugenda & Mugenda, 2003). The results are depicted in tale 4.2 below.

Table 4.2: Reliability tests results

Constructs	Reliability Cronbach's alpha	No of Items	Comment
Fines and penalties	0.773	6	Accepted
Knowledge on taxation	0.831	6	Accepted
Compliance cost	0.781	6	Accepted
Rental income Tax compliance	0.765	6	Accepted

The results of the reliability test produced an overall Cronbach Alpha correlation coefficient of 0.701 while specific findings indicated that, Fines and penalties had a coefficient of 0.773, Knowledge on taxation had a coefficient of 0.831, Compliance cost had a coefficient of 0.781, Penalties and interest had a coefficient of 0.833 and Rental income Tax compliance had a coefficient of 0.790. Table 4.2 shows that all the study variables yielded Cronbach alpha coefficients values of more than 0.7, which is the recommended value. This indicates that the instrument was reliable to obtain data on determinants of residential rental income tax compliance by property owners.

4.4. Descriptive statistics

4.4.1 Fines and Penalties

This section sought to evaluate several statements on fines and penalties to determine its effect on rental income tax compliance among real estate investors. Table 4.6 shows the results obtained.

Table 4.3 Fines and Penalties

	Mean	Std. deviation
a) Fines and penalties discourage compliance of real estate investors.	2.22	1.172
b) Periodic waiver of fines and penalties could encourage tax compliance	2.35	1.251
c) Real estate investors declare nil return or under declare their income to avoid fines and penalties.	2.24	1.214
d) Fines and penalties are very punitive to real estate investors	1.83	1.102

According to the results on table 4.6 show that, highest mean values were 2.35, 2.24 and 2.22, which correspond to the likert scale value of 2. This indicates that the respondents agree that periodic waiver of fines and penalties could encourage tax compliance, property owners file nil or incorrect returns to avoid penalties of non-compliance on the iTax system and fines and penalties discourage non-compliance with of residential rental income tax obligations. The lowest mean value was 1.83, which indicates that the respondents strongly agreed that fines and penalties are very punitive to property owners. The study findings are supported by a number of studies which includes Vadde (2014) and Berhane and Yesuf (2013)

4.4.1 Knowledge and Education

This section sought to evaluate several statements on tax knowledge to determine its effect on rental income tax compliance among real estate investors.

Table 4.4 Knowledge and Education

	Mean	Std. deviation
a) You receive conflicting information from different sources	3.20	1.344
b) KRA has created a lot of public awareness on residential rental income tax	2.61	1.468
c) Technical details on the website and Tax laws were technical for one to understand	2.39	1.085
d) Effective tax education can change the attitude and perception of property owner towards tax compliance	2.11	1.080
e) There are poor communication channels within KRA	3.28	1.259
f) Knowledge about tax laws plays a major role in determining property owners' tax compliance	1.87	0.909

According to the results on table 4.7 the highest mean values were 3.28 and 3.20 which corresponds to the scale value of 3. The results indicate that the respondents were indifferent on poor communication channels by KRA and that real estate investors receive conflicting information from different sources, basis of taxation and compliance requirements under rental income tax regime. The results also established that the respondents agreed that lack technical knowledge on the website greatly contributed to non-compliance by property owners in the previous regime, KRA has created a lot of public awareness on residential

rental income tax and that effective tax education can change the attitude and perception of real estate investors towards tax compliance. The results also established that respondents strongly agreed that tax knowledge on tax laws plays a crucial role in determination of property owners' tax compliance. The study findings are supported by a number of studies which includes Kasipillai and Jabbar (2006)

4.7 Compliance Cost

Compliance cost seeks to interrogate the taxpayers on their experience in terms of the extra cost they incur in order to file returns and make tax payment.

