

**FACTORS AFFECTING RESIDENTIAL RENTAL INCOME TAX COMPLIANCE IN
MACHAKOS COUNTY**

ANNA KATAA KATIWA

**A 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

I declare that this is my original work and has not been submitted to any other college, institution or university other than the Kenya School of Revenue Administration for academic credit.

Signature _____

Date: _____

Anna Kataa Katiwa- HDB336-C016-2026/2016

Kenya School of Revenue Administration

This project has been presented for examination with my approval as the supervisor.

Signature: _____

Date: _____

Dr. Charles Orero

Lecturer, Kenya School of Revenue Administration

DEDICATION

I dedicate this research project to my family, friends and colleagues for their ever growing support in my life especially during the process of my studies at Kenya School of Revenue Administration.

TABLE OF CONTENTS

DECLARATION.....	ii
DEDICATION.....	iii
TABLE OF CONTENTS.....	iv
LIST OF TABLES	vii
LIST OF FIGURES	viii
ABBREVIATIONS AND ACRONYMS.....	ix
ABSTRACT.....	x
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Global perspective on Residential rental income Tax	1
1.1.2 Kenyan perspective on Residential Rental Income Tax	2
1.1.3 Concept of Tax Compliance	3
1.1.4 Machakos County	5
1.2 Problem Statement	5
1.3 Objective of the Study.....	7
1.3.1 General Objective	7
1.3.2 Specific Objectives of the Study.....	7
1.4 Research Questions	8
1.5 Justification of the Study	8
1.6 Scope of the study	9
1.7 Organization of the Study.....	9
CHAPTER TWO: LITERATURE REVIEW	10
2.2 Theoretical Review	10
2.2.1 The (Economic) Deterrent Model.....	10
2.2.2 Social-psychology Model	11
2.3 Conceptual Framework	14
2.4 Empirical Literature Review.....	15
2.6 Research gaps	19
CHAPTER THREE: RESEARCH METHODOLOGY	20

3.1 Introduction	20
3.2 Research Design	20
3.3 Target Population	20
3.4 Sampling Frame	21
3.5 Sample and Sampling Technique	21
3.6 Data Collection instruments	22
3.7 Data collection Procedures	22
3.8 Pilot Testing	23
3.8 Validity of Instruments	23
3.9 Reliability of Instruments	23
3.10 Data Analysis and Presentation	24
3.11 Operationalization of the Variables	25
CHAPTER FOUR: RESEARCH FINDINGS AND ANALYSIS	26
4.1 Introduction	26
4.2 Response rate	26
4.2.1 Reliability Analysis	27
4.2.2 Validity of Result	28
4.3 Analysis of Demographic Information	28
4.4 Descriptive Statistics	30
4.4.1 Effect of Interests and Penalties on residential rental income tax compliance	30
4.4.3 Effect of rate of tax on residential rental income tax compliance	33
4.4.4 Residential rental income tax compliance	34
4.5 Inferential Statistics	35
4.5.1 Diagnostic Tests	36
4.5.2 Regression Analysis	37
4.5.3 Pearson Correlation analysis	40
4.6 Discussion	42
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION	45
5.1 Introduction	45
5.2 Summary	45
5.3 conclusions	46
5.4 Recommendations	46

5.5 Limitations of the Study	48
5.6 Suggestion for Further Studies	48
REFERENCES.....	50
APPENDICES	55
APPENDIX 1: QUESTIONNAIRE.....	55
APPENDIX II: LETTER OF INTRODUCTION.....	60
APPENDIX III: LIST OF RESPONDENTS	61

LIST OF TABLES

Table 2.1: Related Studies, Findings and Research gaps.....	19
Table 3.1: Operationalization of the Variables.....	27
Table 4.1 Interests and penalties.....	34
Table 4.2 Tax rate.....	35
Table 4.3 Tax knowledge.....	36
Table 4.4 Residential rental income tax compliance.....	38

LIST OF FIGURES

Figure 2.1: Conceptual Framework.....	20
Figure 4.1 Response rate.....	30
Figure 4.2 Gender of respondents.....	31
Figure 4.3 Number of years property existed.....	32

ABBREVIATIONS AND ACRONYMS

AS - Allingham- Sandmo Theory

DTD–Domestic Taxes Department

MST–Medium and Small Taxpayers

GDP –Gross Domestic Product

KRA –Kenya Revenue Authority

ABSTRACT

Residential rental income 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. In Kenya, statistics indicate that less than half of property owners and developers comply with rental income tax requirements. Thus, this study sought to examine the factors affecting residential rental income tax compliance in Kenya Revenue Authority, a case of Machakos County. The study employed a descriptive research design and collected data from a sample of 60 landlords using questionnaires. The data collected was analyzed using descriptive and inferential statistics with the help of Statistical Package for Social Sciences version 20 for evaluation of relation between dependent and independent variables. Multiple regression model was adopted. The study found that tax knowledge significantly influences residential rental income tax compliance by property owners. Based on study finding, this study recommends that KRA should develop training programs to create awareness on residential rental income tax compliance by property owners. The study further established that punitive fines and penalties encourage compliance with residential rental income tax by property owners. 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.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

1.1.1 Global perspective on Residential rental income Tax

Internationally, each government is in charge of the provision of essential administrations to their nationals. To complete such duties like arrangement of water, medicinal services and sufficient power supply governments are feeling the squeeze because of budgetary pressure (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 non-compliance 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. Recognizing the high level of income tax non-compliance among the self-employed, many countries have employed several unusual way of taxation identified as self-assessment, block management, installment tax payment. Song and Yarbrough (2008) 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, 2009), public perception of tax evasion (Song and Yarbrough, 2008) and managing small taxpayers.

1.1.2 Kenyan perspective on Residential Rental Income Tax

Rental income is defined as any income generated from the permission granted to another to use property that one owns or has legal rights over. It emerges from the renting of a house, apartments, rooms, space in an office building, or other real or moveable property. Historically, rental income tax has been viewed as simply a tax on the income generated by large scale landlords or property owners. However, the current rental income tax system does not reflect a sensible tax on this exclusivity since it is based on any income generated from rented property, regardless of the proportion. Taxable on anyone in receipt of rental income unless they are tax-exempt. Section 3 (2) (a) (iii) of the Income Tax Act (ITA) provides that income arising from a right granted to another person for the use or occupation of property constitutes income chargeable to tax (Waruiru, 2016).

However, many rental income earners are struggling on the tax compliance front. Remittances of rental income tax is inconsistent with the burgeoning housing and office space infrastructure across the country and in some cases, non-voluntary. Waithira (2016) examined the determinants of residential income tax compliance by property owners in Thika Town. The study's preliminary findings showed that attitude and perceptions of many rental income owners towards government spending, political goodwill and fair distribution of public resources encouraged tax non-compliance by property owners. Similarly, Kwatamba (2016) studied impact of tax amnesty on tax revenue in Kenya and observed that frequent audits in the real estate sector have become the norm due to the non-compliant stature. Hence, compliance of tax is crucial and thus audit is required for frequent monitoring and evaluation.

Studies on the factors that affect rental income compliance such as Kavingi (2005) who observed the tax reform experience in Kenya, Osebe (2013) who analyzed factors affecting tax compliance

on the real estate sector in Kenya and Okello (2014) on managing income tax compliance through assessment all denote varying views on the reasons as to why some taxpayers in the real estate sector struggle with the tax compliance issue. However, the opinions seem to agree on the attitude of such taxpayers towards tax remittance and abidance to the existent tax laws.

The Finance Act 2015 introduced a new Section 6A in the Income Tax Act Cap 470 Laws of Kenya, which provides for a simplified tax regime on rental income. It legislates that residential rental income tax shall be payable by any resident person (Individual or Company) from income which accrued in or derived from Kenya for the use or occupation of residential property. Rental income for business entities is mainly received in form of lease rentals under lease agreements. Previously, prior to the introduction of the new laws, landlords were expected to prepare a rent schedule for the leased property evidencing: the number of properties; rent received per property; and gross rent received and all expenses incurred on each property. Such expenses had to be wholly and exclusively incurred in the production of the rental income and must be supported. Tax is then computed on a net basis at the rate of 30%. Notwithstanding these requirements, KRA had not collected the anticipated revenue from the growing real estate sector. To address the challenge in administration and collection of rental income, KRA has reinvented its laid down procedures for collecting taxes from rent particularly from the largely untapped low-end segment of the market. To this effect, the Finance Bill 2015 proposed new measures which the national government intended to gear towards increase in the revenues earned from the real estate sector.

1.1.3 Concept of Tax Compliance

The definition of tax compliance in its simplest form is envisioned in terms of the extent to which taxpayers comply with the tax laws. However, as is common with many such concepts, the understanding of compliance can be seen almost as an aggregation of definitions. This ranges from the narrow law enforcement approach, through wider economic definitions and on to even more

comprehensive versions relating to taxpayer decisions to conform to the wider objectives of society as reflected in tax policy. In the perspective of rental income, this is much more complex, albeit in previous years prior to 2015, due to the ambiguity of the proportion of rental income earned that qualified one to be liable to pay the tax. Tax compliance may be analyzed in scope of tax avoidance and tax evasion. The two activities are usually distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability from income earned and evasion to illegal measures (Edward, 2016).

Although numerous tax administration scholars regard non-compliance only as an evasion problem, this does not seem to envelope the complete nature of the phenomena. Clearly tax evasion is a form of non-compliance. However, if taxpayers go to inordinate lengths to reduce their liability this could hardly be considered 'compliance' either. Such activities might include penciling in of fictitious expenses to reduce tax liable or avoid it completely, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on. 'Tax exiles' even seem to prefer to emigrate rather than fulfill their obligations as citizens. Even if such activities are within the letter of the law, they are clearly not within the spirit of the law. Compliance might therefore be better defined in terms of complying with the spirit as well as the letter of the law (Bushels, 2015).

