

**FACTORS AFFECTING RENTAL INCOME TAX COMPLIANCE IN
KENYA: A CASE OF ONGATA RONGAI TOWN OF KAJIADO
COUNTY**

WYCLIFFE KYENZE MUNYALO

**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
CUSTOMS/TAX ADMINISTRATION AT JOMO KENYATTA
UNIVERSITY OF AGRICULTURE AND TECHNOLOGY.**

2019

DECLARATION

This project is my original work and has not been presented for a post graduate diploma in any other academic institution.

Signature: _____

Date: _____

WYCLIFFE KYENZE MUNYALO

HDB-336-C016/2116/2016

This project has been submitted for examination with my approval as the university supervisor

Signature: _____ **Date:** _____

KENNEDY ODUMBE

JKUAT, Kenya

DEDICATION

This project is dedicated to my family.

ACKNOWLEDGEMENT

Many thanks to God who strengthened me while undertaking the Post Graduate Diploma course. Special mention to my Supervisor Mr. Kennedy Odumbe for guidance and support.

Special thanks and profound appreciation goes to my family for their patience, understanding and support during the entire period.

I also thank my colleagues and the administration of Kenya Revenue Authority for allowing me to undertake the course.

ABSTRACT

The purpose of this study was to determine the factors affecting rental income tax compliance among landlords and which if addressed would enhance compliance. The theories of optimal taxation, the classical taxation theory and Keynesian Taxation Theory premised the study. Descriptive research design was adopted with a focus on both qualitative characteristics and rental income tax compliance status. The target population was 635 landlords in Ongata Rongai Town of Kajiado County. A sample of 100 respondents (16%) was selected using convenience sampling technique and interviewed based on a semi- structured questionnaire. The data collected was analyzed using both quantitative techniques with the aid of the SPSS package. The report is presented in terms of pie charts, bar charts and tables. The analysis found that the perception of fairness is likely to influence personal income administration. The study found that the KRA has done great strides in enhancing the awareness of the tax compliance in the Kajiado County. The study concluded that tax knowledge & awareness is a key predictor of tax compliance among Landowners. The study suggest the need for KRA to simplify tax compliance procedures. The study further recommended the need for re-introduction of progressive taxation that includes tax exemption.

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ACRONYMS AND ABBREVIATIONS

DNA	Daily Nation
DTD	Domestic Taxes Department
EFT	Electronic Funds Transfer
EGMS	Excisable Goods Management System
GOK	Government of Kenya
HR	Human Resource
IT	Information Technology
KAM	Kenya Association of Manufacturers
KRA	Kenya Revenue Authority
NTA	National Taxpayers Association
TPB	Theory of Planned Behavior
TECH	Trustworthy, Ethical, Competent and Helpful
VAT	Value Added Tax

DEFINITION OF TERMS

Tax Compliance	Tax compliance is the precise reporting of expenses and income claims in line with the laws of taxation stipulated in the country (Sapiei & Kasipillai, 2013).
Perception	Negative and positive evaluations held by individuals over objects. Perceptions are amused to encourage individuals to act in a particular way (Kuria, 2013).
Awareness	Knowledge focusing on taxation its benefits and the dangers of evading paying taxes (Thananga <i>et al.</i> , 2013).
Fines and Penalties	Business expenses paid to the government for the violation of tax laws (Collins English Dictionary).
Tax Rates	Various rates of rental income tax that are used in Kenya, for instance, 10% monthly residential rental income tax and the graduated income tax scales (KRA, 2018).

CHAPTER ONE

INTRODUCTION

1.1 Background

This section presents the background of the problem. The section focuses on the types of taxes collected by the Kenya Revenue Authority (KRA) and rental income tax compliance.

1.1.1 Taxes Collected by Kenya Revenue Authority

The 1995 Act of parliament Cap 469 was used to establish the Kenya Revenue Authority (KRA). The main responsibility of KRA is to collect tax and thus provide the government with the taxes required for various expenditures. These taxes include income tax, value added tax (VAT) and customs taxes and duties. VAT refers to the cumulative consumer tax on the supply of services and goods through business as well as the importation of commodities and services (Nyamuga, 2001). VAT also refers to the multi-stage tax collected, in the case of goods, at all stages from the raw materials to the final products across the entire supply chain that runs from the primary producer to the final end user who bears the full burden of this tax. Hinricks (1966) also points out that VAT is charged for the supply of all services and goods in the country in the course of all business activities as well as on the importation of all services and goods into the country.

Income tax is charged in respect of the profits or gains from a service rendered, business undertaken or employment as well as interests and dividends, rights that are given to others, pension annuity or charge, payments or withdrawals out of pension funds that are registered or a registered provident fund (Income Tax Act Cap 470). According to National Taxpayers Association (2011), income tax can be divided into various categories including: (a) Pay As You Earn (PAYE), (b) Corporation Tax, (c) Withholding Tax, (d) Instalment Tax, (e) Advance Tax, (f) Turnover Tax, (g) Presumptive Income Tax, and (h) Capital Gains Tax.