Table 4.5 Compliance Cost

	Mean	Std. deviation
a) Filing of tax returns and payment of the tax due is affordable.	2.39	1.085
b) Accountants are easy to get and charge affordable fee in filing.	2.11	1.0801
c) Hiring of auditors for the purpose of filing cost less	3.20	1.344
d) Keeping of records like expenses and unit occupancy is easy	2.61	1.468

According to the result in table 4.8 the highest mean values were 3.20 and 2.61. Meaning respondents were indifferent in hiring of auditors for the purpose of filing cost less and keeping of records like expenses and unit occupancy is easy. Followed by filing of tax returns and payment of the tax due is affordable falls in the third according to the respondents and lastly accountants are easy to get and charge affordable fee in filing comes last in the mean. The study findings are supported by a number of studies which includes Maseko (2014), Musau (2015)

4.5 Correlation Analysis

4.5.1 Correlation results on independent variables

Correlation shows the relationship existing between variables in the study. The study's dependent variable is Rental income tax compliance and the independent variables consist of compliance cost, knowledge on taxation, fines and penalties.

The results depicted in table 4.6 below

Table 4.6: Correlation between independent variable and dependent variable

Variables		Rental income tax compliance	Tax compliance cost	Knowledge on taxation	Fines and Penalties interest
Rental income tax compliance	Pearson Correlation	1			
	Sig. (2-tailed)				
Tax compliance cost	Pearson Correlation	0.456	1		
	Sig. (2-tailed)	0.002			
Knowledge on taxation	Pearson Correlation	0.431	.3421	1	
	Sig. (2-tailed)	0.001	.0014		
Fines and Penalties	Pearson Correlation	0.431,	.3120	.0000	1
	Sig. (2-tailed)	0.000	.0031	1.000	

In an attempt to show the relationship between the study variables and their findings the study used the Karl Pearson's coefficient of correlation (r). According to the findings as indicated in table 4.6, it was clear that there was a positive correlation between Rental income tax compliance and tax compliance cost as depicted by a correlation value of 0.456. This implies that tax compliance cost was linearly related to rental income tax compliance. The study also depicted that there is a positive correlation between knowledge on taxation and rental income tax compliance with a correlation value of 0.431. Another positive correlation was between knowledge on taxation and rental income tax compliance with a correlation value of 0.458 and a positive correlation between fines and penalties and rental income tax compliance with a correlation value of 0.431. This shows that there was a positive correlation between tax compliance cost, knowledge on taxation, fines and penalties and rental income tax compliance.

4.6 Regression Analysis

4.5.1 Model Summary

Table 4.7 model summary results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.539a	.291	.202	.71664

a. Predictors: (Constant), Tax knowledge and education, Fines and penalties,

Compliance cost.

Table 4.7 shows that R-Square value (coefficient of determination) is 0.291, which indicates that the independent variables (compliance costs, fines and penalties and tax knowledge) explain 29.1% of the variation in the dependent variable (Residential rental income tax

compliance). This means that 70.9% of residential rental income tax compliance is influenced by other factors apart from the considered research variables. Other factors represented by 70.9% of residential rental income tax compliance could be tax rate, attitude and perception and finally income tax levels.

4.7 Analysis of Variance

The results of the Analysis of variance are shown by table 4.10 below

Table 4.7 ANOVA

Model	Sum of Ssquares	Df	Mean Square	F	Sig
1 Regression	8.414	5	1.683	3.277	.014b
Residual	20.543	40	.514		
Total	28.957	45			

a. Dependent Variable: Rental income tax compliance

b. Predictors: (Constant), Tax knowledge and education, Fines and penalties, Compliance cost.

ANOVA results on table 4.7 shows regression model is significant since the F statistics value (3.277) is significant at 95% confidence level since the p-value ($0.014 < 0.05$). This indicate a significant relation between independent research variables compliance cost, knowledge on taxation and fines and penalties and residential rental income tax compliance.

4.8 Regression Coefficients

Table 4.8 below shows the regression coefficients results.

