FACTORS AFFECTING RENTAL INCOME TAX COLLECTION

(A Case Study of Taxpayers in North of Nairobi District, Nairobi County)

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RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS FINANCE AND ACCOUNTS, SCHOOL OF BUSINESS IN PARTIAL FULLFILLMENT OF THE REQUIREMENT FOR THE AWARD OF POST GRADUATE DIPLOMA IN TAX ADMINISTRATIONAT JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

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DECLARATION

This research Project is my original work and has not been presented for a post graduate diploma in any other academic or non-institution

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Signature……………………………Date……………………………………………….

This Project is submitted for examination with my approval as the supervisor.

Mr. Paul Muema

Signature ……………………………. Date…………………………………………….

DEDICATION

This research project is dedicated to the Almighty God for his favour in my life. I dedicate this work to my beloved family for the love, patience and support they have shown me throughout this course.

ACKNOWLEDGEMENT

All praise is due to Almighty God, without whose guidance and inspiration this research project would not have been written.

Abstract

Effective running of devolved functions requires adequate resources. Currently the larger proportion of county government financial resources is sourced from the national government. This is attributed to the county governments' insufficient capacity to mobilize revenues within their jurisdictions. The study aimed at establishing factors affecting rental income tax collection in the Kasarani sub county, Nairobi County, Kenya. Specifically, the study looked at landlords' awareness level of their tax obligation, connection to iTax systems and the factors that curtail landlords from meeting their tax obligation in general. The study drew data from landlords in Kasarani sub County of Nairobi County. The study adopted descriptive research design. A sample of 330 respondents was drawn from the target population using stratified random sampling method. A structured questionnaire was administered on the sampled respondents. The questionnaire was pilot tested to authenticate its reliability and validity before it is administered in the final study. Data was analysed descriptively and inferentially using SPSS for Windows. Findings were represented using frequency tables to ease understanding. Results from the study indicate that, first the residential income tax collection efforts have not borne much fruits as it would have been expected because quite a significant percentage of the landlords do not pay their rental income tax. Secondly, the Government is faced with numerous challenges as far as collection of residential income tax is concerned, some related to the internal infrastructure in place that supports tax collection and others related to the socio-economic in nature and include inadequate training for the landlords. Thirdly there is a strong positive correlation coefficient of 0.87. This indicates a strong positive correlation between the age of tax payer and the amount of tax paid. Recommendations from the study are for Government to ensure landlords are trained and equipped with the required skills relating to paying rental income tax. There should also be a regular awareness to the public on various tax obligations. The public should also be more enlightened on tax return and various channels through which the landlords can make use of.

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Abbreviations and Acronyms

GOK	Government of Kenya
GDP	Gross Domestic Product
ITA	Income Tax Income
KRA	Kenya Revenue Authority
LTO	Large Taxpayer Office (LTO)
MoF	Ministry of Finance
OECD	Organisation Economic Co-operation and Development
SPSS	Statistical Package for Social Sciences for analysis
SARA	Semi-Autonomous Revenue Authority
VAT	Value Added Tax

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Revenue in form of taxation, excise duties, customs, licenses or other sources is very crucial in ensuring smooth execution of government operations. Taxation remains to be the main source of government revenue in both developed and developing economies. It also provides an important avenue for financial independence of nations from external assistance (OECD, 2009). It is asserted that, developed countries have advanced in successful tax policies which enhance revenue collection. Nevertheless, developing countries often have inefficient tax systems which hamper their tax collection efforts (Kayaga, 2007). 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, residential Rental Income being one of them.

Rental income is any income earned from permitting another person to use property that one owns or has rights over. It arises from the renting of a house, apartments, rooms, space in an office building, or other real or moveable property. The earning of rental income can be the core business of a person or can be incidental to their core business. Sec 6(1) of the ITA provides for the taxation of rental income: 'gains or profits' includes a royalty, rent, premium or similar consideration received for the use or occupation of property.

There is a distinction between 'commercial rental income' and 'residential rental income' for tax purposes. The Finance Act 2015 introduced special provisions relating to taxation of residential rental income in a bid to make more taxpayers declare residential rental income. The Finance Act 2015 introduced the residential rental income tax with effect from 1st January 2016. Section 6A of the ITA states that a residential rental income tax shall be payable by any resident person from income accrued in or derived from Kenya for the use or occupation of residential property, and which does not exceed KShs10m in a year of income. Tax rate is a flat rate of 10% on gross rents received payable on monthly basis.

1.2 Statement of the Problem

An effective and efficient tax collection system is central to any countrys' wellbeing. There are many factors that curtail the tax collection efforts by the KRA officials despite the robust systems and policies that have been put in place by the governments. Many studies have been done related to tax compliance and taxation in general. These includes investigations into the effects of online filing system on tax compliance among small taxpayers in East of Nairobi Tax District, effects of online tax system on tax compliance among small taxpayers in Meru County, Kenya as well as the effect of Integrated Tax Management System (ITMS) on tax compliance by Medium and Small Taxpayers. Despite the government putting so much effort and finances on the new technology and new systems to collect more, revenue targets are not yet met thus the need to carry out this study. From the literature reviewed no specific study has been done focusing on the the factors affecting rental income tax collection in North of Nairobi district, Kenya, hence the need for this study.

1.3 General Objective

The general objective of the study was to analyze the factors affecting rental income tax collection in North of Nairobi District. Specific objectives include:

1.4 Specific Objective

The study was guided by a set of three (3) objectives. It sought to;

1. Ascertain the extent to which the North of Nairobi district landlords are aware of their regulatory requirement for tax compliant.

2. Ascertain the extent to which landlords of North of Nairobi district are connected to iTax.

3. Ascertain the reasons as to why North of Nairobi district landlords fail to cooperate with their tax compliant obligation.

1.4 Research Questions

The following questions guided the study.

1. Are the North of Nairobi district landlords aware of their regulatory requirements on tax remittance?

2. Are the North of Nairobi district landlords connected to iTax?

3. What are the reasons why North of Nairobi district landlords fail to cooperate on their tax compliant obligation?

1.5 Research premises/Assumptions of the Study

1. There is a positive relationship between landlords' awareness of their regulatory requirements and effectiveness of tax collection in the North of Nairobi district.