Customs duties and taxes are collected under the provisions of the Customs and Excise laws in Kenya and East Africa. An Excise tax refers to the duty that is applied in a selective way on specific goods and services. The tax can be applied to either sale or production as well as to domestic or imported output. The manufacturer directly pays the tax, however, the tax burden of the levy is indirectly passed to end users who are forced to purchase products at higher prices. Current, excisable commodities in the country include alcoholic beverages, soft drinks, fuel, tobacco, motor vehicles, as well as importation of second hand computers. Gambling and mobile telephone services, on the other hand, are examples of services that are excisable. Apart from vehicles, excise duty on cigarettes, beer and petroleum are presently charged on a specific basis including per quantity or volume basis (NTA, 2011).

1.1.2 Rental Income Tax Compliance

Tax compliance is the precise reporting of expenses and income claims in line with the laws of taxation stipulated in the country (Sapiei & Kasipillai, 2013).

Rental income tax refers to the amount the government receives from the earnings that individuals obtain from the use of residential property. Taxpayers whose annual residential rental income is less than Kshs 10 million annually can opt for the monthly rental income initiative which is charged at the rate of 10% of gross rental earnings or 30% of net annual rental income. Taxpayers who opt for the monthly rental income tax are required to file returns and pay the tax by 20th day of each month. Those who opt for 30% net annual rental income are required to declare and pay their tax by 30th June of the following year (KRA, 2018). Returns are filed online through the iTax system.

Karanja (2015) points out that the levels of tax compliance have constantly remained low, despite the use of sanctions like monitoring, fine and routine audits. Kenya is regarded as one of the nations across the globe that has the lowest level of tax compliance as far as collection of revenue is concerned (Makori *et al.*, 2013). It is necessary for government of Kenya to make more investments on administration of tax and thus ensure that no tax revenue is uncontrolled or lost (Waithira, 2016). Despite the significant rise in tax collection between 2003 and 2011, which is around 300%, landlords have made minimal contributions in spite of the government taking all initiatives to ensure that all Kenyans contribute towards economic development by remitting taxes (Karanja, 2015).

Table 1.1 Status of Rental Income Tax collection

Year	2016	2017	2018	Total
Rental Income tax collection (Kshs. Million)	2,570	3,407	2,631	8,608

Source: KRA 2018

1.1.3 Factors affecting Rental Income Tax Compliance

Compliance refers to an individual's willingness as well as other entities that are taxable to operate within the letter and the spirit of the tax administration and law voluntarily. It is necessary for authorities responsible for implementing tax to be responsive, professional, open, fair and accountable in terms of aiding taxpayers to adhere to tax obligations and they must be effective in making defaulters of the taxation system (Bjork, 2003).

Attitudes refer to the negative and positive evaluations held by individuals over objects. Attitudes are amused to encourage individuals to act in a particular way (Kuria, 2013). Taxpayers that have positive attitude on paying taxes are likely to be tax compliant while those with negative attitudes are likely to evade paying taxes. Many studies on evasion of tax have significant outcomes; however, a weak link exists between self-reported evasion of tax and attitudes (Trivedi *et al.*, 2004). Weigel *et al.* (1987) points out that models focusing on psychological and social conditions facilitate in developing a tax evasion behavior, including moral beliefs and attitudes regarding tax evasion's propriety as antecedents of tax compliance. Based on data obtained from honest

taxpayers and tax evaders that are fined, show that self-reported tax evasion can be explained using attitudes; however, such outcomes are relatively weak. Instead, a complex relationship exists between attitudes and evasion. Nonetheless, it cannot be generally argued that in case tax attitudes become worse then tax evasion will be on the rise (Lewis, 2002). The attitudes are critical for both the trust and power dimension. On the one hand, trust in authorities is obtained through favourable attitude, which in turn improves voluntary compliance of tax.

Knowledge focusing on taxation, its benefits and the dangers of evading paying taxes are essential impediment to tax compliance in most countries (Thananga *et al.*, 2013). Palil (2010) points out that nations in both developed and developing countries have implemented taxpayer education through seminars, advertisement, schools programmes and social media (Thananga *et al.*, 2013). Moreover, to tax education, it is paramount for tax payers to be knowledgeable about tax requirements (Palil, 2010). This study holds that taxpayers knowledge on tax laws, tax rates, online filing of returns and payment of requisite taxes play a role in compliance to rental income tax.

Enforcement of tax audit rules is complicated by the many statutory records such as tax invoice, cash book and debit note, that have to be maintained. Payment of tax is done by illiterate taxpayers who do not follow the required procedures and more so enforcement of the Acts requires high caliber and honest staff for continuous audit and these may not be easy to find (Simiyu, 2003). Appropriate record keeping is very important in Tax

audit administration. This is because it serves as a source of reference in the future and also in case of a disagreement arising between the client and the tax collector.