Table 4.8 Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B Error	Std.	Beta		
(Constant)	1.490	0.745		1.999	0.052
Fines and penalties	-0.148	0.184	-0.121	-0.804	0.426
Knowledge and Education	0.522	0.211	0.373	2.476	0.018
Compliance cost	0.170	0.184	0.132	0.920	0.363

a. Dependent Variable: Rental income tax compliance.

From results on table 4.11 the following regression equation was obtained

$$Y = 1.490 + 0.170X_1 - 0.148X_2 + 0.522X_3 + \varepsilon$$

The coefficient for fines and penalties is -0.148, so we expect a -0.148 unit decrease in the rental income tax compliance holding all other variables constant. The coefficient for knowledge and education is 0.522 so for every unit increase in knowledge and education, we expect 0.52 point increase in rental income tax compliance. For compliance cost, is represented by a coefficient of 0.170, meaning for every increase in compliance cost a 0.17-unit increase in rental tax compliance is predicted holding all other variables constant.

From the table 4.11 t and sig are the t-statistics and their associated values used in testing whether a given coefficient is significantly different from zero using an alpha of 0.05. The coefficient for fines and penalties -0.148 is not significantly different from 0 because its p-value is 0.426, which is larger than 0.05.

This means that for any decrease in fines and penalties independent variables at 0 leads to - 0.148 decrease in rental income tax compliance. This implies that fines and penalties greatly discourage compliance of real estate investors and very punitive to real estate investors.

Further coefficient for knowledge and education is 0.522 which is statically significant because its p-value of 0.018 is less than 0.05. Knowledge and education has positive influence on real estate investors compliance level since for any increase of 0.522 leads to increase in real estate investors compliance level. This also implies that by KRA creating a lot of public awareness on residential rental income tax positively influences real estate investors compliance level.

Compliance cost coefficient of 0.170 is not significantly different from 0 because its p-value is 0.363 which is larger than 0.05. Meaning compliance cost has significant and positively influences real estate investors compliance level. A unit increase of compliance cost by 0.170 leads to the same increase in real estate investors compliance level, for instance hiring of auditors for the purpose of filing cost less has a positive influence in real estate investors compliance level. The intercept is significantly different from 0 at the 0.05 alpha level.

4.9 Discussion of the key Findings

The study result found a significant positive relation between compliance cost, knowledge and education and rental income tax compliance among real estate investors. This means that, compliance cost has a direct effect on rental income tax compliance. Maseko (2014) investigated the impact of personal tax knowledge and tax compliance costs behavior of SMEs in Zimbabwe. The findings of the study revealed that unlike large companies, SMEs face different business conditions which make them to endure high tax compliance load.

4.9.1 Compliance cost

Compliance cost coefficient of 0.170 is not significantly different from 0 because its p-value is 0.363 which is larger than 0.05. Meaning compliance cost has significant and positively influences real estate investors compliance level. A unit increase of compliance cost by 0.170 leads to the same increase in real estate investors compliance level, for instance hiring of auditors for the purpose of filing cost less has a positive influence in real estate investors compliance level. The intercept is significantly different from 0 at the 0.05 alpha level

4.9.2 Knowledge on taxation

The findings also mean knowledge on taxation has a direct impact on rental income tax compliance hence an increase in knowledge and education of tax increases the levels of rental income tax compliance by real estate investors. Kołodziej (2011), support that a high compliance cost could be seen as an unfair treatment of taxpayers.

4.9.3 Fines and penalties

Finally, the results have found that, fines and penalties negatively influence rental income tax compliance by real estate investors but the relationship is insignificant. This indicates an inverse relationship between fines and penalties and residential rental income tax compliance by real estate investors that indicates that a decrease in fines and penalties reduces compliance with rental income tax by real estate investors. Thananga, Wanyoike and Wagoki (2013) carried out a study on how landlords in Nakuru Municipality responded to new taxation measures, and factors which influence compliance. The study used a sample of 94 respondents and questionnaires for data collection.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

Chapter five outlines the summary of this research, conclusions and recommendations based on research findings, limitations of the study and suggestion of areas which may require further consideration as far as future research is concerned.