Tax compliance is destined to become even more essential with developments such as self-assessment and online commerce, which exposes businesses to previously out of reach consumers. The purpose of tax compliance and the factors that affect the willingness of taxpayers to comply with a tax system can be discussed in two different approaches to tax compliance and caution should be shown in the use of penalties and the emphasis should be on assisting taxpayers to meet their tax obligations. Owing to recent incentives offered by KRA, there has emerged closer cooperation between the tax agency and tax scholars, who avail lucrative data necessary in

mapping out taxpayers in the varying economic sectors. A pressing task is the development of an approach that incorporates both the economic and behavioral approaches to tax compliance and a successful strategy for tax compliance must give due weight to all relevant factors and their interaction (Batrancea, 2012).

1.1.4 Machakos County

Machakos County is a county of Kenya. Its capital is Machakos. Its largest town is Machakos, the country's first administrative headquarters. The county has a population of 1,098,584. The county borders Nairobi and Kiambu counties to the West, Embu to the North, Kitui to the East, Makueni to the South, Kajiado to the South West, and Muranga and Kirinyaga to the North West. Machakos has eight (8) constituencies including Machakos Town, Mavoko, Masinga, Yatta, Kangundo, Kathiani, Matungulu, and Mwala. Machakos town has 264, 500 households and covers an area of 6,208 sq. km. The population density is 177 persons per sq. km. The local climate is semi-arid with a hilly terrain covering most parts of the county. Subsistence agriculture is practiced with Maize and drought-resistant crops such as sorghum and millet being grown. However, the County also plays host to the open air market concept with major market days where large amounts of produce are traded. Fruits, vegetables and other food stuffs like maize and beans are sold in these markets.

1.2 Problem Statement

This study sought to find out the factors that affect residential rental income tax compliance in Machakos County. Various studies have been undertaken to provide an in depth understanding on the key motivators to tax evasion. Despite this, coupled with other mitigating measures such as introduction of electronic tax administration, the issue is still prevalent in the economy in Kenya. Reliable evidence implies that lack of appropriate tax policy, low compliance and poor tax administration are linked to high levels of tax evasion and avoidance reported in developing

countries (Karanja, 2014). However, taxpayer knowledge, perceptions and the cost of compliance have not been studied. KRA (2012) revealed that less than 40 per cent of the landlords and developers had complied with tax requirements, and government went in to reinforce the rental income tax provisions.

KRA has aggressively through media, road shows, talk shows implored upon landlords to declare their rental income but compared to the initial set target, not the desired outcome has been attained with regards to the number of landlords brought on board. The reason for this could be linked to lack of intentions and negative perception towards remittance of taxes. Significant low levels of compliance results in the government failing to reach the set targets for financing the country's budget. Unless this is addressed, may lead to a national crisis (Edward, 2016).

In the last 15 years, the real estate sector has emerged as the sector of choice as far as investment is concerned, which saw an invested of capital in excess of Ksh 250 billion in 2015 and 2016. Mbui (2016) in a review of Kenya's real estate sector in 2016 and a preview of 2017 noted that Kenya's real estate market is well diversified in terms of income, geography and types. In terms of income, there is a clear segmentation of high, middle and low income and hence the prospects of the returns from the sector are attracting investors even at the global level. However, the upscale in the development of the real estate sector in Kenya has not translated into increased revenue collected from the rental income earners. Kenya Revenue Authority collected Sh10 billion from landlords in the FY2016/2017. The law that requires rental income earners to pay taxes on earnings was introduced by the Finance Act 2015 but was enforced in January 2016. By the conclusion of the FY2016/2017, KRA had on board 52,000 landlords — slightly over 50 per cent of the targeted 100,000 and it collects Sh400 million per month, translating to Sh4.8 billion per year against its target of Ksh 20 billion. This can be attributed to low level of compliance by majority of rental income earners by non-payment and filing.

Consequently, determining the reason for this non-compliance stature that leads to low registration of rental income earners by KRA and remittance of payments to the agency is the main purpose of this study. It was for this reason that this study will be attempting to find out how the factors that influence tax compliance on rental income with tax system in Machakos County. Although knowledge on rental income tax compliance is assumed to be important for preference and attitudes towards tax filing and compliance thereof, there is little research that explicitly considers the elements that dictate the levels of the rental income tax compliance status of taxpayers in this category. Most of the studies done on rental income tax compliance have, however, concentrated on the effects various penalties and inducements have on overall decision to comply. This study, therefore, will seek to fill-in the knowledge gap by answering the following question: What are the factors that affect residential rental income tax compliance among landlords in Machakos County?

1.3 Objective of the Study

1.3.1 General Objective

The main objective of this study was to establish the factors affecting residential rental income tax compliance in Machakos County.

1.3.2 Specific Objectives of the Study

1. To find out the effect of penalties and interest on residential rental income tax compliance in Machakos County.
2. To determine the effect of level of tax knowledge on residential rental income tax compliance in Machakos County.
3. To establish the effect of rate of tax on residential rental income tax compliance in Machakos County.

1.4 Research Questions

1. Do penalties and interest affect residential rental income tax compliance in Machakos County?
2. What is the effect of level of tax knowledge on residential rental income tax compliance in Machakos County?
3. What is the effect of rate of tax on residential rental income tax compliance in Machakos County?

1.5 Justification of the Study

The Kenyan government relies heavily on taxes to fund its development expenditure. An increase or decline in tax revenues due to non-reporting and failure to attain compliance has a direct bearing on the economy of Kenya as a country. To this end, the study will accrue the following significance: The study and recommendations made will be of great help to KRA's Domestic Taxes Department as they will be able to discover the impact of taxpayer attitudes on rental income tax compliance. The findings will reveal the strengths or weaknesses associated with the monitoring of initiatives and its benefits to other government institutions planning to embark on similar programs. The findings of the study will also contribute to the existing body of knowledge and may form the basis for further research in the area of taxpayer education and revenue growth.

1.6 Scope of the study

The study focused on the taxpayers on individual income tax and particularly the residential rental income. Geographically, the study focused on the landlords in Machakos County. Justification of why the focus was on this area is that the area is expected to have the highest level of buildings and hence individual taxpayers should contribute a large portion of the revenue collected on rental income in the country.

1.7 Organization of the Study

This proposal comprises of chapter one which provides the introduction, background to the research, statement of the problem, the research objectives and research questions, the significance of the study, scope and limitations. Chapter two presents the literature review in this area of study and derives research gaps together with a conceptual framework. Chapter three encompasses the research methodology with a focus on the research design, target population, study sample, data collection and data analysis techniques.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This study sought to find out the factors that affect residential rental income tax compliance in Machakos County. In this chapter, past studies are put in perspective in light of factors that affect residential rental income tax compliance in Kenya Revenue Authority. The main objective of this chapter is to look at the relevant and available literature relating to residential rental income tax compliance. The chapter will also expound on the research gaps.

2.2 Theoretical Review

Notable studies have been conducted by researchers and scholars on the topic. The studies elaborate and delve into the theories that scholars in the field have found consistent with dynamics of the tax compliance phenomena. Relevant models have been discussed in the following subsections.

2.2.1 The (Economic) Deterrent Model

This model predisposes that behavior is directed by factors such as tax rate and penalties for fraud and probability of detection. The economic deterrence model in its basic form regards the individual taxpayer as a rational economic agent, who evaluates the pros and cons of evading taxes, and opts not to remit, if the benefit of non-compliance outweighs the costs (Devos, 2013). The implication of this assumption is that when there are low audit probabilities and low penalties, the tendency for evasion will be higher, while if there is a high tendency for detection and penalties are severe, fewer people will evade taxes (Lewis, 2012). 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.

The economic deterrence model has undergone a number of alterations and extensions, and still enjoys prominence in most studies on taxpayer compliance. On the other hand, criticism has been leveled on it for not being rational in explaining taxpayer compliance, since it predicts a general substantial noncompliance beyond what is practical in real sense (Yeung, 2004). Snyder (2012) agree that although tax authorities periodically carry out audits and penalties, tax evasion has remained, and continuously posed significant threats to countries' economies, through loss of revenue. Besides, it has also been proven through research that there are people who never evade taxes, even when the probability of detection is zero (Thakur, 2013).

Despite its limitations, the deterrence model has come under criticism for its failure to put into consideration behavioral factors such as attitudes, perceptions, and moral judgments (White, 2009); for neglecting the presence of codes of conducts, such as moral and ethical constraints that have potentials to prevent people from cheating in the their taxes; and for neglecting the relevance that tax compliance takes place in a social context (Devos, 2013). The aggregation of the above criticisms have thus led to the incorporation of diverse perspectives/fields –especially behavioral- into the study of tax compliance behavior, and subsequently, development of broad-based factors that affect taxpayers' (non)compliance behavior.

2.2.2 Social-psychology Model

A typical approach of the hypothesis of contemplated activity is that people shape their behavioral goals on the bases of two essential determinants – individual variables and social impacts (Hendrick, 2015). These are regularly alluded to as individual standards and social standards separately, and have turned into the concentrate of concentrates in light of social brain research speculations clarifying citizen conduct. They are by and large noted to assume critical parts in deciding assessment consistence (Coutts and Gruman, 2011). Sanderson (2007) particularly

noticed that such factors as shame, notoriety and social standards have incredible effect on citizens' choice on regardless of whether to conform to impose installments.

Individual standards have been characterized as the profoundly established feelings about what one should or should not to do. As a principle, it's hard to change and frequently past the range of open approach (Fiske, 2010), in light of the fact that they take quite a while of socialization procedures to be created. With regards to citizen conduct, individual standards mirror the citizens' esteems, assess morals, impose mindset, and duty assurance, all of which impacts demeanors towards charges/consistence. Thompson (2003) fought that engagement in demonstrations of avoidance may prompt sentiments of nervousness, blame or negative mental self-portrait in citizens. A conflict that is in accordance with the discoveries of Sanderson (2009), who watched that the (interior) fear of encountering sentiments of blame, alongside the danger of social slander have more prominent impediment impact than such outer factors as the danger of identification and discipline.

The fear of social stigmatization as a possible deterrent factor is a confirmation of the belief that tax compliance takes place within a social context and the existence of the social norms effect on compliance behavior. Social norm, according to Tyler (2013) a pattern of behavior that is judged in a similar way by others and that therefore is sustained in part by social approval or disapproval". This affects tax compliance since it is common for people to discuss their tax affairs with friends, family members, and at their jobs (Fiske, 2010). It therefore 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.