Hyun (2005) in a study of tax compliance in Japan and Korea, derived the model of estimating tax compliance which implied that if tax audit is strongly implemented and the penalty is increased, the level of tax compliance is increased. The study highlights the importance of using tax audit to reduce tax evasion. Roberts (1998) suggests that to encourage compliance there is need to codify the practice of self-assessment so that it is entrenched into the existing laws. This in turn will help in developing an effective penalty provision system and in setting up progressive compliance improvement initiatives that will set in motion taxpayer awareness campaigns and sensitization programmes. Vazques (2005) notes that the manner in which rules of enforcement are determined also affects compliance. Morals and social norms have been given as some of the reasons that lead to higher compliance with the taxation rules. Simple personal ethics based on cultural norms or religion have an independent influence on compliance behavior that involves the fiscal exchange between the taxpayers and government. The threat of punishment and detection is clearly a factor and more enforcement results in increased compliance.

Apart from lowering tax rates, tax evasion can be discouraged in other ways (Clotfelter, 1983). Tax rate, according to Kirchler (2007) is a significant element in determining tax compliance behavior. However, tax compliance is not automatically boosted by a decrease in tax rates (Trivedi *et al.*, 2004; Kirchler, 2007). A raise in the tax rates will

tend to promote the evasion of tax (Ali *et al.*, 2001; Torgler, 2007). Beesoon *et al.*, 2016 concluded that tax rates affect compliance.

Hyun (2005) concluded that tax rate is a predictor of level of tax compliance. However, the evidence of tax rates effect on tax compliance shows mixed results with some studies demonstrating lack of significant association. For instance, Clotfelter's (1993) investigation on the relationship between marginal tax rates and tax evasion revealed non significance relationship.

1.1.4 Landlords in Ongata Rongai Town

Ongata Rongai Town is located in Kajiado County. It is located at the periphery of Nairobi city and attracts many settlers who are interested in the rural and urban characteristics of the area (Kinyati, 2013). In the 1999 Census report, the Township had a population of 35,000 (Government of Kenya, GOK, 1999) and is currently estimated to be 135,000 (Kinyati, 2013). There has been a huge influx of property developers seeking to tap into this real estate development opportunity especially as the town is strategically situated near the City of Nairobi (Kinyati, 2013).

Residential housing in Ongata Rongai town comprises of aided tenant purchase, mortgage houses, apartments and semi-urban houses (Waithira, 2016). Rent charged depends on a number of factors such as proximity to the tarmac road, security, availability of water and electricity and size of the house (Waithira, 2016). Rent is usually collected by the landlords or agents appointed by the owners. However, an assessment of the contribution made to the national revenue income by the landlords in

Ongata Rongai Town has not been conducted. As such, it is important to examine the factors affecting rental income tax compliance in Ongata Rongai Town.

1.2 Statement of the problem

Ksh 10 billion was collected from property owners by the Kenya Revenue Authority (KRA). The law that makes it mandatory for landlords to remit taxes on income and requires them to pay taxes on earnings was introduced by the Finance Act 2015 but was enforced in January 2016 (DNA, 2017). KRA has approximately 55, 000 landlords with a target collection of about Kshs. 5 billion per year (KRA, 2018).

In the recent past KRA has put in place several measures aimed at enhancing income tax compliance. These include expanding the tax base, implementing information systems such as iTax, reforming the laws that govern collection / administration of income tax, embracing Customer Relationship models in managing the tax affairs of taxpayers, use of the block management system and embracing Trustworthy, Ethical, Competent and Helpful (TECH) core values in revenue administration (KRA, 2018). However, an assessment of the impact of these measures on accelerating the compliance rate of rental income has not been carried out. Therefore there is need to determine the factors affecting rental income tax compliance. Numerous studies have been conducted on tax compliance globally. For instance,

Aroumwan, *et al.*, (2015) conducted a research in Nigeria that examined the factors behind personal income tax compliance. Based on the research, a significant relationship exists between personal income tax compliance and tax rate. The research also

demonstrated that the attitude and perception of taxpayers has a major effect on personal income tax compliance. Hargreaves (2008), on the other hand, conducted a research in New Zealand to evaluate how the taxing system influences the housing market in the country. From the research, it is clear that occupiers-owners fail to remit rental income tax. Dube (2014) also analyzed administration of tax in Zimbabwe's informal sector and demonstrated that high tax rates as well as the lack of awareness contribute to low revenue collection. However, none of the studies mentioned dwelt on residential rental income taxes.

Studies on tax compliance in Kenya include a study by Korir (2011) which analysed the factors that influence taxpayers' compliance behavior with the tax system and established that taxpayers perceptions and attitude have an influence on the taxpayer's compliance level; Kuria (2013) investigated the determinant of compliance among landlords on rental income in Kilifi County. The study established that compliance with rental income tax compliance levels is determined by the knowledge of tax system, enforcement measures and perception about KRA.