5.2 Summary of the findings

5.2.1 Compliance cost

The findings on compliance cost revealed that real estate investors were indifferent in hiring of auditors for the purpose of filing cost less and keeping of records like expenses and unit occupancy is easy. Followed by filing of tax returns and payment of the tax due is affordable falls in the third according to the respondents and lastly accountants are easy to get and charge affordable fee in filing.

5.2.2 Fines and Penalties

The results on fines and penalties established that periodic waiver of fines and penalties could encourage tax compliance, property owners file nil or incorrect returns to avoid penalties of non-compliance on the iTax system and fines and penalties discourage non-compliance with of residential rental income tax obligations

5.2.3 Knowledge and Education

The findings on tax knowledge and education indicate that the respondents were indifferent on poor communication channels by KRA and that real estate investors receive conflicting information from different sources, basis of taxation and compliance requirements under rental income tax regime. The results also established that the respondents agreed that lack technical knowledge on the website greatly contributed to non-compliance by real estate investors in the previous regime, KRA has created a lot of public awareness on residential rental income tax and that effective tax education can change the attitude and perception of real estate investors towards tax compliance. The results also established that respondents strongly agreed that tax knowledge on tax laws plays a crucial role in determination of property owners' tax compliance.

The results of regression analysis established that compliance cost, fines and penalties and tax knowledge explained 29.1% of the variation rental income tax compliance by real estate investors. The ANOVA results established a significant relation between compliance cost, fines and penalties and tax knowledge and residential rental income tax compliance. The regression coefficient results established a positive significant relation between compliance cost, tax knowledge and rental income tax compliance. The findings also established an insignificant negative relationship between fines and penalties and rental income tax compliance by real estate investors.

5.3 Conclusions

5.3.1 Compliance cost

The study findings established that compliance cost and tax knowledge and education significantly and positively influences rental income tax compliance by real estate investors. Based on this finding the study recommends that compliance cost applicable on rental income influences tax compliance by real estate investors

5.3.2 Knowledge and Education

An increase in tax knowledge and education enhances compliance by property owners. Taxpayers feel that KRA still should concentrate on creating public awareness on residential rental income. Knowledge about tax laws plays a major role in determining property owners' tax compliance.

5.3.3 Fines and Penalties

The study also found that fines and penalties negatively influence tax compliance by real estate investors. The study thus concludes that punitive fines and penalties encourage property owners to comply tax obligations.

5.4 Recommendations

5.4.1 Knowledge and Education

The study found that tax knowledge and education significantly influences residential rental income tax compliance by real estate investors. Based on study finding, this study

recommends that KRA should develop training programs to create awareness on residential rental income tax compliance by real estate investors.

5.4.2 Fines and Penalties

The study further established that punitive fines and penalties encourage compliance with residential rental income tax by real estate investors. The study therefore recommends that the tax authority in Kenya (KRA) should revise its fines and penalties to make them more severe to encourage tax compliance.

5.4.3 Compliance cost

The findings on compliance cost revealed that real estate investors were for the idea of spending extra money in hiring of auditors for the purpose of filing cost less and keeping of records like expenses and unit occupancy is easy. Some of the real estate investors like the idea of leaving auditors and accountants with all the details for periodic filing and payment of the tax due. They still recommend that tax authority (KRA) to open more support centres and offer filing services for free.

5.4 Suggestions for further research

This study collected data from real estate investors to establish the various factors which influence compliance with residential rental income tax. Thus, this study recommends a similar study, which incorporates the views of the tax authority in Kenya to establish the factors behind residential rental income tax non-compliance by estate investors.

The study found that the considered research variables explain 29.1% of variation in residential rental income tax compliance by estate investors thus the study recommends an additional study on the other factors that are represented by 70% and also influence compliance of residential rental income tax by real estate investors. Again further study also need to be done on the same topic but covering a different location other than in Nairobi so as to determine whether there exist some variances in the findings.