2.2.3 Fiscal Exchange Theory

The fiscal exchange theory is acclaimed to have evolved from the economic deterrence and the social psychology models (Winer, 2005), and is premised upon the existence of a social, relational or psychological contract between the government and the taxpayers. The model thus suggests that the presence of government expenditures may serve as a motivating factor for taxpayer compliance, especially when the taxpayers value the goods and services they perceive to be receiving from the government. It is on this basis that Burnside (2005) opined that the taxpayer may be seen as exchanging their purchasing power in the market in return for government services; with the exchange being largely conditional, and varying as the government vary in its performance. Thus, the taxpayers will be more willing to comply when they are satisfied with the provision of services from the government, even in the absence of detection and punishment (Sheffrin, 2013). 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.

Another major proposition of the fiscal exchange theory is that of tax bargaining between taxpayers and the government, which is considered as central to building relations of accountability, mutual rights and obligations between state and society (Singh, 2008). Winer (2005), citing several works, also noted that evidences exists from empirical, experimental, and simulation researches, that points to the fact that compliance is affected by collective decision process. This is especially so in democratic countries, where the taxpayers are presumed to be in a position to renegotiate their tax contract with the government, since they can monitor and control politicians, and partake as rule setters (in tax matters) via referenda and initiatives respectively (Torgler, 2003). This probably accounts for the assertion by Engen and Skinner (1996), that in America "...a presidential campaign is incomplete without at least one proposal for tax reform.

2.3 Conceptual Framework

This study conceptualizes that the tax compliance could be affected by level of knowledge on taxation, interest and penalties and rate of residential income tax. The purpose of this study is therefore to test the nature and the strength of these relationships. This study tests the conceptual framework presented in Figure 2.1

Independent Variables

Dependent Variable

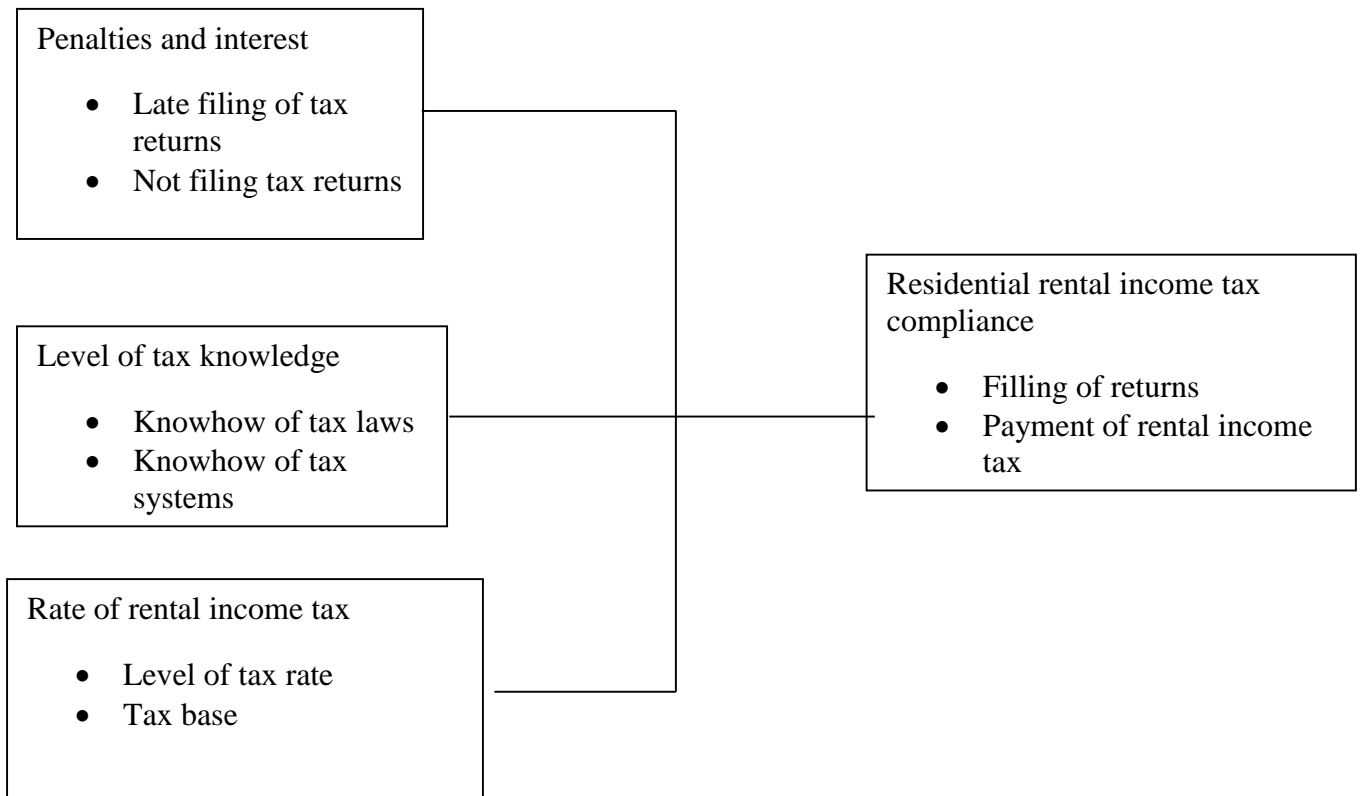


Figure 2.1 Conceptual Framework

Source: Researcher (2018)

2.4 Empirical Literature Review

2.4.1 Effect of penalties and interest on residential rental income tax compliance in Machakos County.

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 taxpayers. 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 their taxes. In most countries, fines are relative to the evaded tax. However, depending on the income of the accused such a system might yield too low fines to have deterrent effects. An alternative would be to adjust the fine to the income of taxpayers. In an experimental survey study by Muehlbacher, Holzl and Kirchler,(2008) income-adjusted fines had more impact on the sentenced taxpayer's intention to commit the same offense again than fines which were solely adjusted to severity of evasion fact (Kirchler et al., 2008).

The structure of penalty system may be different in the countries: can be various types of penalty rate by the different tax subjects or different structure of penalty rates by the types of taxpayer. So, penalty rates have been separately applied by the different tax subjects like the individual income tax, capital income tax, value added tax etc. Furthermore, the penalty rates for each tax subject are differentiated by the different types of evasion, like non-filing, timely filing but under-reporting, no bookkeeping of invoices, receipts etc. Or, the penalty rates are differently applied to the types of taxpayers, depending upon their evaded behaviours. If some taxpayers had the intentional evasions, the penalty rate is much higher than that of unintentional evasions (Hughes, 2014). As two kinds of evaded behaviour are most common in analyse of tax compliance and are timely filing but underreporting, and non-filing. If the countries have the same system that tax authority prosecutes some intentional and malicious tax evaders for criminal responsibility, after tax audit.

This system might play an important role in increasing the level of penalty rates for the behaviour of tax evasion. The number of prosecuted cases by tax authority might be an important indicator to compare an additional penalty rate between countries.

2.4.2 Effect of level of tax knowledge on residential rental income tax compliance in machakos County

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 behaviour (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 programmes 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

The influence of knowledge on compliance behaviour has been proven in various researches Mohamad Ali *et al* (2007). Harris (2009) divided tax knowledge into two aspects, namely, knowledge through common or formal} education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. In the last case, the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the laws and regulations of taxation Eriksen and Fallan (2006).

Previous studies have evidenced that general tax knowledge' has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them Singh, (2003). Given evidence that tax knowledge affects understanding of taxpayers, an obvious explanation that has been raised by previous researchers e.g. Singh, (2003), Eriksen and Fallan, (2006) Harris (2009) is whether enhancement of tax knowledge will increase tax compliance.

Eriksen and Fallan (2006) claimed that 'knowledge about tax law is assumed to be important for preferences and attitudes towards taxation. There is little research that explicitly considers how attitude towards taxation is influenced by specific knowledge of tax regulations'. The research

done by Eriksen and Fallan (2006) has illustrated the importance of tax education in a tax system. They suggested that fiscal knowledge correlates with attitudes towards taxation and tax behaviour can be improved by a better understanding of tax laws (Eriksen and Fallan, 2006).

2.4.3 Effect of rate of tax on residential rental income tax compliance in Machakos County.

In case of where the tax payers view the tax system to be unfair i.e. in terms of high tax rates, then there is need for KRA to lobby National Treasury do some adjustments to the tax rates. The rates need to be reduced to enable taxpayers to duly pay their taxes and by so doing the government will collect high revenue and tax compliance rate will be high (Lumumba, Migwi and Obara, 2010).

Most studies have found that compliance increases but only slightly with increases in the fine rate on unpaid taxes; the estimated reported income-fine rate elasticity is typically less than 0.1. Also, penalties need not be limited to financial penalties; that is, the threat of public disclosure of one's own compliance behavior may affect compliance due to concerns that one's information may be viewed by others, and the observation of other compliance (or lack of compliance) may also affect one's own reporting behavior. Experimental evidence shows that public disclosure of non-compliance on balance increases compliance (Hasseldine, 2014).

2.5 Critique of Literature reviewed

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.

2.6 Research gaps

Despite the fact that there are many studies related to tax compliance for developed country, there is however paucity of study on tax compliance for developing countries especially for Kenya. Some related studies, in particular (Lumumba, Wanjohi and Magutu, 2010; Omondi, *I'* 2010; Moyi & Ronge, 2006 and Karingi, Wanjala, Nyamunga, Okello, Pambah, & Nyakang, 2005) have investigated the relationship between education, tax audit and tax evasion; and also discussed about ethics on tax evasion in Kenya. None of them have looked specifically at the factors affecting tax compliance on rental income. Realizing the significant effect of tax evasion on an economy and a lack of study in this area for Kenya, this study attempts to fill the gap. Specifically, this study attempts to estimate factors that cause tax non-compliance in rental income and their relative contribution in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This study sought to find out the factors that affect residential rental income tax compliance in Machakos County. This chapter presents a description of the methods and procedures that will be used to carry out the research. The research design is discussed with emphasis laid on identifying, defining and justifying the specific research design to be used in carrying out the study. The chapter includes the research design, population of the study and the sampling design, where the researcher discusses the sample size and sampling technique. The chapter then moves to describe data collection, research procedures and data analysis methods and procedures.