The study by Majiwa (2016) analyzed the determinants of tax compliance behavior in Nairobi County, with results showing the significance of enforcement measures in tax compliance. Waithira (2016) residential rental income tax compliance and its determinants among property owners in Thika town, with the findings indicating the tax knowledge and tax rate as key predictors. Most studies on rental income tax in Kenya are not based on the current rental income tax rate but earlier rates of 30%. The new

rates that became effective on 1st January 2016 was geared at encouraging more tax compliance. Therefore, the purpose of this study is to determine the factors that affect rental income tax compliance among landlords in Ongata Rongai Town of Kajiado County.

1.3 Objectives of the study

1.3.1 General objective

The main objective of this study was to determine the factors affecting rental income tax compliance among landlords in Ongata Rongai Town of Kajiado County.

1.3.2 Specific objectives

The study sought to:

- i. Establish whether tax rates have an effect on rental income tax compliance among landlords in Ongata Rongai Town of Kajiado County.
- ii. Ascertain the effect of taxpayers perceptions on the revenue authority on rental income tax compliance among landlords in Ongata Rongai Town of Kajiado County.
- iii. Determine the effect of penalties on rental income tax compliance among landlords in Ongata Rongai Town of Kajiado County.
- iv. Establish whether the level of awareness affects rental income tax compliance among landlords in Ongata Rongai Town of Kajiado County.

1.4 Research questions

This study sought to answer the following questions:

- i. What is the effect of tax rates on rental income tax compliance among landlords in Ongata Rongai Town of Kajiado County?
- ii. What is the effect of taxpayers' perceptions of the revenue authority on rental income tax compliance among landlords in Ongata Rongai Town of Kajiado County?
- iii. Do penalties affect rental income tax compliance among landlords in Ongata Rongai Town of Kajiado County?
- iv. How does the level of awareness on tax laws affect rental income tax compliance among landlords in Ongata Rongai Town of Kajiado County?

1.5 Significance of the Study

This research is significant to various stakeholders including the management of KRA. In particular, the study will be essential to the management because it can be used as reference point to assist in decision making concerning improving the rental income tax compliance by landlords. KRA Management will use the study to design strategies aimed at streamlining the rental income tax compliance.

The Government agencies and especially the Treasury will find this study useful as concerns the impact that tax rates have on rental income tax compliance. This will remind the Treasury of its role on proposing appropriate tax rates in the budgeting process. If the recommendation of this study is put to practice it will contribute to

improved tax administration process. The study findings will also contribute to enhancing knowledge on tax compliant process for different taxpayers.

1.6 Scope of the study

The study focused on the factors affecting rental income tax compliance by landlords in Ongata Rongai Town of Kajiado County. The study focused on the 635 landlords in Ongata Rongai. Activities in this town include financial services, retail stores, chemists, health facilities, Barbers, Hair care specialists, retail markets, Car dealers, Mechanic, Welders, cyber cafes and petrol stations. The target landlords in the study were those who receive rent from the tenants who had rented their facilities. The study covered the variables stated in the objective and was done in April and May 2019.

1.7 Limitations of the study

Despite assurance from the Researcher that data obtained was for Academic purposes and was confidential, some taxpayers did not respond. The budget allocated to the Research was not adequate to comprehensively cover the project. This was mitigated by the researcher sourcing for additional funds. The population of study was drawn from the Landlords living in Ongata Rongai Town of Kajiado County which may not be adequately representative. The experimental group may exercise bias in terms of skills and interaction with Kenya Revenue Authority. However, the sample population was conveniently selected to capture all population salient characteristics.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is a review of literature that focuses on taxation as well as tax compliance. The chapter begins by presenting the theories that underpin the research. The chapter also provides an empirical review of studies that focus on taxation as well as compliance on rental income. The chapter concludes by providing a summary of the literature review, which is used to develop a knowledge gap that will be filled by the research, is identified.

2.2 Theoretical Review

2.2.1 The theory of optimal taxation

According to the TOT, the social planner is treated as a utilitarian; that is, the theory depends on individuals utilities in the society. Generally, the literature on the model uses a nonlinear social welfare function of the utilities of the individual. Through nonlinearity, social planners are able to attain equal distribution of utility. Nonetheless, some research on this subject contends that the main interest of the social planner is average utility, which means the existence of a social welfare function that is linear in individual utilities (Mankiw *et al.*, 2009).

The TOT simplifies the challenge that the social planner encounters by making the assumption that each person in a society has a similar preference over things like leisure and consumption. The assumption on homogeneity can be extended by postulating that an economy is full of individuals that are identical. The goal of the social planner is to select the tax system that maximizes the welfare of the representative consumer, knowing

that the customer will respond to the incentives that are provided by the tax system. Nonetheless, deriving policies from theory that focuses on the representative consumer is likely to result challenging situations (Mankiw *et al.*, 2009).