There is need to conduct more research, by the tax administration and other researchers on the suitability of various taxes, tax law and enforcement activities as well as the tax amnesties and quality services to be able to conclusively determine their role in enhancement of financial performance of real estate firms which pay taxes. A comprehensive study of small, medium and large taxpayers from all sectors will also give more insight into this subject.

REFERENCES

- Alegana, H. M. (2014). The Effect of Tax Incentives on Economic Growth in Kenya. *Unpublished MBA Project*. University of Nairobi, Kenya
- Ali, M., Fjeldstad, O. & Sjørnsen, I. (2013). Factors Affecting Tax Compliant Attitude in Africa: Evidence from Kenya, Tanzania, Uganda and South Africa. *A Paper prepared for Centre for the Study of African Economies, 2013 Conference Oxford, 17–19 March*.
- Ali, M., Fjeldstad, O. & Sjørnsen, O. I. (2013). To Pay or Not To Pay? Citizens' Attitudes towards Taxation in Kenya, Tanzania, Uganda and South Africa. *Working Paper No. 143*. Afrobarometer Working Papers
- Allingham, M. G. & Sandmo, A. (1972). Income Tax Evasion: A Theoretical Analysis. *Journal of Public Economics*, 1(34), 323–338.
- Awa, F. N. & Ikpor, I. M. (2015). Factors That Affect Tax Compliance among Small and Medium Enterprises (SMEs) in Enugu, South-Eastern Nigeria. *International Journal of Research in Business Management*, 3(9), 25-36.
- Awunyo-Vitor, D., Osae, E. O, & Donani, S. (2015). Determinants of property rate default: evidence from the Ashanti Region, Ghana. *Commonwealth Journal of Local Governance*, 16(17), 190-203
- Ayuba, A., Saad, N. & Ariffin, Z. Z. (2016). Does Perceived Corruption Moderate the Relationship between Economic Factors and Tax Compliance? A Proposed framework for Nigerian Small and Medium Enterprises. *Mediterranean Journal of Social*

Sciences, 7(1), 402-409.

Bello, K. B. & Danjuma, I. (2014). Review of Models/Theories Explaining Tax Compliance Behavior. *Sains Humanika*, 2(3), 35–38

Berhane, T. & Yesuf, M. (2013). Assessment of the Challenges and Opportunities of Business

House Rental Income Taxation in Regional State of Tigray. *International Journal of Science and Research*, 4(8), 1932 -1938

Chandan, J. S., Singh, J. & Khanna, K. K. (2010). “*Business Statistics*”. (4th Ed.). New Delhi. Vikas Publishing House PVT.

Chepkurui, C., Namusonge, G. S., Biraori, O. E. & Kipkoech, E. C. (2014). Factors Affecting Tax Compliance among Small and Medium Enterprises in Kitale Town Trans-Nzoia County, Kenya. *International Journal of Recent Research in Commerce Economics and Management*, 1(3), 60-75.

Dube, G. (2014). Informal Sector Tax Administration in Zimbabwe. *Public Administration and Development*, 34, 48–62

Fjeldstad, O., Schulz, H. C. & Sjørusen, I. (2012). Peoples’ View of Taxation in Africa: A Review of Research on Determinants of Tax Compliance. *CMI working paper*, WP2012: 7.

Gall, M.D., Gall, J. P. & Borge, W. R. (2006). “*Educational Research: An Introduction*”. (8th Ed.). New York: Pearson.