2. There is a positive relationship between landlords connection with iTax and tax collection effectiveness in the North of Nairobi district.

3. There are reasons as to why landlords North of Nairobi district fail to cooperate in their tax obligations.

1.6 Justification and Significance of the Study

The study will be beneficial to the Government through the Kenya Revenue Authority which will understand the challenges it still needs to address for effective tax collection. The study will foster creation of new knowledge and awareness in the area of taxation sector. The findings are important to the policy makers as they will be used as a blue print for the improvement of taxation policies and their enforcement. The findings will also be important to the oversight institutions of the government in informing the necessary steps to ensure tax compliance.

1.7 Scope and Limitations of the Study

The study drew the respondents from landlord in the Kasarani area Nairobi County. To cover the entire region a lot of time was involved. This was overcome by the use of research assistants who assisted in administering the questionnaires. Secondly, funding for the study was not adequate and friends came in to assist. Finally, though there was concentrated effort to get the questionnaires to all the sampled respondents there was no guarantee that they would be returned duly completed and therefore interviews were used to minimize this.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviewed literature on various areas including, taxation in general, taxation in Kenya, residential tax and various factors hampering effective rental income collection in Kenya.

2.2 Theoritical Framework

Various studies have been carried out by different researchers both locally and internationally in relation to taxation. For instance, Brondolo (2009) conducted a study on the challenges facing tax collection, strategies and measures responding to the challenges among EU countries during the global financial and economic crisis of 2008. The study posited that an economic downturn tends to worsen taxpayer compliance in important aspects. Consequently, tax agencies were encouraged to develop tax compliance strategies that are structured around two objectives: containing the growth in noncompliance and helping taxpayers to cope with the crisis.

Palil and Mustapha (2010) studied the tax knowledge and tax compliance determinants in Self-Assessment System in Malaysia. The study used a multiple method of questionnaires (direct and hypothetical questions) and analysis (stepwise multiple regressions and multiple regressions) to analyze the collected data. The study concluded that in the self-assessment system in Malaysia, tax knowledge has a significant impact on tax compliance and the level of tax knowledge varies among respondents. Males, Malaysian, residents of Eastern region, high-income earners and taxpayers who have attended tax courses appear to be the most International Journal of Economics, Commerce and Management, United Kingdom Licensed under Creative Common knowledgeable tax payer groups. The results also established that tax compliance was influenced by probability of being audited, perception of government spending, penalties, personal financial constraints, and referent group.

In Uganda, Tusubira and Nkote (2013) examined the relationship between income tax proficiencies and income tax compliance among SMEs. The study adopted a cross sectional descriptive survey design and gathered data from 326 out of 377 SMEs from Mbale district. The study established that income tax proficiencies are multi-dimensional and significant predictors of income tax compliance. The study recommended that to improve income tax proficiencies in SMEs in Uganda, intensive Uganda Revenue Authority should carry out tax education with practical knowledge to the SMEs' personnel involved in tax matters for efficient compliance.

A study by Mutascu and Danuletiu (2013) investigated the relationship between tax revenues and literacy level, using a panel model approach in Romania. The dataset covered the period 1996 to 2010 and included 123 countries. The estimations suggested that the assumed function is nonlinear, with inverted-U and U-shaped curves. More precisely, a very low literacy level was associated with reduced tax revenues. Furthermore, the study found that government inputs increase as the literacy level increases, reaching a maximum point. Beyond this level, the tax revenues decrease even if the literacy has an ascendant tendency, registering a minimum level. Finally, the tax revenues increase in a parallel manner with the literacy index.

In Kenya, Mararia (2014) also examined the effect Integrated Tax Management System (ITMS) on tax compliance by Medium and Small Taxpayers. The study targeted a sample of 100 SMS and a descriptive survey design. Data was collected using self–administered questionnaires and an interview guide. The study findings established that there was enough proof to conclude that adoption of integrated tax management system is associated with high levels of tax compliance. It also provided evidence that tax compliance cost, tax knowledge and education, and tax fines and penalties are contributory factors in tax compliance.

In their study, Muturi and Kiarie (2015) studied the effects of online tax system on tax compliance among small taxpayers in Meru County, Kenya. The study adopted a descriptive research design and data was collected using structured questionnaire, which covered all the variables of the study from 60 sampled taxpayers from Meru county tax District. The study findings revealed that online tax system does affect tax compliance level among small taxpayers in Meru County. Gwaro, Maina & Kwasira (2016) assessed the level of awareness regarding online filing of tax returns in the context of the Small and Medium Enterprises in Nakuru. The study found that only the computer literacy had significant effect on the influence of tax compliance levels amongst small and medium enterprises in Nakuru County.

Wasao (2014) also investigated the effects of online filing system on tax compliance among small taxpayers in East of Nairobi Tax District. The study adopted quantitative and descriptive methods. Data was collected using a structured questionnaire and a sample of 160 respondents chosen. The study findings established that the online system affects tax compliance levels among small taxpayers in East of Nairobi as far as registration, filing and payments were concerned. The study recommended that a further study should be done to establish how online system not only affect compliance in mines and minerals sector but also other tax districts of small taxpayers, which are considered more/less, advanced than East of Nairobi Tax District.

In most developing countries national tax collection is carried out by line departments within the Ministry of Finance (MoF). However, over the past two decades more than 20 developing countries, especially in Latin America and Africa, have established revenue authorities whereby the tax administration function is moved out of the Ministry of Finance and granted to a semi-autonomous entity (Devas, Delay, and Hubbard 2001; Taliercio 2004). Although each country that has established a revenue authority has done so under differing circumstances, there are some general patterns with respect to underlying political and economic circumstances.

First, governments have been greatly dissatisfied with the performance of revenue collection, especially in the face of fiscal deficits and expanding public expenditure needs, and with the chronic inefficiencies of the existing tax administration arrangements placed in the Ministry of Finance (Mann 2004). Second, perceptions of widespread corruption and tax evasion, combined with high taxpayer compliance costs, led to calls for wholesale reform of the tax administration (Barbone, Das-Gupta, Wulf, and Hansson 1999; Ghura 1998). Third, in some aid-dependent African countries the shift to a semi-autonomous revenue 943 authority model was also attractive to foreign donors because it created opportunities for more widespread reforms of the tax administration (Therkildsen 2004).