Optimal tax theory (PTT) deals with issues like whether the government use commodity or income tax. Other questions include how tax rates ought to differ across commodities within commodity taxes. Equally, the theory deals with the question of the rate at which the tax system should be progressive. The main focus of the theories that involve equity is mainly vertical rather than horizontal equity (Gentry, 2003).

2.2.2 The classical taxation theory

The classical taxation theory (CTT) was the most critical taxation model for a long time. Consequently, the main role of taxation was providing revenues for the state. Adam Smith developed the scientific taxation model. Notably, Smith contends that determination, thrift of administration of taxation, convenience and equity are the main principles of taxation.

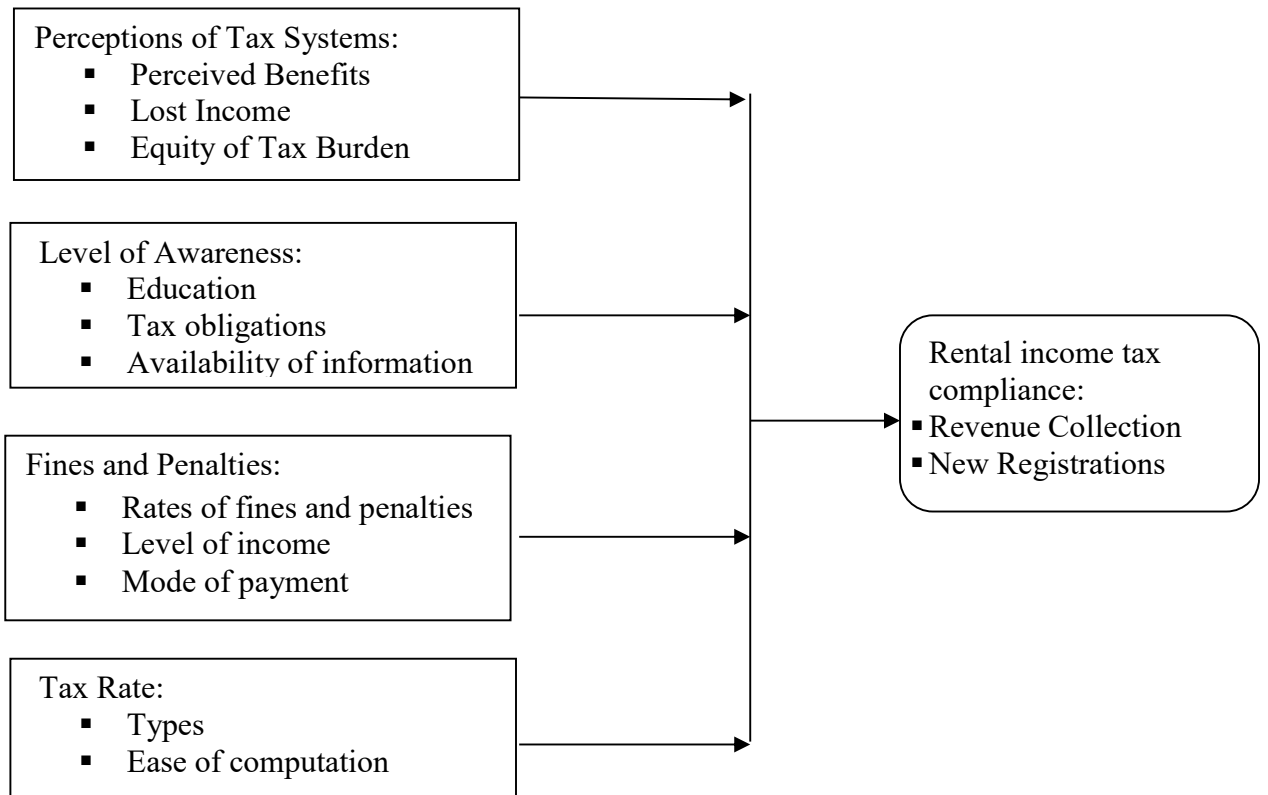
The classical taxation theories mainly focused on execution of the function of taxation, which involves revenue provision by the state that realized through the justice and equity principles. However, in due time, the application to the role and nature of taxation evolved, as economic relations appeared to become more complex as well as for the regulatory role of the state to be more stringent was intensified. Consequently, new taxation models emerged including two perspectives of economic thought: the neo-classical and the Keynesian, which had an integral effect on the taxation policies of nations that had a developed market economy (MBA Knowledge Base, 2017).