3.2 Research Design

A research design is a systematic arrangement of measures, factors and tools to be applied in collection and analysis of the data obtained in order to accomplish its intended objectives of the study in the most efficient and effective manner (Mugenda and Mugenda, 2003). This research problem will best be studied by the use of a descriptive survey research approach. A descriptive research design is used to describe behavior or characteristic of a population being studied (Cooper & Schindler, 2011). A descriptive research describes and explains the events as they are in the real life context in which they occurred. It's more than collection of data and it involves measures, classification, analysis and interpretation (Kothari 2008).

3.3 Target Population

Population refers to all people or items with the similar characteristics that one wishes to study (Zikmund et al., 2011). Population is a set of people or items with similar characteristics that a researcher intends to study and to draw statistical inferences or conclusions (Gall et al., 2006).

Target population is the totality of cases that conform to some designated specifications, which could be people, events or things of interest to the researcher (Sekaran, 2000). The study will target all the landlords in Machakos County, who currently total to 1,200.

3.4 Sampling Frame

According to Thompson (2012), a sampling frame comprises of a list of people from which the researcher uses to obtain information about the study. The sampling frame defines a set of elements from which a researcher can select a sample of the target population. Because a researcher rarely has direct access to the entire population of interest in social science research, a researcher must rely upon a sampling frame to represent all of the elements of the population of interest. Generally, sampling frames can be divided into two types, list and non-list. Examples of list frames include a list of registered voters in a town, residents listed in a local telephone directory, or a roster of students enrolled in a course. A set of information used to identify a sample population for statistical treatment. A sampling frame includes a numerical identifier for each individual, plus other identifying information about characteristics of the individuals, to aid in analysis and allow for division into further frames for more in-depth analysis. The researcher used list sampling frame. This consisted of segmented taxpayers from the Real Estate Section of the Domestic Taxes Department.

3.5 Sample and Sampling Technique

Sampling techniques are considered to be the strategies used by researchers in the statistical sampling process (Maxwell, 2012). The researcher used both simple random sampling technique. The adoption, of the sampling technique is to ensure fair and objective distribution of the population for better representation.

The sample size for the study was 5% of the entire population of 1,200. According to Levy (2013), a sample size of 5% is sufficient. In order to achieve objective representation of the entire population, the percentage of each section to the entire population was calculated and arrived at by randomly picking a definite number depending on the numerical strength of the sector to the population of the study.

3.6 Data Collection instruments

In data collection, the researcher should describe the major method(s) for collecting data from the subjects, Maxwell (2012). In this study the main data collection instrument was questionnaires. Questionnaires are preferred because they are effective data collection instruments that allow respondents to give much of their opinions pertaining to the researched problem. The questionnaires used the five Likert scale (from strongly agree to strongly disagree). The questionnaires were self-administered to the personnel who handle taxes in the sampled taxpayers. The questionnaires had an introductory letter introducing the researcher to the respondents and explaining the purpose of the research. Respondents were assured of strict confidentiality of the information they will share with the researcher and that the information is strictly for research purposes. This was done in order to enhance the response rate.

3.7 Data collection Procedures

Five respondents were pilot tested and the research questionnaire were pilot tested to remove any obstacles. These respondents were among the residential rental income tax taxpayers. They were asked to change some variables so as to ensure ease of answering the questionnaire. The researcher then confirmed that the data collected answers the research question.

The researcher then personally distributed the questionnaires and gave the respondents one week to fill and return them. Where respondents are far away, the researcher send the questionnaires via

email. Once the one week lapses, the researcher called or e-mailed the respondents in order to remind them of the due date.

3.8 Pilot Testing

A pilot study is a preliminary mock study that precedes the actual study. This mock study is important because it enables the researcher to gauge if the instruments of data collection will work properly as expected. Mugenda and Mugenda (2003), cite that a relatively small sample of 10 % of respondents is enough for a pilot study. Consequently, 8 respondents were selected randomly for the purpose of the pilot study. These respondents were among landlords in Machakos County and real estate office personnel at the KRA office in Machakos. The pilot study was crucial since it helped the researcher to rephrase the questions that were not be understood and also pretest the questionnaire to rate if it will collect the desired results.

3.8 Validity of Instruments

Validity of research instruments is the measure of the quality of data a given instrument provides with respect to what it is expected to collect. This study adopted content validity. By definition, content validity defined implies whether a given set of data can result into meaningful and useful inferences (Creswell, 2010). To improve the content validity of the data collection instrument the study sought the services of an expert in the field of strategic management. According to (Castillo, 2009), validity is the strength of qualitative research; it occurs when the knowledge sought is arrived through descriptions that make possible an understanding of the meaning and enhance experience. Experts are crucial to a social research in that they give insights on how to frame the questions in a way that all respondents understand them in a similar manner.

3.9 Reliability of Instruments

Reliability of research instruments is the degree to which a given data collection instruments

yields consistent results. The study used test and retest method in enhancing the reliability of the questionnaires. The questionnaire was pre-tested to the selected sample of the respondents. The selection of the pilot staff was done using purposive sampling. A Cronbach's alpha was used where 0.7 serves as a cut-off point for assessing reliability for multi-item scales ((Creswell, 2010). The reliability coefficients, Alpha, will be calculated to check consistency of the scale. Cronbach's Alpha coefficients can range from 0.0 to 1.0, and may be interpreted as the percent of "true score" variance in a multiple item measure.

3.10 Data Analysis and Presentation

Once the questionnaires were collected, they were screened, coded and entered into SPSS and Microsoft Excel for data analysis. Appropriate descriptive statistics such as Frequencies, Central tendencies (mean, median, mode), Measures of dispersion (Std. deviation, range, and variance) and linear regression were used in analysis. The analyzed data was presented in form of tables, charts, and graphs for ease of understanding and interpretation. The tables provided summarized results of the information obtained from the questionnaires. The results were then summarized and a conclusion arrived at.

In addition, the researcher will carry out a multiple regression analysis so as to determine the relationship between the dependent and independent.

The regression equation ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$), whereby:

Y= Residential Rental Income Tax Compliance

X₁= Interests and Penalties

X₂= Tax Knowledge

X₃=Rate of rental income tax

$\beta_1, \beta_2, \beta_3, \beta_4$ = Regression Coefficients

ϵ = Error Term

3.11 Operationalization of the Variables

Table 3.1Operationalization of the Variables

Independent Variable	Indicators	Scale	Tools of Analysis	Type of Analysis
Interests and Penalties	<ul style="list-style-type: none"> • Interests Imposed • Penalties imposed 	Nominal and Ordinal	Frequency distribution tables and percentages	Descriptive statistics
Tax Knowledge	<ul style="list-style-type: none"> • Knowhow on rental income tax laws and tax systems 	Nominal and Ordinal	Frequency distribution tables and percentages	Descriptive statistics
Rate of Residential Rental income tax	<ul style="list-style-type: none"> • Level of tax rate • Tax base 	Nominal and Ordinal	Frequency distribution tables and percentages	Descriptive statistics

Source: (Researcher, 2018)

CHAPTER FOUR: RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

The chapter presents the study results which were obtained from the analysis of the collected data. The analysis of data included the use of primary data. Both descriptive and inferential statistics were used in the study and the results are presented in Tables and figures where appropriate providing ease of interpretation. The study sorts to determine the factors that affect tax compliance on residential rental income. The research questions of the study were: Do penalties and interest affect residential rental income tax compliance in Machakos County?, What is the effect of level of tax knowledge on residential rental income tax compliance in Machakos County? And finally what is the effect of rate of tax on residential rental income tax compliance in Machakos County? This research problem was studied by the use of a descriptive survey research approach. The researcher received 40 responses out of the 60 questionnaires that were issued to the respondents.

4.2 Response rate

High survey response rates help to ensure that survey results are representative of the target population. A survey must have a good response rate in order to produce accurate, useful results. (Sheehan, K. 2001). Figure 4.1 below represents response rates of the targeted population.

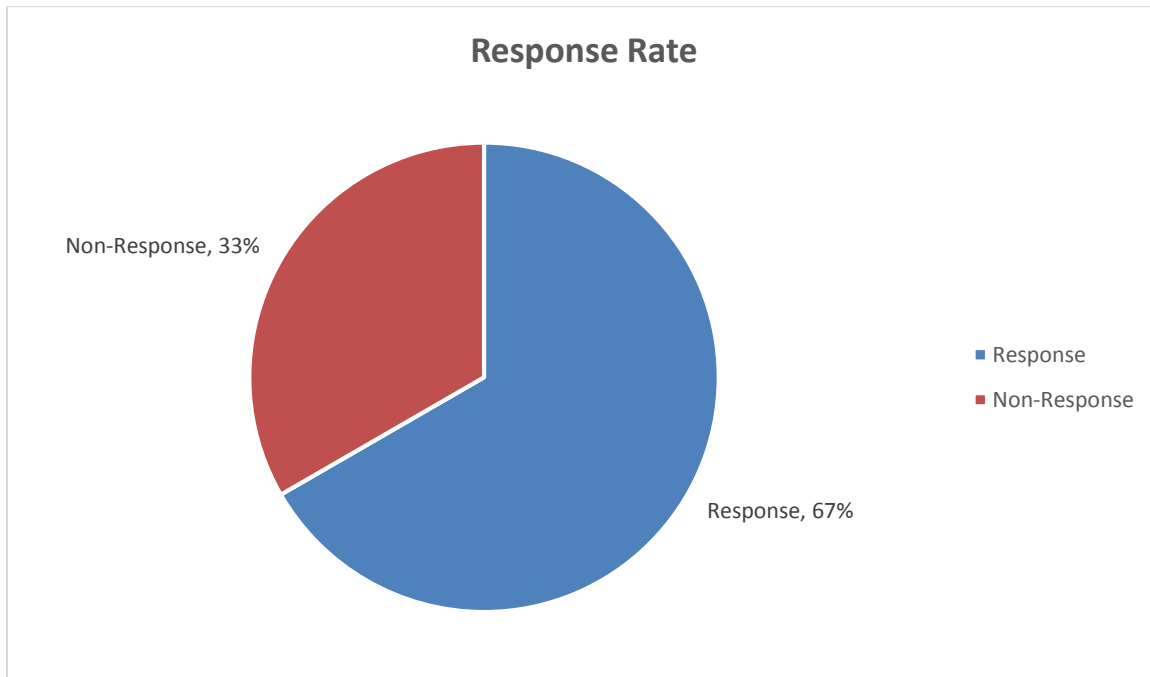


Figure 4.1 Response Rate
(Researcher, 2018)

According to the findings in figure 4.1, the study realized a response rate of 67%. This is as out of the targeted 60 respondents, 40 participated and gave valid responses whereas 20 of the targeted responses did not give response to the study. Thus, the study obtained a good response as recommended by Mugenda and Mugenda (2003) that a response rate of 50% is good as a representative of the sample. This reasonable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires and also continued efforts to remind them of the benefits of this research.