Gayer, C. & Gilles, M. (2012). Property Taxation and Enhanced Tax Administration in Challenging Times. *Economic Papers 463*. European Commission. Available at ec.europa.eu/economy_finance/publications

Hargreaves, D. (2008). The tax system and housing demand in New Zealand. *Discussion Paper Series 2008/6*. Reserve Bank of New Zealand

Hofmann, E. Hoelzl, E. & Kirchler, E. (2008). Preconditions of Voluntary Tax Compliance: Knowledge and Evaluation of Taxation, Norms, Fairness, and Motivation to Cooperate. University of Vienna, Austria

Karanja, E. K. (2014). Factors Affecting Voluntary Tax Compliance on Rental Income: A case

Study of Nairobi Landlords. *Unpublished MBA Project*. United States International University, Nairobi, Kenya

Kasipillai, J. & Jabbar, H. A. (2006). Gender and Ethnicity Differences in Tax Compliance. *Asian Academy of Management Journal*, 11 (2), 73–88

- Kenya Revenue Authority. (2015). *Residential rental Income Tax: What You Need To Know*. Accessed online on 11/6/2016 from <http://www.kra.go.ke/portal>
- Kirchler, E., Hoelzl, E. & Wahl, I. (2008). Enforced Versus Voluntary Tax Compliance: The “Slippery Slope” Framework. *Journal of Economic Psychology*, 29, 210–225.
- Kirchler, E., Muehlbacher, S., Kastlunger, B. & Wahl, I. (2007). Why Pay Taxes? A Review of Tax Compliance Decisions. *Working Paper 0730/2009*. International Studies Program
- Kołodziej, S. (2011). The Role of Education in Forming Voluntary Tax Compliance. *General and Professional Education*, 1, 22-25
- KPMG (2015). *Finance Act 2015 Analysis*. Accessed online on 11/6/2015 from www.kpmg.com/eastafrica
- Kuria, K. M. (2013). Factors Affecting Rental Income Tax Compliance among Landlords in Kilifi Municipality. *Unpublished MBA Project*. Kenyatta University, Kenya
- Makori, G. A., Alala, O. B., Owola, J., Musiega, D., Gogo, T. W. & Kipchumba S. (2013). Examining the Effect of Tax Authority Regulation and Administration on Voluntary Compliance in Kenya: A Case of Small Scale Businesses in Kakamega Municipality, Kenya. *International Journal for Management Science and Technology*, 1 (5), 1- 25.
- Mas’ud, A., Aliyu, A. A. & Gambo, E. J. (2014). Tax Rate and Tax Compliance in Africa. *European Journal of Accounting Auditing and Finance Research*, 2 (3), 22-30.
- Maseko, N. (2014). Determinants of Tax Compliance by Small and Medium Enterprises in Zimbabwe. *Journal of Economics and International Business Research*, 2(3), 48-57.
- McKerchar, M. & C. Evans (2009). Sustaining Growth in Developing Economies through Improved Taxpayer Compliance: Challenges for Policy Makers and Revenue Authorities. *eJournal of Tax Research*, 7, 171–201.
- Mengere, M. M. (2014). The Effect of Tax Related Education on PAYE Tax Compliance for KRA Audited Firms in Nairobi Central Business District. *Unpublished MBA Project*. University of Nairobi, Kenya
- Moore, M. (2004). Revenues, State Formation, and the Quality of Governance in Developing Countries. *International Political Science Review*, 25, 297-319.
- Mosoti, Z. M & Murabu, E. K. (2014). Assessing the Implication of Strategic Planning On Performance of Small Sized Organizations: A Case Study of Small Enterprises in Thika Town. *Journal of Research in Business and Management*, 2(3), 1-13
- Mukabi, D. N. (2014). Factors Influencing Turnover Tax Compliance in the Kenya Revenue Authority Domestic Taxes Department in Nairobi County. *Unpublished MA Project*. University of Nairobi, Kenya