The revenue authority model is designed partly to limit direct political interference in day-to-day operations by the Ministry of Finance and partly to free the tax administration from the constraints of the civil service system (Devas et al. 2001; Taliercio 2002). A revenue authority is not meant to be as autonomous as a central bank or as dependent as departments in line ministries. It is "semi-autonomous. "But a revenue authority is meant to be quite independent of the financing and personnel rules that govern the public sector in general. A semi-autonomous revenue authority (SARA) can in principle recruit, retain, and promote quality staff by paying salaries above civil service pay scales, and can also more easily dismiss staff. Such steps are expected to provide incentives for better job performance and less corruption. Moreover, a single purpose agency is meant to integrate tax operations and focus its efforts on collecting revenues more effectively than is usually possible under civil service rules.

In Kenya tax is collected by Kenya Revenue Authority (KRA). Some of the taxes are: Customs and Excise, Income Tax, Value Added Tax (VAT) and capital gain taxes. It may collect any other tax assigned by the government.

The Kenya Revenue Authority was established in 1995 by an Act of Parliament, under Cap. 469 of the Laws of Kenya. The Authority has the responsibility of assessing, collecting and accounting for the taxes. It collects revenue and administers the revenue Acts for the purpose of facilitating trade.

2.3 Factors that affects collection of tax

2.3.1 Corruption in Revenue Administration

Institutional corruption is an unlawful or unauthorized act engaged in by a public official using his or her position to receive a bribe, directly or through a family member or associate, in exchange for making a benefit available to a member of the public (e.g., a taxpayer). Opportunities for corruption in revenue administration are affected by demand from companies and individuals for corrupt actions and the supply by tax officials of corrupt acts.

Demand for corruption increases with the complexity of tax systems, for instance, while supply could increase, for example, if the law gives tax officials excessive discretion. Corruption is a multidimensional problem. General factors leading to corruption within a country have to be differentiated from specific factors that affect corruption within the revenue administration in particular. Factors affecting corruption generally range from the size of the government in the economy to officials with excessive discretion to inadequate control systems with limited accountability to cultural norms.

Specific factors affecting corruption in the tax administration are numerous, but tend to have as a common denominator frequent interaction between the tax administration and individuals. They can occur in, among other areas, collection, enforcement of arrears collection, appeals, and even customer service, such as selling taxpayer information and issuing tax identification numbers and cards to fictitious taxpayers. The effect of corruption on tax revenue has to be qualified, however. Corruption sometimes does not involve taxpayers and may not always affect tax revenue directly. For example, when tax auditor positions in a revenue administration are sold” instead of being filled through proper selection process, the taxpayer is not directly involved. Similarly, if a taxpayer bribes a revenue administration employee to expedite processing of a tax refund, this does not necessarily entail a loss of tax revenue (except in present value terms). Revenue fraud in the form of smuggling, undervaluation and under declaration of income and taxable goods, misclassification of goods, and so on, has been a rising problem. To analyze the problem of corruption in revenue administration, the main causes or motivations need to be explored. Such an examination could yield valuable suggestions for preventing corruption. Setting ethical considerations aside, corruption would appear to be determined primarily by the following causes or motivations (Dos Santos, 1995; Tanzi, 1998; Keen, 2003):

2.3.2 Factors Related to the Tax System

A complex tax system can facilitate corruption. Tax auditors may extort bribes from taxpayers by taking advantage of complex rules or exercising the excessive discretion they have because of unclear laws, regulations, and procedures. The taxpayer, who may well be evading taxes, may choose to bribe the auditor rather than report the extortion to the revenue administration. High tax rates may lead to more corruption by increasing the incentive for taxpayers to evade them; however, there is no clear evidence to either validate or refute this. Lack of sanctions is another important factor stimulating corruption. The likelihood of corruption increases if penalties are not sufficiently severe (immediate dismissal and criminal charges) or seldom imposed. When it is time-consuming and costly to appeal, the taxpayer might resort to corrupt behavior simply to get things done.

2.3.3 Factors Related to Tax Administration

When it is complex and cumbersome to pay taxes, the temptation for corruption as a short cut could arise, to both save time and reduce uncertainty about how much tax to pay. When deciding on whether to engage in corruption, individuals take into account their perceived risk of detection and punishment. If they feel that systems are deficient (the risk is low), they are more likely to engage in corrupt practices. If wages of revenue administration personnel are very low, corruption may be considered an acceptable way to supplement income.

2.3.4 Behavioral or Cultural Factors

In organizations where corruption is endemic, honest employees may be led into corruption by the behavior of others. Corrupt employees also exert pressure when they will not accept that someone in the group should behave properly while others are engaging in corrupt practices. If senior revenue administration officials are known to engage in corrupt practices, lower-level employees have another justification to engage in similar practices.

Evidence from around the world has made it clear that corruption in revenue administration is a serious problem. In some countries, like Peru and Uganda, corruption in the tax administration was so endemic that the government closed it down and started a new one. In many developing countries applications for poorly paid customs jobs are far higher than for similarly paid government jobs, which suggest applicants saw as possibility of making extra money (Abed and Gupta, 2002). Anecdotal evidence has shown that where revenue administration processes have been modernized, as through the creation of a fully functional Large Taxpayer Office (LTO) and the computerization of customs procedures, revenue collections have improved and corruption has been reduced (Dos Santos, 1995).

2.4 Theoretical Review

The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints (Graham, 2000). The literature on optimal taxation typically treats the social planner as a utilitarian: that is, the social welfare function is based on the utilities of individuals in the society. In its most general analyses, this literature uses a social welfare function that is a nonlinear function of individual utilities. Nonlinearity allows for a social planner who prefers, for example, more equal distributions of utility. However, some studies in this literature assume that the social planner cares solely about average utility, implying a social welfare function that is linear in individual utilities. For our purposes in this essay, these differences are of secondary importance, and one would not go far wrong in thinking of the social planner as a classic "linear" utilitarian.