4.2.1 Reliability Analysis

The value of the Cronbach's alpha coefficient ranges from zero to one and was used to describe the reliability of the factors extracted from questions with two possible answers or multi-point formatted questionnaire or scales. Cronbach's alpha was calculated by application of SPSS for reliability analysis. A higher value; close to one, showed a more reliable generated scale. Cronbach

alpha of well above 0.7 implied that the instruments were sufficiently reliable for the measurement. As most item total correlations were reasonably high, the construct validity of the instrument was considered reasonable.

Table 4.1: Reliability Coefficient

Scale	Cronbach's Alpha	Number of Items
Interests and Penalties	0.753	5
Tax Rates	0.756	5
Tax Knowledge	0.841	5

A higher value indicates a more reliable generated scale. Schindler and Cooper (2008) had indicated 0.7 to be an acceptable reliability coefficient. Table 4.1 above shows that most item total correlations were reasonably high. This is a clear illustration that all the five scales were reliable as their reliability values exceeded the predetermined threshold of 0.7 (Mugenda and Mugenda, 2008).

4.2.2 Validity of Result

Construct validity is established by relating measuring instruments to a general theoretical framework in order to determine whether the instrument is tied to the concept and theoretical assumptions they are employing Nachmias (2008). Content validity of this research was determined by discussing the tools with my supervisors and establishing whether the questionnaires and interviews tools to measure result in relation to the research objective. Pilot testing done by researcher before data collection also helped in adjusting the tools to ensure higher validity was achieved.

4.3 Analysis of Demographic Information

Demographic information shows the characteristics of the elements in the sample size: As such the researcher sought to establish the general information of the respondents, which forms the basis under which the interpretations are made.

4.3.1 Gender of Respondents

As seen in figure 4.2, majority of the respondents (60%) were male while the remaining 40% were female.

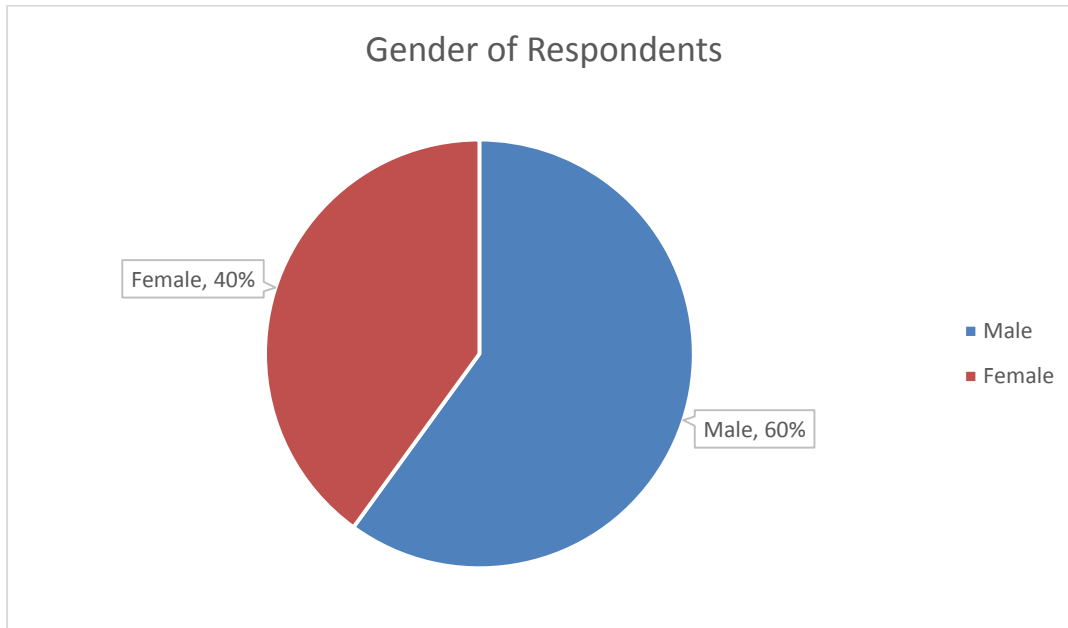


Figure 4.2 Gender of Respondents

4.3.2 Number of year's property has existed

As shown in figure 4.3, majority of the respondent's properties existed for more than 3 years on average.

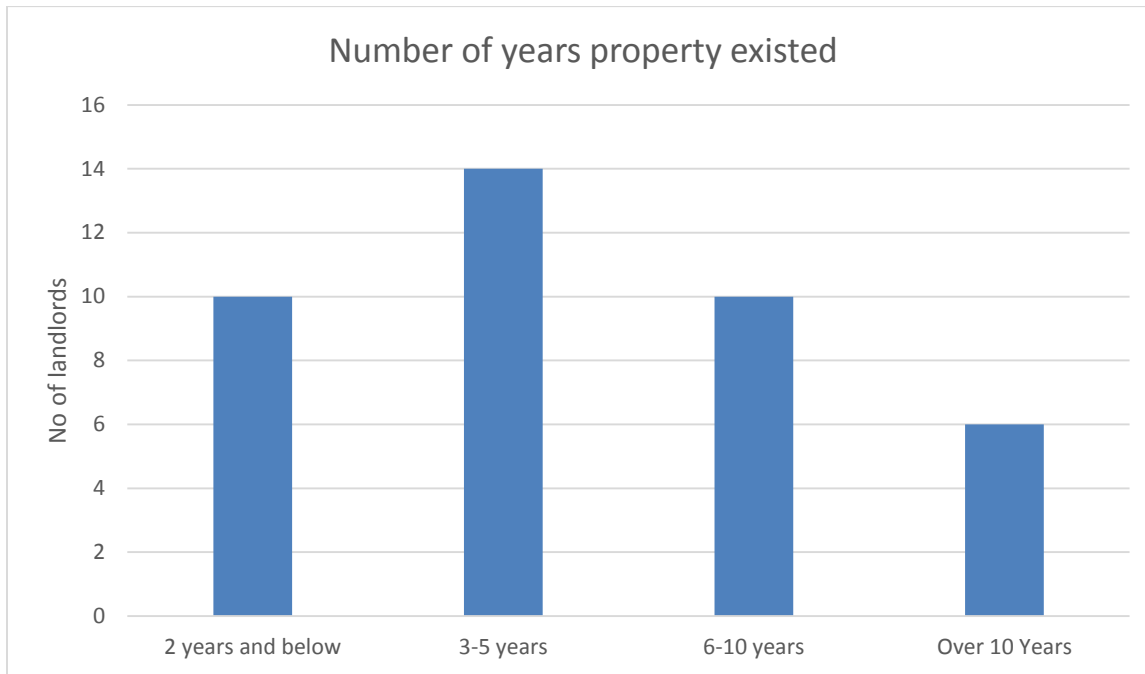


Figure 4.3 Number of years property existed

4.4 Descriptive Statistics

Descriptive statistics are statistics that quantitatively describe or summarize features of a collection of information. Descriptive statistics provide simple summaries about the sample and about the observations that have been made. Such summaries may be either quantitative, i.e. summary statistics, or visual, i.e. simple-to-understand graphs. These summaries may either form the basis of the initial description of the data as part of a more extensive statistical analysis, or they may be sufficient in and of themselves for a particular investigation.

4.4.1 Effect of Interests and Penalties on residential rental income tax compliance

Seeking to establish the effect of Interests and Penalties on residential rental income tax compliance, the study sought the views of the landlords on the extent to which the given statements influenced tax compliance as indicated by their level of agreement. A likert scale data was collected rating the extent of agreement in a scale of 1 to 5 where 5 is the maximum extent indicator whereas 1 is the least extent. The results from the collected responses were analyzed based on

means and their standard deviations to show the variability of the individual responses from the overall mean of the responses per each aspect. The mean results are therefore given on a scale interval where a mean value of up to 1 is an indication of a strong extent of disagreement; 1.1 – 2.0 is disagree; 2.1 – 3.0 is a moderate extent of agreement, 3.1 – 4.0 agree and a mean value of 4.1 and above is an indication of a strong extent of agreement. Findings are as presented in table 4.3;

Table 4.3 Effect of Interests and Penalties on residential rental income tax compliance

Statements on Interests and Penalties	Mean	Standard Deviation
Interests and penalties are very punitive to property owners	3.70	1.471
Periodic waiver of fines and penalties could encourage tax compliance	3.30	1.539
Property owners file returns on time to avoid penalties of non-compliance on the iTax system	3.60	1.411

According to the findings in table 4.3 the respondents agreed that Interests and penalties are very punitive to property owners. This is according to the mean obtained of 3.70 with a standard deviation of 1.471. Further, the respondents agreed that Periodic waiver of fines and penalties could encourage tax compliance as shown by a mean of 3.30 and a standard deviation of 1.539. Additionally, the respondents further agreed that Property owners file returns on time to avoid penalties of non-compliance on the iTax system as indicated in table above by a means score of 3.60 and a standard deviation of 1.411. This finding revealed that property owners are actually aware of the effect of not complying with their obligation to pay rental income tax. The mean results are on a scale interval of 3.1 – 4.0 indicating a strong extent of agreement. The standard deviation measures how concentrated the data are around the mean. The more concentrated, the smaller the standard deviation. From the findings above, the values of the standard deviation are low indicating that on average, the values in a statistical data set are close to the mean of the data set.