2.2.3 Keynesian Taxation Theory

John Keynes developed the Keynesian theory. Keynes points out that to initiate economic development it is necessary to have a market expansion and an associated rise in consumption. Consequently, the intervention of the state realized at the effective demand level. Notably, the model assumes that a link between economic growth and monetary savings only exists in situations that are characterized by full employment. On the converse, large savings limit economic development, particularly production. Consequently, taxation must be used to subtract the surplus savings. For this reason, income savings must be subtracted by the government through taxation, and thus cover expenditures of state as well as finance investment. The theory also contends that it is necessary to have high rates of progressive taxation and that the revenues of the state are likely to be reduced by low tax levels; thus causing instability in the economy. Notably, economic activities are stimulated by high taxes, which in turn influence an economy's stability and operate as integrated flexibility mechanism in the economic system context (MBA Knowledge Base, 2017).

2.3 Conceptual Framework

The dependent variable in the conceptual framework is rental income tax compliance while the independent variables are tax rates, perceptions of tax systems, level of awareness, fines and penalties.



Independent variables

Dependent variable

Figure 2.1 Conceptual Framework

2.3.1 Perceptions of Tax Systems

Perceptions of tax systems are expected to affect Rental income tax compliance in a negative or positive manner. For instance, if landlords perceive that they will benefit from paying taxes, rental income tax compliance will be higher. The converse is also true.

2.3.2 Level of Awareness

Kenya Revenue Authority conducts taxpayers education and training. It is expected that if the level of awareness is high, rental income tax compliance will be high. The converse is also true.

2.3.3 Fines and Penalties

KRA imposes various fines and penalties for late payment or nonpayment of taxes. The imposition of fines and penalties is expected to have a positive effect on rental income tax compliance.

2.3.4 Tax Rate

KRA has introduced various measures of ensuring that taxpayers compute and pay their taxes with ease. Various rates of rental income tax exist e.g. 10% monthly residential rental income tax and the annual income tax graduated scales. The study hypothesizes that ease of computing rental income tax will have a positive impact on rental income tax compliance.

2.4 Empirical review

Doran (2009) points out that through tax penalties the government sets expectation for its citizens. Such penalties enable the government to distinguish between taxpayers that are compliant and those that are not compliant. As a self-assessment system, tax compliance ensures that payers report their tax liabilities based on legal positions and through personal belief that they are correct.

To raise revenue for the government, it is necessary to have understanding of the attitude of income taxpayers' as well as their acquiescence with the tax system. Moreover, low or lack of tax compliance is often linked with inability to capture the regulations and laws on taxation or lack of awareness, financial constraints, tax payers perception and fairness, income understatement lack of government incentives and trust in collection and assessment procedures (Vadde and Gundarapu, 2012; Geremew, 2017).

Waithira (2016) points out that tax rate, knowledge, perception and attitude influences the compliance of rental income tax payers. According to Kiptoo (2017) poor record keeping, taxation systems that are complex, lack of awareness and informal activities by the players are some of the factors that contribute to low compliance.

It is necessary to devolve tax management to local levels to enable KRA to understand the difficulties encountered by property owners when developing their properties and others establish the incentives that are required to encourage compliance. Since landlords undertake a housing activity that is the primary role of the government, it is not necessary to tax them like other Kenyans (Kuria, 2013). According to most taxpayers, the government does not provide benefits that are equal to the remitted taxes.

With all factors held constant, countries with high tax awareness, easy tax consumption and modern taxation administration and systems that minimize the cost and time of compliance are likely to experience high compliance levels of rental income tax.

On the contrary, lower compliance is common in countries where the perception and awareness as well as attitude are negative and low. Some of the specific schemes that are adopted by countries to enhance tax compliance include embracing tax systems that are simplified, taxpayer education, modern tax systems and tax amnesties. Finally, penalties

and fines according to (Waithira, 2016) adversely affect compliance on residential rental income.

The Theory of Planned Behavior (TPB) that was developed by Ajzen's (1991) provides a comprehensive theory of the models behavioral intention and antecedents to behavior as dependent on three factors: perceived behavioral control, subjective norms and attitude toward the behavior. Each of the elements of behavioral intention are in themselves a function of the salient beliefs of the individual. The TPB has been validated by numerous studies in various contexts related to behavior including exercise, addressing addiction to alcohol, recycling, weight loss and the compliance of taxpayers (Bobek & Hatfield, 2003).

Most of the research that has been conducted on the compliance of taxpayers mainly concentrate on the factors that influence the behavior of taxpayers in relation to the tax system (Dube, 2014; Korir, 2011; Aroumwan, *et al.*, 2015). Overall, previous studies have demonstrated that the perception and attitudes of taxpayers influence the compliance levels of taxpayers.

The issue of compliance with rental income tax has been addressed by various studies that have been conducted in the past. For instance, Kuria (2013) conducted an investigation on factors that influence compliance of rental income tax in the county of Kilifi. Based on the research, compliance is affected by various factors including an understanding of tax laws and system, how taxpayers perceive KRA and the taxpayers' integrity. Waithira (2016), on the other hand showed in her study conducted among landlords in Thika that compliance is associated with tax knowledge.