To simplify the problem facing the social planner, it is often assumed that everyone in society has the same preferences over, say, consumption and leisure. Sometimes this homogeneity assumption is taken one step further by assuming the economy is populated by completely identical individuals. The social planner's goal is to choose the tax system that maximizes the representative consumer's welfare, knowing that the consumer will respond to whatever incentives the tax system provides. In some studies of taxation, assuming a representative consumer may be a useful simplification. However, as we will see, drawing policy conclusions from a model with a representative consumer can also in some cases lead to trouble.

James Mirrlees (1971) launched the second wave of optimal tax models by suggesting a way to formalize the planner's problem that deals explicitly with unobserved heterogeneity among taxpayers. In the most basic version of the model, individuals differ in their innate ability to earn income. The planner can observe income, which depends on both ability and effort, but the planner can observe neither ability nor effort directly. If the planner taxes income in an attempt to tax those of high ability, individuals will be discouraged from exerting as much effort to earn that income. By recognizing unobserved heterogeneity, diminishing marginal utility of consumption, and incentive effects, the Mirrlees approach formalizes the classic tradeoff between equality and efficiency that real governments face, and it has become the dominant approach for tax theorists.

The strength of the Mirrlees framework is that it allows the social planner to consider all feasible tax systems. The weakness of the Mirrlees approach is its high level of complexity. Keeping track of the incentive-compatibility constraints required so that individuals do not produce as if they had lower levels of ability makes the optimal tax problem much harder. Since the initial Mirrlees contribution, however, much progress has been made using this approach. General treatments of the Mirrlees approach are found in Tuomala (1990), Salanie (2003), and Kaplow (2008a).

2.5 Empirical Review

According to Baurer (2005), failure to deal with corrupt tax administration employees can create problems for the business community. Bird (2003) argues that, weaknesses in revenue collections occasion inadequate tax collections. Developing countries according to the scholar faces a problem of inefficient tax administration. The foregoing problem is attributed to with insufficient administrative staff with requisite skills, and high level of illiteracy among taxpayers and tax collectors. Kayaga (2010) further notes that, financial constraints has led to hiring of tax officials who lack understanding of the tax laws they are administering, and the concept of the concepts of accounting that are requisite to analyzing returns. The scholar further posits that, the problem of inexperienced and unqualified personnel is aggravated by lack of training facilities and opportunities.

Studies from a number of countries in Latin America (Taliercio 2002, 2004; Mann 2004) and Africa (Chand and Moene 1999; Fjeldstad 2003; Hadler 2000; Terpker 1999; Therkildsen 2004) show that the reforms appeared to be successful in the initial years. But the initial successes were in many cases not sustained. The first years after the establishment of reforms often witnessed sharp increases in revenues. Reported corruption also seemed to decline. Thereafter, revenue enhancement stagnated and in some countries revenues as a percentage of GDP dropped. There are also clear indications that corruption is on the rise again in many revenue administrations, especially in Africa (Waller 2000). This pattern, initial increases in revenue collection followed by stagnation or decline, often took place despite continued economic growth, reforms of important tax legislation in line with “best practices” as prescribed by the IMF, and accumulated operational experience in the new revenue administrations.

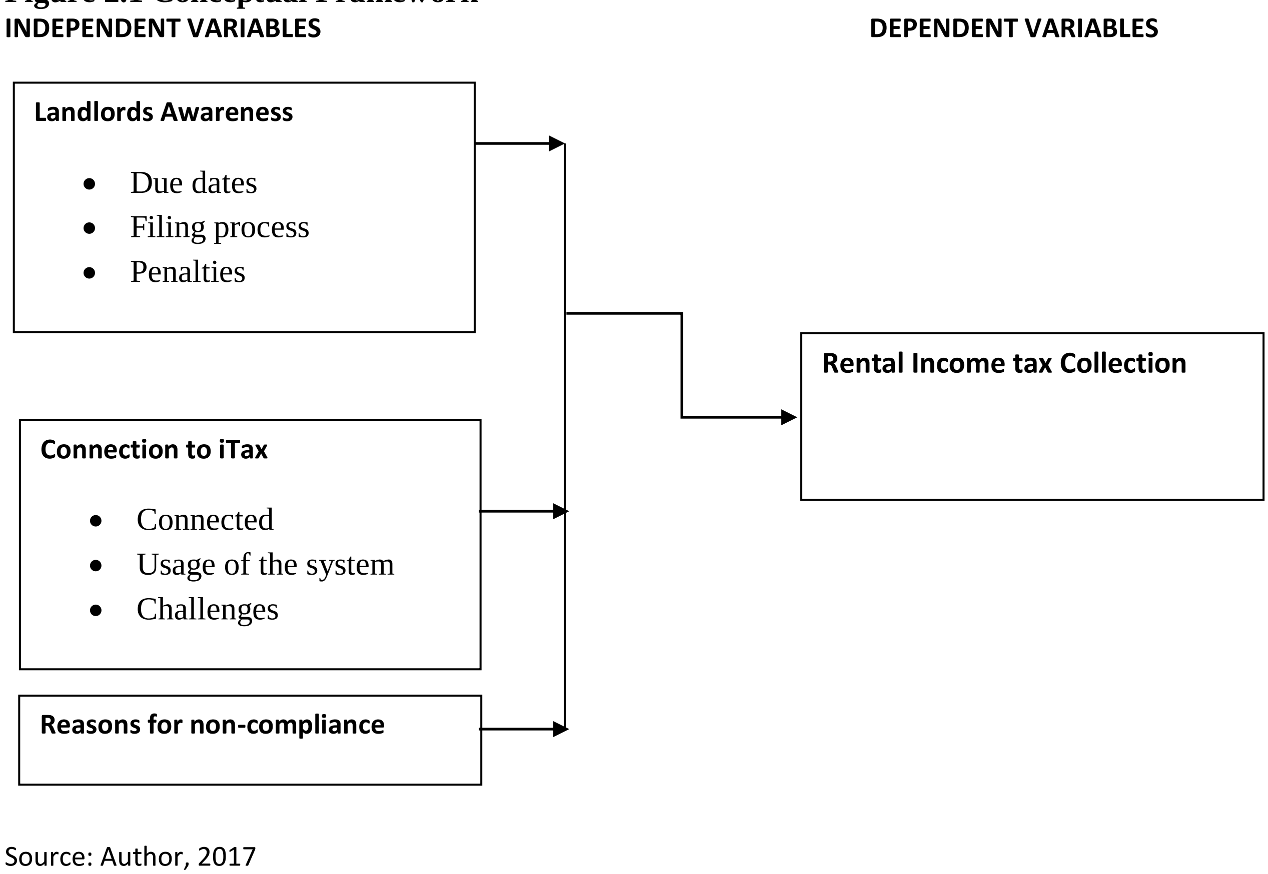
Franzen‟s (2007) study conducted in Dar es Salaam, Tanzania indicated that, public officials are more effective as revenue collectors that their private counterparts. Fjeldstad and Haggstad (2012) concluded that, measures are required to improve the accountability of revenue collectors and elected officials. The foregoing, according to the scholars, can only be achieved through political goodwill from the national government. Kayaga (2010) in her study of tax policy challenges in Uganda as one of developing countries opined that, new technology alone is not sufficient if the government does not recognize the need for skilled tax officials. The scholar further avers that, effective tax administration requires qualified tax personnel with requisite skills to maintain these systems and operate them to their fullest potential.