- Musau, N. (2015). Determinants of Tax Compliance among Small and Medium Enterprises in Kenya: A Case of Nairobi County. *Unpublished MA Project*. University of Nairobi, Kenya
- Mwangi, I. K. (1997). The Nature of Rental Housing in Kenya. *Environment and Urbanization*, 9 (2), 141-160
- Mwangi, P. N. (2014). Factors Influencing Tax Compliance among Small and Medium Enterprises in Nairobi's Industrial Area, Kenya. *Unpublished MA Project*. University of Nairobi, Nairobi, B. (2011). A Review of Factors for Tax Compliance. *Annals of "Dunarea de Jos"*, XVII(1), 69-76
- Organization for Economic Co-operation and Development. (2012). "SME Compliance Sub-Group: Reducing Opportunities for Tax Non-Compliance in the Underground Economy." Organization for Economic Co-operation and Development
- Orodho, J. A. (2005). "Techniques of Writing Research Proposals and Report in Education and Social Sciences." (2nd Ed.). Nairobi: Kanezia Enterprise
- Osebe R. P. (2013). An Analysis of Factors Affecting Tax Compliance in the Real Estate Sector in Kenya: A Case Study of Real Estate Owners in Nakuru Town. *Unpublished MBA Project*. Kabarak University, Kenya.
- Palil, M. R. (2010). Tax Knowledge and Tax Compliance Determinants in Self-Assessment System in Malaysia. *Unpublished PHD Thesis*. The University of Birmingham.
- Palil, M. R., Akir, M. R. & Ahmad, W. F. (2013). The Perception of Tax Payers on Tax Knowledge and Tax Education with Level of Tax Compliance: A Study the Influences of Religiosity. *ASEAN Journal of Economics, Management and Accounting*, 1(1), 118-129.
- Sandmo, A. (2005). The Theory of Tax Evasion: A Retrospective View. *National Tax Journal*, 53(4), 643-648. 44
- Sani, K. S. & Gbadegesin, J. T. (2015). A Study of Private Rental Housing Market in Kaduna Metropolis, Nigeria. *International Journal of Humanities and Social Science*, 5(8), 173-183
- Sapiei, N. S. & Kasipillai, J. (2013). External Tax Professionals' Views on Compliance Behaviour of Corporation. *American Journal of Economics*, 3(2), 82-89.
- Saunders, M., Lewis, P. & Thornhill, A. (2012). "Research Methods for Business Students." (6th Ed.). FT Prentice Hall. UK
- Taxwise Consulting. (2015). *Proposed Taxation of Residential rental Income in Kenya*. Accessed online on 11/6/2015 from www.taxwiseconsulting.com
- Thananga, A. G., Wanyoike, D. M. & Wagoki, A. J. (2013). Factors Affecting Compliance on Rental Income Tax Policy by Landlords in Nakuru Municipality. *Journal of Agriculture and Environmental Sciences*, 2(1), 26-38

- Tilahun, A. T. & Yidersal, D. D. (2014). Determinants of Tax Compliance Behavior in Ethiopia: The Case of Bahir Dar City Taxpayers. *Journal of Economics and Sustainable Development*, 5(15), 268-273
- Torgler, B. (2003). Beyond Punishment: A tax Compliance Experiment with Taxpayers in Costa Rica: *Revista de Analisis Economico*, 18(1), 27–56
- UN-HABITAT. (2006). “Case Study of Sites and Services Schemes in Kenya: Lessons from Dandora and Thika.” UN-HABITAT
- Vadde, S. (2014). “Attitude of Rental Tax Payers and their Compliance with Tax System: An Empirical Study of Mekelle City, Ethiopia.” Mekelle University, Ethiopia. 45
- Walsh, K. (2012). Understanding Taxpayer Behaviour—New Opportunities for Tax Administration. *The Economic and Social Review*, 43(3), 451–475.

APPENDICES

Appendix A: Time Schedule

Supervisor Allocation								
Selecting the title								
Proposal								
Defense								
Findings								
	May	June	July	August	September	October	November	December

Appendix B: Research Budget.