Another study was conducted by Thananga *et al.* (2013) in Nakuru to examine the factors that affect compliance with the tax policy by property owners. Based on the study, the level of compliance was low. Notably, just 39.0% of property owners fully adhered to the all the provisions of the residential income tax system. Overstatement of expenses as well as making deductions that would reduce the taxable income and amount of tax were the popular forms of noncompliance. The purpose of this research is to determine the factors that affect the compliance of taxpayers to rental income tax. Accordingly, the research classifies the factors into level of awareness, tax rates penalties and fines and the perception of the tax system.

2.5 Critique of the Existing Literature

Doran (2009) points out that the level of compliance is determined by the standard of conduct that satisfy the obligation of the taxpayer to the government. Accordingly, compliant taxpayers are distinguished from the ones that are not complaint. Compliance to tax is a self-assessment where the taxpayer is required to report their tax liabilities based on the legal position that they in good faith and reasonably consider being correct. This statement is quiet true especially in the context of Kenya's real estate businesses among other businesses. However, the scholar did not indicate the significance of ensuring these landlords understand the importance of paying their taxes, the simplicity in the process and accessibility to the payment procedure. With these untackled limitations, the tax penalties continue to heap due to lack of compliance on the landlords who also view the property as not profit making and not as a normal business to pay taxes.

According to Waithira (2016) a taxpayer's rental income tax compliance is influenced by tax rate, tax knowledge, attitude and perception. Some of the factors linked to low compliance, according to Kiptoo (2017) include poor record keeping, taxation systems that are complex and informal activities by players and lack of awareness about the law. Nevertheless; these four aspects (tax rate, tax knowledge, attitude and perception) cannot be said to be the exhaustive in the context of Landlords compliance in Kenya. The literature did not only cover these but more factors such as ignorance, literacy level and personal decision to be corrupt which are greatly contributing to noncompliance.

Waithira (2016) focused on factors that determine compliance of residential rental income tax among landlords in Thika town and established positive correlation between tax rate, tax knowledge and compliance with residential rental income tax. In this study, she however did not analyze the relationship of her study with other areas such as Ongata Rongai which has different dynamics of Kenyans from Thika town. The sample population used in the study by Waithira (2016) was also not provided to compare the same with the sample size of the study in Ongata Rongai. These factors therefore might influence the outcome of the study and provide distinct results as found in Thika town and Ongata Rongai.

2.6 Summary of the Literature Review

The literature has documented several studies done in this area. Notable is the study by Vadde and Gundarapu in 2012 which described the effects tax evasion, income

taxpayers' attitudes have on income tax compliance in Mekelle City, Ethiopia. Other empirical surveys have examined the relationship between tax rates and compliance levels. Other studies focused on the effects of tax penalties on tax compliance. It is therefore clear from the review that there is lack of literature in various developing countries, including Kenya. This is the gap the present study sought to bridge by analyzing the factors affecting rental income tax compliance by landlords in Ongata Rongai Town of Kajiado County.

2.7 Research Gaps

The literature review covered four important areas. Nevertheless, there are much more factors that are critical concerning the four factors. Some of these will need to be researched by future scholars and determine how their impact affects rental income tax compliance in Kenya. It's not obvious that these factors were left out but some of them are not measureable. Example, Ignorance to tax payment and intentional noncompliance need to be investigated on how such can be captured as they have great impact on rental income tax compliance in Kenya.

The study used convenience sampling design which means it could produce some specified type of results depending on how such landlords relates or understands tax compliance. The fact that the target or sample respondents are in the KRA Data base, increase the chances that they could be tax compliant due to frequent KRA reminders, trainings and follow-ups. The study further did not capture landlords who were not on KRA data base in 2018 thus leaving room for very important respondents and possibly the most noncompliant landlords who have so far managed to avoid getting into the KRA Data.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The methodology adopted in this research is presented in this chapter. Accordingly, the chapter focuses on the research design, sampling methods, the study population, techniques of collecting data, sample size, and methods of analyzing data.

3.2 Research design

The descriptive research design was used in the research with a focus on qualitative characteristics of the rental income tax compliance at Ongata Rongai Town of Kajiado County. According to Herve (1988) the design describes the existing state of affairs. This methodology facilitates the collection of information about subjects as they exist in society or social system. The design is deemed suitable since data was collected to answer questions concerning the current state of rental income tax compliance at Ongata Rongai.

3.3 Target Population

Babbie, 2005 describes population as a set of items, objects or persons with same characteristics where a sample can be extracted with an aim of drawing inference.

The population of this study was all the landlords in Ongata Rongai Town of Kajiado County. There are 635 landlords in Ongata Rongai (KRA Real Estate Database, 2018). Commercial activities in Ongata Rongai include financial services, retail stores, chemists,

health facilities, Barbers, Hair care specialists, retail markets, Car dealers, Mechanic, Welders, cyber cafes and petrol stations. The target landlords in the study were those who receive rent from the tenants who had rented their facilities.