4.4.2 Effect of tax knowledge on residential rental income tax compliance

The findings under this section are also based on the means and standard deviation for the data that was collected through the likert scale measuring the level of agreement of the respondents with respect to the given aspects of tax knowledge. The results on tax knowledge are as presented in Table 4.4 below;

Table 4.4 Effect of tax knowledge on residential rental income tax compliance

Statements on tax knowledge	Mean	Standard Deviation
Property owners have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime	3.30	1.539
Knowledge about tax laws plays a major role in determining property owners' tax compliance	3.60	1.539
KRA has created a lot of public awareness on residential rental income tax	3.80	1.418

From the findings in table 4.4 above, the respondents agreed that they have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime as shown by a mean score of 3.30 and standard deviation of 1.539. Further, the respondents agreed that Knowledge about tax laws plays a major role in determining property owners' tax compliance as shown by a mean score of 3.6 and a standard deviation of 1.411. As well, the respondents agreed that KRA has created a lot of public awareness on residential rental income tax as shown by a mean score of 3.80 and a standard deviation of 1.418. The mean results are on a scale interval of 3.1 – 4.0 indicating a strong extent of agreement. The standard deviation measures how concentrated the data are around the mean. The more concentrated, the smaller the standard deviation. From the findings above, the values of the standard deviation are low indicating that on average, the values in a statistical data set are close to the mean of the data set.

4.4.3 Effect of rate of tax on residential rental income tax compliance

Table 4.5 presents the study results on the effect of rate of tax on residential rental income tax compliance.

The results are as well based on the means and standard deviation for the likert scale data collected.

Table 4.5 Effect of rate of tax on residential rental income tax compliance

Statements on rate	Mean	Standard Deviation
10% residential rental income tax rate is fair to property owners	4.15	1.210
Residential rental property owners are now willingly paying tax due to the well-structured tax rate	4.05	1.300
The computation of tax on gross rental proceeds is simple for property owners to apply	3.80	1.418

From the findings in table 4.5 the respondents agreed that 10% residential rental income tax rate is fair to them. This is as indicated by a mean score of 4.15 and a standard deviation of 1.210. Additionally, the respondents agreed that they are now willingly paying tax due to the well-structured tax rate as shown by a mean score of 4.05 and a standard deviation of 1.300. Moreover, the respondents agreed that the computation of tax on gross rental proceeds is simple for them to apply as shown in table above by a mean score of 3.80 and a standard deviation of 1.418. The mean results are on a scale interval of 3.1 – 4.0 indicating a strong extent of agreement. The standard deviation measures how concentrated the data are around the mean. The more concentrated, the smaller the standard deviation. From the findings above, the values of the standard deviation are low indicating that on average, the values in a statistical data set are close to the mean of the data set.

4.4.4 Residential rental income tax compliance

The study results on the residential rental income tax compliance are as presented in Table 4.6. The findings are on means and standard deviation showing the extent of the respondents' agreement on the residential rental income tax compliance aspects given.

Table 4.6 Residential rental income tax compliance

Statements on Residential rental income tax compliance	Mean	Standard deviation
Residential rental property owners file returns on time and as required by law	4.30	1.244
Residential rental property owners declare correct monthly rental income	4.25	1.149
Residential rental property owners enjoy paying taxes and are always tax compliant	4.10	1.150

According to the findings tabled above, the respondents agreed that they have been submitting monthly residential income tax returns to KRA every month as shown by a mean score 4.30. Additionally, the respondents agreed that the company's residential income tax returns submitted to KRA were correctly stated as shown by a mean score of 4.25 .Further, the respondents agreed that they paid the monthly self- assessed residential income tax to KRA by the due date. as shown by a mean score of 4.10 . The mean results are on a scale interval of 3.1 – 4.0 indicating a strong extent of agreement. The standard deviation measures how concentrated the data are around the mean. The more concentrated, the smaller the standard deviation. From the findings above, the values of the standard deviation are low indicating that on average, the values in a statistical data set are close to the mean of the data set.

4.5 Inferential Statistics

This part of the study presents statistics that allow generalisations on the entire population. The key items on this part are the regression and correlation analysis. The findings in this part are then compared and contrasted with previous works and theories to arrive at logical conclusions.

4.5.1 Diagnostic Tests

In order to ascertain the validity of the data used, the study conducted two tests: normality and multicollinearity tests as discussed below:

Normality Test

The data for the study was subjected to normality test. In order for a regression model to be considered adequate, the data collected must be normally distributed. The Kolmogorov- Smirnov Test was used to test for normality. The Shapiro-Wilk test of normality was preferred since the value was less than 2000. If the responses were more than 2000, the study would have then used the Kolmogorov-Smirnov test (Razali & Wah (2011). The null hypothesis for the test stated that the residuals are normally distributed (Hossain, 2012). The alternate hypothesis stated that the residuals are not normally distributed. The results of the Kolmogorov-Smirnov test are presented in Table.4.3

Table 4.3: Test for Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Rental income tax Compliance	.521	40	.078	.395	40	.076

Source: (Research Data, 2018)

The P value of the Shapiro-wilk test for Rental income tax Compliance stood at 0.076. Since this value is greater than 0.05 (5% level of significance), the study failed to reject the null hypothesis (H_0) and an assumption was made that the data set followed a normal distribution. As such, it was held that data set did not significantly deviate from a normal distribution (Shapiro & Wilk, 1965; Razali & Wah 2011).

Multicollinearity

Multicollinearity was tested using Variance of Inflation Factor VIF. The findings are illustrated in Table 4.2

Table 4.2 Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
Interests and Penalties	.434	2.352
Tax Knowledge	.389	2.635
Rate of tax	.295	3.587

a. Dependent Variable: Rental income tax compliance

Source: (Research Data, 2018)

From the results in Table 4.2 above, tolerance levels for all the independent variables were more than 0.2 while the Variance Inflation Factors were all less than 5, indicating that the variables had very insignificant effect on each other. Interests and Penalties had VIF of 2.352, Tax Knowledge had 2.635 and Rate of tax had 3.587. Since the values of VIF are less than 5, it shows that there was no Multicollinearity in the data set.

4.5.2 Regression Analysis

In order to determine the factors affecting residential rental income tax, the researcher conducted regression analysis. The findings of the Model Summary, ANOVA and Regression coefficient are indicated in subsequent sections.

Model Summary

The coefficient of correlation R and coefficient of determination R² are indicated in the Table 4.11.

Table 4.11 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.843 ^a	.765	.762	2.619865

Predictors: (Constant), Interests and Penalties, Tax Knowledge, Rate of rental income tax

Dependent Variable: Residential Rental Income Tax Compliance

X₁= Interests and Penalties

X₂= Tax Knowledge

X₃=Rate of rental income tax

As seen in table 4.11, the R square of the regression was 0.765, this is an indication that the included explanatory variables were explained only 76.5 percent. The remaining 23.5 percent was explained by other explanatory variables not included in the model. This implies that these factors are very significant and therefore should be considered in any effort to boost residential rental tax compliance.

Analysis of Variance

An ANOVA was conducted at 5% level of significance. A comparison of F_{calculated} and F_{critical} is shown in Table 4.12 below.

Table 4.12 Analysis of Variance and F-Test Results

Model		Sum of squares	df	Mean Square	F	Sig
	Regression	15.487	3	3.872	17.133	.000 ^b
1	Residual	6.113	27	.226		
	Total	21.60	30			

(Researcher, 2018)

- a. Dependent variable: Rental income tax compliance
- b. Predictors: (Constant), Interests and Penalties, Tax Knowledge, Rate of rental income tax

From the ANOVA Table 4.12 above, $F_{\text{calculated}}$ is 17.33 while F_{critical} is 2.72776531, this shows that $F_{\text{calculated}} > F_{\text{critical}}$ thus $17.33 > 2.7277$ therefore the overall regression model was significant in determining the factors affecting residential rental income tax compliance in Machakos County. The p value is 0.000, an indication that at least one of the independent variables significantly influenced residential rental income tax compliance in Machakos County.

Table 4.13 Regression Results

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.723	1.849		2.554	0.016
Interest and Penalties	.277	.107	.285	2.597	0.022
Tax Knowledge	.164	.053	.257	3.088	0.026
Tax Rate	-.126	.141	-.0192	0.892	0.380

- a. Dependent Variable: Residential Rental income tax compliance

As shown in table 4.13 the multiple regression model equation is expressed as:

$$Y = 4.723 + 0.277X_1 + 0.164X_2 - 0.126X_3$$

Where: Y= Residential Rental income tax compliance

X1= Interest and Penalties

X2= Tax Knowledge

X3= Tax Rate

In terms of the significance, Interest and Penalties had p value 0.022 which is less than 0.05. It's beta coefficient (0.277) is positive. Therefore, it can be inferred that Interest and Penalties has a

positive significant effect on residential rental income tax compliance. The results indicate that a 1% increase in the interests and penalties imposed by KRA will result in a 27.7% increase in the level of compliance by the landlords.

Tax Knowledge had p value ($p=0.026$) which is less than 0.05. The beta coefficient (0.164) is positive. This can be interpreted that tax knowledge has a positive and significant effect on residential rental income tax compliance. The findings suggest that a 1% increase in tax knowledge will result in a 16.4% increase in the level of compliance by the landlords.

Tax rate ($p=0.380$) with beta coefficient (-0.126). The beta coefficient is negative and the p value is greater than 0.05. Hence, it can be inferred that tax rate has a negative and insignificant effect on residential rental income tax compliance. This indicates that a 1% increase in the rate of tax will result in a 12.6% decline in the level of compliance by the landlords.

4.5.3 Pearson Correlation analysis

The Pearson Correlation analysis was also applied to illuminate the magnitude and direction of relationship between each of the factors affecting residential rental income tax in Machakos County, Kenya. The table that follows presents the Pearson Correlation Output as derived from SPSS.