The study on challenges affecting collection of turnover tax in Nairobi County, Kenya (Simiyu, 2010) established that, tax officers accepted bribes when offered to reduce tax liability and demand for bribes when they visited, a situation that hugely affected revenue collection. The foregoing findings concurred with earlier studies (Pashev, 2006; Chiumya, 2006) that noted that, turnover tax was hampered by illegal practices like reduction of deductions and collusion of County Government revenue collectors. Pashev (2005) had observed that, indeed, tax administrators colluded with taxpayers to reduce charges in exchange for illegal payments. When quoting Pashev (2005), Simiyu noted that, turnover tax collection is riddled with corruption and collusion among the tax administrators. It is lamented that, lack of clearly defined roles, functions, and duties of public officials creates an enabling environment for abuse. The greater the discretion, the greater the opportunity tax officials have to provide favorable interpretations of government rules and regulations to businesses in exchange for illegal payments (Pashev, 2005).

2.5 Conceptual Model

Robson (2002) defines the conceptual framework of a study as the system of concepts, assumptions, expectations, beliefs, and theories that supports and informs research as a key part of the research design. It outlines the presumed relationship between the independent variables and the dependent variable as illustrated in figure 2.1.

Figure 2.1 Conceptual Framework



Source: Author, 2017

CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter describes the methods and procedures that the researcher used to collect the data and how the data was analyzed. It discusses research design, study population, sample design, data collection, data analysis and presentation.

3.2 Research Design

This study used a both qualitative through descriptive research design, and quantitative research design methods through percentage, frequencies and mean.   A descriptive study describes phenomenon of how things are in the population (Saunders et al., 2007). The research design involved developing a blue print for fulfilling objectives and answering questions for the study (Saunders et al., 2007). Kothari (2004) indicated that descriptive research was important because it acted as a pre-cursor to quantitative research designs and the general overview gives some valuable pointers as to what variables are worth testing quantitatively. It constituted the blue print (guide) for the collection, measurement and analysis of data. This design was preferred because it helped to produce data that was holistic, contextual, descriptive, in-depth and rich in details.

3.3 Site of Study

The study was carried out in the Kasarani area of Nairobi County where residential income tax payers from this region were sampled.

3.4 Target Population

Population has been defined by Sekaran (2013), as an entire group of individuals, events or things of interest for which the researcher wants to make inferences. Mugenda and Mugenda (2003), states that a population is a complete set of individuals, cases or objects with some common observable characteristics. The Targeted population was North of Nairobi residential income tax payers. The target population was 3300 landlords. This figure was obtained from the active taxpayers system profile from the North of Nairobi Station.s 3300.

3.5 Sampling Techniques and Samples Size

Kombo and Tromp (2006), define sampling as the procedure a researcher uses to gather people, places or things to study. It is the process of selecting a number of individuals or objectives from a population such that the selected group contains elements representative of the characteristics found in the entire group (Mugenda and Mugenda, 2003). A sample was picked from the landlords in the Kasarani sub county of Nairobi County. The study used probability sampling design which is based on the concept of random selection. It gives each possible sample combination an equal probability of being picked up and each item in the entire population to have an equal chance of being included in the sample (Kothari, 2004). The study employed both stratified random sampling and simple random sampling. Stratified random sampling is suitable in this case because the population is divided into different strata or sub groups which are not homogenous. The aim of stratified sampling was to achieve an even representation of the subgroups of the population in the selected sample (Mugenda and Mugenda, 2003).

A sample was selected using a stratified random sampling method. The tax payers were stratified into the two groups in Kasarani Sub County of Nairobi County namely, medium rental tax payers and large rental tax payers. With this sampling method, respondents within each stratum had an equal chance of being selected to participate in the study randomly. This method ensured that all tax payers in the target population are represented. According to Mugenda and Mugenda (2003), a sample size of 10% of the total population is considered adequate for descriptive study. A sample of 330 tax payers which represent 10% of the target population was used as presented in table 3.1.

Table 3.1: Target Population

Strata	No.
Medium rental tax payers	2100
Large rental tax payers	1200

Total	**3300**

The sample frame is shown in the table below:

Table 3.2: Sample Size

Category/Strata	No. in Category	Proportion of Population	Sample size
Medium tax payers	**2100**	**10%**	**210**
Large tax payers	**1200**	**10%**	**120**
Total	**3300**	**20%**	**330**

3.6 Validity and Reliability of Research Instruments

Validity of a research instrument refers to its ability to obtain data that is meaningful, useful and appropriate for the study Mugenda & Mugenda (2003). The questionnaires should not be ambiguous, and should be properly coded. Mugenda & Mugenda, (2003) defined reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trials. The researcher employed Test-retest method to check the reliability of the instrument. Reliability was stable if it gave consistent results with repeated measurements of the same objects with the same instrument, with degree of stability determined by comparing the results of repeated measurements. A pilot study was carried out to test the reliability and validity of the questionnaire. This was done to ensure that any irrelevant questions/items in the instrument are removed. This also ensured that right information is obtained. Piloting was conducted to check the questionnaire content, structure sequence meaning and ambiguity of questions.