The following is a budget proposal of the total amount of money to be spent:

Item/Activity	Estimated Cost (Kshs)
Stationery	7,000
Printing/Photocopying	7,000
Transport	14,000
Binding	3,000
Data analysis	20,000
Miscellaneous	10,000
Total cost	56,000

Appendix C: Questionnaire

QUESTIONNAIRE FOR FACTORS AFFECTING RENTAL INCOME TAX COMPLIANCE AMONG REAL ESTATE INVESTORS IN EAST OF NAIROBI REGION

I am a post Graduate student at Kenya School of Revenue Administration carrying out research on “Factors affecting rental income tax compliance among real estate investors in East of Nairobi Region”

The information obtained will only be used for academic purposes and shall be treated in utmost confidence.

You are requested to complete this questionnaire as honestly and objectively as possible.

Please tick in the appropriate box and also fill in the blank space provided for those questions where elaborate answers are required.

SECTION A: BACKGROUND INFORMATION

Please **tick** and **fill** where appropriate

1. Please specify your gender

Male []

Female []

2. Kindly indicate your age group

a. 31 to 40 years []

b. 41 to 50 years []

c. above 50 years []

3. Level of education attained

Primary []

Secondary []

Technical/College []

Undergraduate []

Postgraduate []

4. On average, what is your total gross monthly, rental income?

Below Ksh 12,000 []

Between Ksh 12,001 and 25,000 []

Between Ksh 25,001 and 50,000 []

Between Ksh 50,001 and 100,000 []

Between Ksh 100,001 and 200,000 []

Between Ksh 200,001 and 300,000 []

Between Ksh 300,001 and 500,000 []

Above Ksh 500,001 but below 833,333 []

5. How often do you file for rental income?

Monthly []

Yearly []

SECTION B: FINES AND PENALTIES

6. Have you ever filed your tax returns online?

Yes []

No []

If yes, was the *i* Tax system friendly, simple, easy to use?

Yes []

No []

7. Do you understand the dates the penalties get imposed on *i* Tax system?

Yes []

No []

If yes, where did you learn from?

Cybercafé []

Peer education []

KRA trainings []

Itax support Centre []

8. Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

No	Statement	1	2	3	4	5

a)	Fines and penalties discourage compliance of real estate					
b)	Periodic waiver of fines and penalties could encourage tax compliance					
c)	Real estate investors declare nil return or under declare their income to avoid fines and penalties.					
d)	Fines and penalties are very punitive to real estate investors					

SECTION C: KNOWLEDGE ON TAXATION

9. Have you ever attended any tax training?

Yes

[]

No

[]

If yes, how would you rate the challenges experienced /information received?

Use the following Likert scale, Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

No	Statement	1	2	3	4	5
a)	You receive conflicting information from different sources					
b)	KRA has created a lot of public awareness on residential rental income tax					
c)	Technical details on the website and Tax laws were technical for one to understand					
d)	Effective tax education can change the attitude and perception of property owner towards tax compliance					
e)	There are poor communication channels					

	within KRA					
f)	Knowledge about tax laws plays a major role in determining property owners' tax compliance					

Please list any challenge you experienced in dealing with tax matters not listed above

.....

SECTION E: COMPLIANCE COST

10. Evaluate the following statements and tick where appropriate under the choices below

Use the following Likert scale, Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

No	Statement	1	2	3	4	5
a)	Filing of tax returns and payment of the tax due is affordable.					
b)	Accountant are easy to get and charge affordable fee in filing.					
c)	Hiring of auditors for the purpose of filing cost less					
d)	Keeping of records like expenses and unit occupancy is easy					

SECTION E: RENTAL INCOME TAX COMPLIANCE

12 . Evaluate the following statements and tick where appropriate under the choices below

Use the following Likert scale, Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

No	Statement	1	2	3	4	5
a)	Real estate investors enjoy paying taxes and are always tax compliant					
b)	Real estate investors file tax returns every month					
c)	Real estate investors declare the correct amount of rental income					
d)	Real estate investors file tax returns on time and pay before due dates					

13. Can you recommend ways of creating more awareness on residential rental income tax?

.....

Thank you very much for your patience, cooperation and support in my research.