4.14 Pearson's Correlation analysis

		Rental Income Tax Compliance	Interests and Penalties	Tax Knowledge	Tax Rate
Rental Income Tax Compliance	Pearson Correlation	1	.770	.613	-.537
	Sig. (2- tailed)	0.000	0.012	0.023	0.011
	N	40	40	40	40
Interests and Penalties	Pearson Correlation	.770	1	0.562	0.420
	Sig. (2- tailed)	0.012	0.000	0.000	0.000
	N	40	40	40	40
Tax Knowledge	Pearson Correlation	.613	0.562	1	0.523
	Sig. (2- tailed)	0.023	0.00	0.000	0.000
	N	40	40	40	40
Tax Rate	Pearson Correlation	-.537	0.420	0.523	1
	Sig. (2- tailed)	0.011	0.000	0.000	0.000
	N	40	40	40	40

Source: Research data (2018)

All the independent variables and rental tax compliance showed significant positive associations. The Pearson Correlation Coefficient for Interests and penalties is 0.770 implying that the variable has a positive relationship with rental income tax compliance. The strength of association between the two variables; Interests and penalties and rental income tax compliance is very strong since the

Pearson Correlation Co-efficient is above 0.70. Furthermore, the relationship is statistically significant since the Sig. (2-tailed) value of 0.012 is below the 0.05 or 5% level of significance.

The Pearson Correlation Coefficient for tax knowledge stands at 0.613 which shows a positive relationship between tax knowledge and rental income tax compliance. The relationship between the two variables; tax knowledge and rental income tax compliance is strong since the Pearson Correlation coefficient is greater than 0.50. The relationship is also statistically significant since the sig (2-tailed) value of 0.023 is less than 0.05 significance level.

Finally the Pearson Correlation coefficient for tax rate is 0.537 which indicates a positive association between tax rate and rental income tax compliance and demonstrates a strong level of association since value is more than 0.5. The relationship is statistically significant because the Sig. (2-tailed) value of 0.011 is less than 0.05 level of significance.

4.6 Discussion

4.6.1 Interests and Penalties and residential rental income tax compliance

The study revealed that, majority of the respondents agreed that Interests and penalties are very punitive to property owners. Further, the respondents agreed that Periodic waiver of fines and penalties could encourage tax compliance. Additionally, the respondents further agreed that Property owners file returns on time to avoid penalties of non-compliance on the iTax system. This finding revealed that property owners are actually aware of the effect of not complying with their obligation to pay rental income tax. The study found that interests and penalties positively influences tax compliance thus the study concludes that interests and penalties have a direct impact on residential rental income tax compliance by property owners. This is because punitive interests and penalties encourage property owners to comply tax obligations. These findings are consistent

with those of Hughes (2014) who established that , penalties are the most predominant regulatory mechanism in most of the tax laws worldwide.

4.6 .2 Tax knowledge and residential rental income tax compliance

The findings of the study revealed that the respondents agreed that they have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime. Further, the respondents agreed that Knowledge about tax laws plays a major role in determining property owners' tax compliance. As well, the respondents agreed that KRA has created a lot of public awareness on residential rental income tax. The study findings established that tax knowledge significantly and positively influences residential rental income tax compliance by property owners. These findings are consistent with those of Palil (2010) who established that , knowledge about tax laws also plays a major role in determining taxpayers' compliance behaviour. Therefore a step ahead, for example continuous education programmes 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.

4.6.3 Rate of tax and residential rental income tax compliance

The study revealed that majority of the respondents agreed that 10% residential rental income tax rate is fair to them. Additionally, the respondents agreed that they are now willingly paying tax due to the well-structured tax rate. Moreover, the respondents agreed that the computation of tax on gross rental proceeds is simple for them to apply. The study findings revealed that tax rate applicable on residential rental income influences tax compliance by property owners and an increase in tax rate reduces compliance by property owners. These findings are consistent with those of Lumumba (2010) who established that The rates need to be reduced to enable taxpayers

to duly pay their taxes and by so doing the government will collect high revenue and tax compliance rate will be high.

4.6.5 Residential rental income tax compliance

The study findings revealed that, the respondents agreed that they have been submitting monthly residential income tax returns to KRA every month. Additionally, the respondents agreed that the company's residential income tax returns submitted to KRA were correctly stated. Further, the respondents agreed that they paid the monthly self- assessed residential income tax to KRA by the due date. These findings are consistent with those of Karanja (2013) who established that Most taxpayers would like to pay taxes but ones a taxpayers view the tax system to be unfair and unjust, the willingness to voluntarily pay taxes fade away.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter is made up of four sections. The first section presents a summary of the study which includes the study objectives, methodology as well as the findings. The second subsequent section presents a discussion of the major findings of the study. The third section offers conclusions based on the specific objectives, with the help of the findings and results obtained in chapter four. The final sub-section presents the recommendations for improvement on the basis of the specific objectives. It also offers the recommendations for further studies.

5.2 Summary

The purpose of the study was to establish the factors that affect residential rental income tax compliance in Machakos County. The study was guided by the following research questions: To find out the effect of penalties and interest on residential rental income tax compliance in Machakos County, to determine the effect of level of tax knowledge on residential rental income tax compliance in Machakos County and to establish the effect of rate of tax on residential rental income tax compliance in Machakos County

In order to achieve the above, the study adopted a descriptive research design in order to obtain the data that is necessary, which in essence facilitated the collection of the private data as a way of getting into the research objectives. The total population of interest for the study consisted of all the landlords in Machakos County, who currently total to 1,200. The study used both stratified and random sampling techniques to obtain a sample size of 60 respondents, out of which 40 responded. The collection of the private data was done using structured questionnaires that were pilot tested in order to ensure that there was reliability as well as validity. The coding of the data

was done with the use of Microsoft Excel as well as SPSS in order to generate the descriptive statistics for instance frequencies and percentages.

Data analysis was done through descriptive statistics. This included percentages and frequency tables. Data was presented in pictorial representation in the form of tables and figures. The tool that was used for analysis of data collected was Statistical Package for Social Sciences (SPSS).

5.3 conclusions

The study found that interests and penalties positively influences tax compliance thus the study concludes that interests and penalties have a direct impact on residential rental income tax compliance by property owners. In addition the study concludes that tax knowledge significantly and positively influences residential rental income tax compliance by property owners. Finally the study concludes that that tax rate applicable on residential rental income influences tax compliance by property owners and an increase in tax rate reduces compliance by property owners.

5.4 Recommendations

5.4.1 Knowledge of tax laws

The study found that tax knowledge significantly influences residential rental income tax compliance by property owners. Based on study finding, this study recommends that KRA should develop training programs to create awareness on residential rental income tax compliance by property owners.

5.4.2 Interests and penalties

The study established that punitive fines and penalties encourage compliance with residential rental income tax by property owners. The study therefore recommends that the Kenya Revenue Authority (KRA) should revise its fines and penalties to make them more severe to encourage tax compliance.

5.4.3 Tax rate

Based on the findings above, it can be concluded that when it comes to taxation of SMEs, that high tax rates are the primary reason most landlords do not pay tax. 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 landlords to even under declare their rental income. This study recommends that property owners should be levied lower amounts of taxes so that they will have enough funds for other activities that will lead to business growth. Furthermore the government should consider increasing tax incentives and exemptions as this will not only attract investors who are potential tax payers, it will also encourage voluntary compliance.

5.4.4 KRA staff

This study recommends that there is need to continuously train technical staff to keep abreast with the tax law and other emerging tax related issues. This way, the officers will impart proper and correct advice to taxpayers during the time of audits. Customer care lessons should form an integral part of this training. Recruitment of new landlords by the authority should be intensified and enhanced. This will broaden the tax base and reduce pressure on the complying taxpayers.

5.4.5 Government

This study recommends that the government should be more involved in making laws that encourage compliance by improving the tax payer's attitude. To deal with voluntary tax payment compliance, taxpayers need to understand the reasons why they pay or ought to pay tax. The government should sensitize the tax payers on the importance of paying tax. It also recommended that the government ought to be transparent on how the revenue collected from taxation is being utilized so that the tax payer don't feel that their money is being misused. The study also recommends that the government need to develop effective policies to develop a positive relationship and trust with taxpayers since this

would encourage tax compliance. For example implementing simplified tax rates under other tax heads.

5.5 Limitations of the Study

Lack of prior research data on the topic as rental income tax is a fairly new initiative by KRA. The organization, since its inception, has never faced such a challenge in enforcing tax compliance as it does in the current booming real estate sector. The dynamism of the sector has seen the sprouting of new challenges that have not been previously researched. As a result, there is little of previously accumulated data that the researcher will be able to refer to on tax compliance enforcement responses in the context of the agency.

Access to key individuals with rental income tax compliance enforcement responsibilities at KRA as well as the reluctance of some landlords to cooperate may pose a challenge. This comes about as a result of the respective individuals with relevant information being out of office most of the time on official duty while accomplishing the equally important tasks within the authority while some rental income tax earners may not be willing to divulge information. Financial constraints that will require purchase of research material and costs of logistics due to the researcher's limited resources. Hence, it may affect the research in terms of the quality of recorded information and the organization of the data collected.

5.6 Suggestion for Further Studies

This study collected data from property owners to establish the various factors which influence compliance with residential rental income tax. Thus, this study recommends the following areas for further study :A study which incorporates the views of the tax authority in Kenya to establish the factors behind residential rental income tax non-compliance by property owners. The researcher also recommends that further study be carried on the other factors that might influence the

voluntary tax compliance on residential rental income. Finally, a further study also needs to be done on the same topic but covering a different location other than in Machakos county so as to determine whether there exist some variances in the findings.