During piloting, the research instrument was given to respondents not included in the final sample but who possess same characteristics as the sample population to fill in.

3.7 Data Collection

The study used both primary data and secondary data. The questionnaire was used for the purpose of collecting Primary data from Nairobi North, Nairobi city county landlords. The questionnaire was structured and had both open-ended and close-ended questions. The closed-ended questions aim at getting quantitative data while the open-ended provided qualitative data. Secondary data was collected from the database in the North of Nairobi station.

3.8 Data Analysis

In order to make sense of the data collected, analysis of the information gathered through questionnaires was done. Data analysis involved the interpretation of findings against the research questions. Data collected was coded and entered into the Statistical Package for Social Sciences for analysis (SPSS). SPSS helped in organizing and summarizing the data by the use of descriptive statistics such as measures of central tendency (i.e. mean, mode and median) and measures of dispersion. Frequency tables were then used to represent the data collected for ease of understanding.

3.8.1 Model Specification

A Multiple Linear Regression Model was used to study the variables i.e.

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon$$

Where:

Y is Dependent Variable (Rental Income Tax Collection)

X1 is Independent Variable (Landlords Awareness)

X2 is Independent Variable (Connection to Itax)

X3 is Independent Variable (Reasons for Non-Compliance)

β_0 is Constant

β_1, β_2, & β_3 are Regression Coefficients

ع is Error term

To determine if any of the independent variables influences the behavior or outcome of the dependent variable the t- test was carried out on the model assuming a 95% confidence interval, with significant differences being recorded at an alpha level of 0.05. Each of the regression coefficients was tested for significance using a t test and insignificant regression coefficient was dropped from the model and a new model was generated based on remaining independent variables. Correlation coefficient was used to test the strength of association between variables. Correlation analysis was done in order to eliminate multi-collinearity. The dependent and independent variables was measured on ratio scale since this level gives more precision.

3.9 Data Management and Ethical Considerations

In order for respondents to make informed decisions about participating in this study, the researcher provided them with enough and accurate information about the research. In addition to that, the researcher adopted the principles of data confidentiality and anonymity. In addition, the finding was used for the intended purposes only, academic.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter reports the major findings of the data which was collected using questionnaires that targeted KRA residential income tax payers, North of Nairobi region. Data was analysed using SPSS and presented in the form of frequency distribution tables. Data interpretation was done in order to make inferences on the factors affecting rental income tax collection in North of Nairobi region.

4.2 Questionnaire Return Rate

Out of the 330 respondents, two hundred and ten were medium rental tax payers while one hundred and twenty were large rental tax payers. The response rate of all the questionnaires stood at 97% with ten members not returning the questionnaire. This high return rate was attained through consensus with the tax payers who participated on voluntary basis and the questionnaires were issued by the researcher with the help of research assistants on a drop and collect later basis.

4.3 Demographic Characteristics of the Respondents

This sub-section will discuss the age of respondents, gender of respondents and the highest level of education of the respondents.

4.3.1 Age of the Respondents

Analysis of the ages for respondents indicate that most of the residential income tax payers (90%) were 50 years and above with those between 60-69 years being the majority (40%) followed closely by those aged between 50-59 (31%) as indicated in Table 4.1.

Table 4.1 Distributions of Respondents by Ages

Age	Frequency	Percentage
Below 40 years	10	3
40-49 years	22	7
50-59 years	100	31
60-69 years	128	40
70 years and above	60	19
Total	**320**	**100**

4.3.2 Gender of the Respondents

Table 4.2 shows more male residential income tax payers than females with male respondents stood at 68% while females had 32% representation. This could be because traditionally property ownership including land and buildings was a preserve of men a tread that is changing slowly.

Table 4.2 Distributions of Residential Income Tax payers by Gender.

Gender	Frequency	Percentage
Male	218	68
Female	102	32
Total	**320**	**100**

4.3.3 Level of Education of Tax payers

Majority of the residential tax payers, represented by 58% of the 320 respondents were college graduates followed by University graduates who were 22%. Secondary school leavers were represented by 14%. Only 1% had informal education as presented on table 4.3.

Table 4.3 Tax Payers Level of Education

Highest Level Completed	Frequency	Percentage
Informal/None	5	1
Primary School	15	5
Secondary School	45	14
College	185	58
University	70	22
Total	**320**	**100**

4.4 Tax payers awareness on the regulatory requirements

4.4.1 Payment of rental income tax

As per Table 4.4, more than half of the respondents (51.6%) indicated that they pay their tax with 48.4% representing a significant percentage of respondents who do not pay taxes.

Table 4.4 Payment of rental income tax

Yes/No	Frequency	Percentage
Yes	165	51.6
No	155	48.4
Total	**320**	**100**

4.4.2 Frequency of tax payment

Majority of the respondents who pay their taxes do so on a monthly basis, represented by 63.6 %. About 21.2% pay taxes quarterly while 15.2% pay taxes on rare cases as represented on table 4.5.

Table 4.5 Frequency of tax payment

Access	Frequency	Percentage
Monthly	105	63.6
Quarterly	35	21.2
Rarely	25	15.2
Total	**165**	**100**

4.4.3 Awareness on legal requirements and consequences for nonpayment of tax remittance

All respondents were interviewed on their awareness on legal requirements and consequences for nonpayment of tax remittance. About 72.5% of the respondents confirmed aware, while 27.5% were not aware on their legal requirements and consequences for nonpayment of tax remittance as presented on table 4.6.

Table 4.6 Awareness on legal requirements and consequences for nonpayment of tax remittance

Yes/No	Frequency	Percentage
Yes	232	72.5
No	88	27.5
Total	**320**	**100**

4.4.4 Learning on legal requirements and consequences

Most of the respondents (54%) indicated that they leant on legal requirements and consequences of nonpayment through social media followed by school (24%). A few had learnt from KRA officials as indicated in table 4.7.

Table 4.7 Learning on legal requirements and consequences

Yes/No	Frequency	Percentage
Social Media	172	54
School	78	24
KRA officials	15	5
Others	55	7
Total	**320**	**100**

4.4.5 Relationship between Age of Tax Payers and Amount of Tax Paid.

About 10% (32) of the respondents at various age groups were interviewed on the amount of tax paid to KRA. Some regression was run generating a significant positive correlation coefficient of 0.87. This indicates a strong positive correlation between the age of tax payer and the amount of tax paid.

Table 4.8 Relationship between Age of Tax Payers and Amount of Tax Paid.

		Amount of tax paid.
Age of Tax Payer	Pearson Correlation	0.87
	n	32

4.5 Connection to iTax

4.5.1 Filing of Tax Returns

Out of the total respondents interviewed, about 315 respondents to the question on whether they do file returns on not, with 65.1% indicating that they do not file returns. About 34.9% confirmed that they do file returns as shown in table 4.8.

Table 4.9 Filing of Tax Returns

Yes/No	Frequency	Percentage
Yes	110	34.9
No	205	65.1
Total	**315**	**100**

4.5.2 Mode of filing of Tax Returns

Respondents were interviewed on the mode they use to file their returns. Majority of respondents (60%) indicated that they file their tax online via iTax. 38.2% file tax returns manually by filing and submitting the physical forms to KRA as presented in table 4.9.

Table 4.10 Mode of filing of Tax Returns

Mode	Frequency	Percentage
Filled physical documents	42	38.2
Online via iTax	66	60
Others	2	1.8
Total	**110**	**100**

4.5.2 Reasons for not filing Tax Returns

Three main reasons as presented on table 4.10 were given by respondents as to why they do not file returns namely lack of technical skills (28.8%), lack of awareness/ignorant (26.8%) and cumbersome process (23.9%). Others pointed at time factor (5.9%) and systems instability (6.8%) as some of the reasons for filing tax returns.

Table 4.11 Reasons for not filing Tax Returns

Mode	Frequency	Percentage
Lack of technical skills	59	28.8
Lack of awareness/ignorant	55	26.8
Cumbersome process	49	23.9
Lack of time to visit KRA	12	5.9
System instability	14	6.8
Others	16	7.8
Total	**205**	**100**

4.5.3 iTax System Rating

On the online iTax system, about 39% perceived it as effective against 49%who felt that the system is ineffective. About 7% still felt that the system is very effective as presented on table 4.11.

Table 4.12 iTax System Rating

Yes/No	Frequency	Percentage
Very effective	15	7
Effective	85	39
Not sure	10	5
Ineffective	106	49
Total	**216**	**100**

4.6 Compliant with tax obligations

4.6.1 Challenges That Hinder Tax Payers from Meeting Tax Obligations

Two main reasons were cited by respondents as challenges that hinder them from meeting their tax obligations as presented in table 4.13 below namely; lack of knowledge (31%) and high tax rate (40%) representing 71% of the respondents. Other challenges cited include cumbersome tax system (3%), corruption (7%) and poor income (19%).

Table 4.13 Challenges that hinder tax payers from meeting tax obligations

Age	Frequency	Percentage
Cumbersome tax system	10	3
Corruption	22	7
Lack of knowledge	100	31
High tax rates	128	40
Poor income	60	19
Total	**320**	**100**

4.6.2 Recommendation to Government for an effect tax system

Only 157 respondents recommended to government ways to improve the tax system. About 43.3% felt that simplifying tax system will help, while 26.1% recommended tax payers awareness. About 20.4% recommended training of tax administrators among others as presented on table 4.13.

Table 4.14 Recommendation to Government for an effect tax system

Measures	Frequency	Percentage
Training tax administrators	32	20.4
Simplify tax system	68	43.3
Tax payers awareness	41	26.1
Clear policies and procedures	10	6.4
Motivate the tax payers through waivers	6	3.8
Total	**157**	**100.0**

4.7 Inferential Analysis

Correlation analysis and regression analysis were both done to establish the relationship and strength of such relationships among the variables in the study.

4.7.1 Validity and Reliability

The one consistency of the subscales was neither agrees nor disagrees: Cronbach's alphas results for internal consistency and reliability during piloting, for rental income tax collection · = .84, for landlord's awareness · = .81, for connection to itax =.83, for reasons for noncompliance. All these findings agreed with Cronbach and Meehl (1955) who found that cronbach of .70 and above is a good measures of internal consistency and reliability.

4.7.2 Correlation Analysis

Table 4.15: Correlation

		Tax Compliance
	N	315
Rental Income Tax Collection	Pearson C.	.497
	Sig.(2-tailed)	.401
	N	315

*Correlation is significant at 0.05 level (2-tailed)

**Correlation is significant at the 0.01 level (2-tailed)

As seen in the table there is a significant positive relationship between rental income tax collection and tax compliance (.497) at a significance level 0.05

4.7.3 Regression Analysis

Using SPSS Version 2.0, the regression analysis given below was projected from the research. Linear regression was done in order to determine the explanatory power of independent variables (factors affecting rental income) in the variance of dependent variable (tax collection).

$Y = \beta0 + \beta1x1 + \beta2x2 + \beta3x3 + \varepsilon$

The fitted regression model from the research findings is presented as follows:

Y= 4.146201(0.01511) +3.0026445(0.01413) +0.4270961(0.04113)

Table 4.16: Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.73414	.633	.657	.8965

Predictors: (Constant),

Table 4.17: Regression Results

Coefficient [a]				
	unstandardized coefficient	**Standard coefficients Beta**	**T**	**Sig**

Model 1	B	Std. Error			
Constant	1.976	4.638		24.575	.000
Rental income tax collection factors	.719	.005	.578	28.5	.000
a. Dependent variable: Tax compliance					

In all the Projected coefficients of the model, the R-values were less than .05(i.e. 0.5>R), this implied that the variables tested in this research had a significant influence on rental income tax collection in Nairobi North area, with a 5% significance level. Also, the findings indicated that the coefficients for landlord's awareness (x1), connection to itax (x2) and reasons for noncompliance (x3) all had positive relationships.