REFERENCES

- Batrancea, S.(2012). Framing effects in taxation: An Empirical study using the German income tax. Berlin:
- 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
- Bird R. M. (2012). Subnational taxation in large emerging countries: BRIC plus One,IMFG Papers 06.
- Burnside, C. (2005). Fiscal stability in theory and practice: A Handbook. Washington: World
- Bushels, R. (2015) Taxes on knowledge in America: Exactions on the Press from colonial times to the present. Philadelphia: University of Pennsylvania press
- Cooper, D. R. (2011).Business research methods, 11thed. NY: McGraw
- Cooper, R. D. & Schindler, S. P. (2011).Business research methods. (10th Ed.).New York, McGraw Hill. Countries. Journal of Economic Literature.
- Coutts, J & L, Gruman(2014) Applied social psychology: Understanding and addressing social and practical problems.Los Angeles
- Cresswell, J. (2010).Qualitative inquiry and research design: Choosing among five
- Devos, K. (2013) Factors influencing individual taxpayer compliance behavior. Melbourne: Springer
- Edward, K (2014) Factors affecting voluntary tax compliance in rental income: A case study of Nairobi landlords. Nairobi.
- Erickse ,K and Fallan, L (2006) Tax knowledge and attitudes towards taxation..Journal of economic psychology 17(3),387-402,2006
- Fiske, S (2010) Handbook of social psychology. New Jersey: Wiley

- Flynn, K.E. (2003). An empirical investigation into alternative theories explaining taxpayer behavior. (Doctoral thesis, Orel University, 2003).
- Gall, M.D., Gall, J. P. & Borge, W. R. (2006). "Educational Research: An Introduction". (8th Ed.). New York: Pearson.
- Hasseldine, J & Holland, K (2014)The management of tax knowledge: Association of Chartered Certified Accountants. Bucharest: Levski
- Hendrick, C. (2015) Perspectives on social psychology. New York: Penguin
- Hughes, J (2014) The theory, principles and management of taxation: : An introduction. London: Routledge
- Karanja, E. K. (2014). Factors affecting voluntary tax compliance in 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
- Kavingi, S (2005) Tax reform experience in Kenya. Nairobi: Kenya Institute for Public Policy Research and Analysis.
- Kirchler, E (2008) The economic psychology of tax behavior. Nairobi: Cambridge University Press
- Kothari, C. (2008). Research methodology; methods and techniques. New Delhi, India: New Age International (P) Ltd.
- KRA. (2012).Fifth corporate plan, 2012/2013-2014/2015. Nairobi, KE: KRA
- Kuria, K. M. (2013). Factors affecting rental income tax compliance among landlords in Kilifi Municipality. *Unpublished MBA Project*. Kenyatta University, Kenya

- Kwatemba, B (2016) Impact of tax amnesty on tax revenue in Kenya: A case study of Nairobi landlords. Nairobi
- Levy, P. (2013) Sampling of populations: Methods and applications. Dallas: Wiley Publications
- Lewis, P. (2012) A look at factors affecting efficient income tax administration in Ghana. Dallas: Wiley Publications
- Lumumba, O. M., Magutu, P. O., Wanjohi, S. M., & Mokoro M.J (2010). *Taxpayers' attitudes and tax compliance behaviour in Kenya*. African Journal of Business and Management
- Lymer, A., & Oats, L. (2009). Taxation: Policy and Practice. 16th ed. Birmingham: Fiscal Publications.
- 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.
- 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.
- Maxwell, J. (2012) Qualitative research design: An Interactive approach. Los Angeles
- Mugenda, O. M. & Mugenda, A. G. (2003). Research methods: *Quantitative and Qualitative Approaches*. Nairobi: Acts Press.
- 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
- Nicoleta, B. (2011). A Review of Factors for Tax Compliance. *Annals of "Dunarea de Jos"*, XVII(1), 69-76
- Okello, A. (2014). Managing income tax compliance through assessment. Nairobi; IMF
- Osebe, 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 .Nakuru: Kabarak University
- Otieku, J. K. (2009). A look at factors affecting efficient income tax administration in Ghana. *Journal of management studies*, 8.
- Palil, M. R. (2010). Tax Knowledge and Tax Compliance Determinants in Self-Assessment System in Malaysia. *Unpublished PHD Thesis*. The University of Birmingham.
- Razali, N., & Wah, Y. (2011). Power comparisons of Shapiro–Wilk, Kolmogorov–Smirnov, Lilliefors and Anderson–Darling tests. *Journal of Statistical Modeling and Analytics*. 2m(1), 21–33.
- Sanderson, C. (2009) *Soul psychology*. Denver: John Wiley & Sons
- Sheffrin, S. (2013) *Tax fairness and folk justice*. New York: Cambridge University Press
- Singh, S. (2008) *Public finance in theory and practice*. New Delhi: S. Chand
- Snyder, C. (2012) *Microeconomic theory: Basic principles and extensions*. Atlanta: Cengage Learning
- Song, Y. & Yarbrough, T. (1978). Tax morals and taxpayer approaches: A survey. *Public administration review*, 442-452
- Thakur, P.(2013). *Tax evasion through shares*. Kolkata: Smashwords

- 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
- Thompson, L.(2003).The social psychology of organizational behavior. New York: Psychology
- Thompson, L.(2012).The social psychology of organizational behavior. New York: Psychology
- Torgler, B. (2003). Beyond punishment: A tax compliance experiment with taxpayers in Costa Rica: *Revista de Analisis Economico*, 18(1), 27–56
- Tyler, T.(2013). The social psychology of procedural justice. New York: Springer
- Vadde, S. (2014). “Attitude of rental tax payers and their compliance with tax system: An Empirical Study of Mekelle City, Ethiopia.” Mekelle University, Ethiopia.
- White, M. (2009) Theoretical foundations of law and economic .New York: Cambridge
- Winer, S. (2005) Democratic choice and taxation: A theoretical and empirical analysis. Cambridge: Cambridge University Press
- Yeung, K. (2004). Securing compliance: A Principled approach.Oxford: Hart Publishing
- Zikmund, W. G., Babin, B. J., Carr, J. C., & Griffin, M. (2011).*Business research methods*.8th Edition. Mason Cengage Learning.

APPENDICES
APPENDIX 1: QUESTIONNAIRE

Introduction

This questionnaire is designed for the sole purpose of gathering information on Factors Affecting Residential Rental Income Tax Compliance in Kenya Revenue authority, a case of Machakos County. Kindly respond to the questionnaire honestly by ticking the most appropriate response as all responses will be treated with utmost confidentiality.

SECTION A: BIO DATA

1. Gender
Male
Female

2. Number of years property has existed

Below 2 years
3-5 years
6- 10 years
10 years and above

SECTION B

Objective One: Effect of Interests and Penalties on residential rental income tax compliance in Machakos County.

I) Evaluate the following statements and tick where appropriate under the choices below

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

No	Statement	1	2	3	4	5
1	Interests and penalties are very punitive to property owners					
2	Periodic waiver of fines and penalties could encourage tax compliance					
3	Property owners file returns on time to avoid penalties of non-compliance on the iTax system					

Objective Two: Effect of tax knowledge on residential rental income tax compliance in Machakos County.

eII) Evaluate the following statements and tick where appropriate under the choices below

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

No	Statement	1	2	3	4	5
4	Property owners have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime					
5	Knowledge about tax laws plays a major role in determining property owners' tax compliance					
6	KRA has created a lot of public awareness on residential rental income tax					

Objective Three: Effect of rate of tax on residential rental income tax compliance in Machakos County.

III) Evaluate the following statements and tick where appropriate under the choices below

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

No	Statement	1	2	3	4	5
7	10% residential rental income tax rate is fair to property owners					
8	Residential rental property owners are now willingly paying tax due to the well-structured tax rate					
9	The computation of tax on gross rental proceeds is simple for property owners to apply					

Dependent Variable: Residential rental income tax compliance

V) Evaluate the following statements and tick where appropriate under the choices below

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

No	Statement	1	2	3	4	5
13	Residential rental property owners file returns on time and as required by law					
14	Residential rental property owners declare correct monthly rental income					
15	Residential rental property owners enjoy paying taxes and are always tax compliant					

APPENDIX 1I: LETTER OF INTRODUCTION

Anna Kataa Katiwa

JKUAT,

P.O Box,62000-00200

NAIROBI.

To whom it may concern,

Dear Sir/Madam,

RE: REQUEST FOR RESEARCH INFORMATION

I am a student at JKUAT University currently undertaking a study on the Factors influencing the Tax compliance on residential rental income in Kenya Revenue Authority a case study for Machakos County. I would like to request your assistance in obtaining Primary data related to this study by the use of Questionnaire.

Kindly be assured that the information provided will be treated confidentially and professionally for the purpose of this study.

Thank you in advance.

Yours faithfully,

Anna Kataa Katiwa

HBD336-C016-2026/2016

APPENDIX III: LIST OF RESPONDENTS

	Name		Name
1	Review Enterprises Limited	21	Jinue Inuka Company Limited
2	Dadsring Investments Limited	22	Abo Estates Development Limited
3	Osiligi Agencies Limited	23	Jolufa Investment Company Limited
4	Toishuru Investments Limited	24	Mloathi Housing Co-operative Society Limited
5	Makueni Holdings Limited	25	Kavoski Investments Limited
6	Prime Lillies Investment Limited	26	Maskani Realtors Limited
7	Sabuk Investments Limited	27	Lemu Company Limited
8	Jordoma Enterprises Limited	28	Realand Investments Limited
9	Prestine Management Limited	29	Falcon Wings Limited
10	Ukenyea Trading Company Limited	30	Pekis Properties Limited
11	Abweys Limited	31	JUBILAND INVESTMENT COMPANY LIMITED
12	Arcblue Company Limited	32	THE SHELTERS SECRET LIMITED
13	Masc Limited	33	Group Eight Limited
14	Home Mortgage Access Kenya Limited	34	BROOKLAND MANAGEMENT LIMITED
15	Barikiwa Investment Services Limited	35	Discount Homes And Properties Limited
16	New Neighbours Housing Co-operative Society Limited	36	JEJON GENERAL SUPPLIES
17	Edge Point Property Consultants Limited	37	Fanaka Housing Co-operative Society Limited
18	ZANZI PROPERTIES LIMITED	38	Meanik Investment Limited
19	Quad Properties Limited	39	Arthi River Lukenya Plainsview Development Company Limited
20	Corvus Company Limited	40	Sieg Holdings Limited