The tailored model was identified and established that the regression was statistically significant at 5% significance level (regression R-value= .05 >. 073414). This shows that the combination of these variables under the research significantly affected the response variable. Further, R-square = 63.3%, implying that the explanatory variables accounted for 63.3% of the response variable

CHAPTER FIVE: SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS.

5.1 Introduction

The study aimed at identifying the factors affecting rental income tax collection in the North of Nairobi, Kenya. This chapter summarizes the research findings, discussions and conclusions drawn from the findings and the researcher's recommendations to KRA and Government at large.

5.2 Summary of Findings

The researcher sought to establish the extent to which residential house owners in North of Nairobi comply with their tax obligations. From the study, more than half of the respondents (51.6%) indicated that they pay their tax with 48.4% representing a significant percentage of respondents who do not pay taxes. The study also indicated that majority of the respondents who pay their taxes do so on a monthly basis, represented by 63.6% of the respondents. About 72.5% of the respondents confirmed aware on their legal requirements and consequences for nonpayment of tax remittance with most of them (54%) having learnt through social media. About 10% (32) of the respondents at various age groups were interviewed on the amount of tax paid to KRA. Some regression was run generating a significant positive correlation coefficient of 0.87. This indicates a strong positive correlation between the age of tax payer and the amount of tax paid.

The researcher further sought to investigate the extent to which tax payers file their annual tax returns. A significant proportion of the tax payers (65.1%) indicated that they do not file returns. Only 34.9% of the respondents confirmed that they indeed do file their annual returns. For those who file returns majority (60%) indicated that they file their tax online via iTax. However, a significant number (38.2%) still file tax returns manually by filing and submitting the physical forms to KRA. Three main were given by respondents as to why they do not file returns namely lack of technical skills (28.8%), lack of awareness/ignorant (26.8%) and cumbersome process (23.9%). On the online iTax system rating, about 39% perceived it as effective against 49% who felt that the system is ineffective.

In the researcher's endeavor to examine the factors affecting rental income tax collection in the North of Nairobi, lack of knowledge (31%) and high tax rate (40%) representing 71% of the respondents were cited as the main challenges that hinder the tax payers.

On recommendations to Government about 43.3% felt that simplifying tax system will help, while 26.1% recommended landlords' awareness. Training of tax administrators was also cited by a significant number of the respondents (20.4%). Other recommendations cited include clear policies and procedures (6.4%) as well as motivation of the landlords through wavers (3.8%).

5.4 Conclusions of the Study

Based on the findings from the study, it was noted that residential income tax collection efforts have not borne much fruits as it would have been expected because quite a significant percentage of the tax payers do not participate. There is a strong positive correlation between the age of tax payers and amount of tax paid to KRA.

Government is faced with numerous challenges as far as collection of residential income tax is concerned. Some of the challenges are related to the internal infrastructure in place that supports tax collection. Others are related to the socio-economic in nature and include inadequate for tax collection as well as inadequate awareness to the landlords.

5.5 Recommendations

From the results of this study, the following recommendations were made to the Government. First, landlords should be trained and equipped with the required skills of relating to their tax payment role so that they can pay their rental income taxes efficiently. There should also be a regular awareness to the public on various tax obligations. Secondly, the public should be more enlightened on tax return and various channels through which the landlords can make use of.

5.6 Suggestions for Further Research

The researcher suggests that further research should be done on the following:

1. A comparative study should be carried out in other areas within Nairobi County.
2. A study on how social- economic factors affect the payment of rental income tax.
3. A study on how politics affect the payment of Rental income tax.

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APPENDICES

Appendix 1: Questionnaire

Introduction

The purpose of this questionnaire is to collect data from selected rental income tax payers in Nairobi North of Nairobi City County. The objective of the study is to analyze the factors affecting rental income tax collection in the Nairobi North; Nairobi City County, Kenya. The information gathered will be used for academic purposes and will be treated with utmost confidentiality.

SECTION A: PERSONAL DETAILS

1. Profile of the tax payer

(i) Your Age bracket (please tick in the spaces provided)

a) Below 20 years ☐
b) 20-30 years ☐
c) 30-40 years ☐
d) 40-50years ☐
e) Above 50 years ☐

(ii) Gender

a) Male ☐
b) Female ☐

(iii) Your marital status (Please tick)

a) Married ☐
b) Single ☐

(iv) Highest level of education attained (please tick)

a) Informal /none ☐
b) Primary education ☐

a) Secondary education ☐

b) College education ☐

c) University ☐

e) Others (please specify) ....

(v) Type of rental houses owned

a) ......Residential.................................... ☐ ....

b) ......Commercial.................................. ☐ ....

c) ......Others.
Specify...

SECTION B: Taxpayers awareness on the regulatory requirements

1. Do you pay your rental income tax?

YES ☐ NO ☐

2. If yes above, how often do you pay tax?

   a) …Monthly…………………………….
   b) …Quarterly…………………………….
   c) …Others. Specify………………………………………………………….……………

3. If no on No.1 above what are the reasons why you do not pay tax for your rental income?

   a)…………………………………………………….
   b) …………………………………………………….

4. Are you aware on the legal requirements for rental income tax remittance including the consequences for non payment?

YES ☐ NO ☐

If yes above, how/where did you learn.

a)……………………………………………………………………………………………b…………………………………………………
………………………………………c…………………………………………………………………………………………

SECTION C: Connection to iTax

(i) Have you ever filed your Tax Returns?

YES ☐ NO ☐

(ii) If yes how did you do it

a) Filled physical documents………………………………………… ☐
b) Online ……………………………… ☐
c) Others. Specify……………………………… ☐..

(iii) If No above, why?

……………………………………………………………………………..

(iv) How would you rate the effectiveness of iTax system?

Very effective ☐ Effective ☐ Not sure ☐ Ineffective ☐

…………………………………………………

SECTION D: Compliant with tax obligations

1) What are some of the challenges that hinder you from meeting your tax obligations?

a)……………………………………………………………………………………
b)……………………………………………………………………………………
c)……………………………………………………………………………………

2) What measures would you advise the government to employ for an effect tax system?

a)……………………………………………………………………………………
b)……………………………………………………………………………………
c)……………………………………………………………………………………

THANK YOU FOR YOUR COOPERATION