3.4 Sampling Frame

The source of the respondents is Kenya Revenue Authority Real Estate Data base for Ongata Rongai in the year 2018. These included; Commercial building landlords and Residential building landlords. Land owners without commercial or residential development and any other landlord not registered with KRA Real Estate data base was not considered as part of the sampling frame work.

3.5 Sample and Sampling Technique

Convenience sampling method was employed to select a sample of 100 landlords. This sample size of 100 respondents is 16% per cent of the population.

3.6 Research Instruments

Structured questionnaires were used to collect data. A questionnaire refers to a series of questions that are written over a given topic. Accordingly, the research relied on both open and close-ended questionnaires. The instrument was appropriate for the research because the target population was expected to either be literate or have literate representatives. Equally, it was less expensive and required less time and it was flexible for respondents with busy schedules.

3.7 Data Collection Procedure

McMillan and Schumacher, (1993) point out that it is wise to inform responsible authorities before starting the process of data collection. The authorities that were consulted before embarking on the research include obtaining a transmittal letter from JKUAT, seeking permission from the National Committee of Science, Technology and innovation, a letter of transmittal was also obtained from JKUAT and obtaining a subsequent one from Kajiado County Authority. Upon visiting each location of implementation and organizations, the identification of participants was conducted, an introduction on the purpose of the research was conducted and informed consent was sought from respondents. Moreover, the researcher clarified all the instructions to the respondents on how they should use the questionnaires and made an agreement to pick the questionnaires after two days. After picking the questionnaires on the third day after delivery, the investigator confirmed whether they were completed accurately. Any clarification or question was responded to on issues that were vague. After confirming that response adhered to the instructions, the researcher thanked the respondents.

3.8 Pilot Testing

Piloting refers to mini or preliminary research that is conducted to determine whether a research instrument is effective. According to Mugenda and Mugenda (2003), between 1% and 10% of the research population must be included in a preset test. The study picked 10% of the conveniently selected population to form the basis for the pilot but not from the 100 selected landlords. Respondents during the pilot testing were picked from the Ongata Rongai landlords.

3.8.1. Validity of the Instruments

Mugenda and Mugenda (2013) describe reliability as the level to which outcomes obtained from a data analysis represent the phenomenon under investigation. The Content Valid Index (CVI) was used to examine data validity. This was attained by distributing a copy of the questionnaire to field experts as well as the supervisor, who in turn rated the relevant questions/items in relation to the objectives of the research. In turn, the relevant items were subdivided into ten items, and validity tested as shown below: $CVI = \frac{\text{Relevant Items}}{\text{Total Number of Items}}$. Fisher (2004) states for validity to exist, it is necessary for the CVI must be equal to or more than 0.7. The CVI for the study was calculated at more than or equal to 0.7, this was an indication that the instrument would capture what it was intended for.

3.8.2 Reliability of the Instruments

Reliability, as Kasomo (2006) points out is the consistency of a research instrument or procedure. Accordingly, consistency is the level to which the research instruments produce data or outcomes that are consistent after repeated trials. Reliability was examined through the re-test method. In particular, the same questionnaire was administered twice to ten participants and their responses were collected independently. Subsequently, the association between the two set of scores was determined by using the appropriate formula to determine the correlation coefficient. The Spearman's Brown Prophecy formula was applied appropriately.

3.9 Data Analysis Techniques

The process of analyzing data is defined as the systematic searching, organizing, arrangement and disintegration of data into manageable units. It also involves synthesizing of information, identifying patterns, discovering what is essential, and what is supposed to be learnt. Data analysis was done through the statistical package for the social sciences (SPSS). The mean and standard deviations for each attribute was calculated and interpreted. Further, ANOVA regression analysis was used to establish the influence of each of the factors on rental income tax compliance.

The following model was therefore used:

$$RITC = \alpha + \beta_1P + \beta_2AW + \beta_3FP + \beta_4TR + \mu$$

Where α , β and μ are constants. α is the intercept, β_1 , β_2 , β_3 and β_4 are coefficients of each of the independent variables while μ is the error term.

RITC is the rental income tax compliance. This was measured using the compliance rates at the end of each financial year. This formed the dependent variable in the study.

P refers to perceptions of the tax system. It was measured by the mean score on responses relating to the questions on perceptions. It is the first independent variable.

AW refers to the level of awareness. It was measured using the mean score on responses relating to the questions on the level of awareness. It is the second independent variable in the study.

FP refers to Fines and Penalties. It was measured using the mean score on responses relating to the questions on Fines and Penalties. It is the third independent variable.

TR refers to tax rates. It was measured using the mean score on responses relating to tax rate. It is the fourth independent variable in the study.

The SPSS software was used in carrying out multiple regression analysis and the results obtained was interpreted. The results were shown in tables and charts.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the study findings from analysis carried out on data collected from landlord taxpayers in Ongata Rongai town in Kenya. Study findings are presented according to the main objectives of the study. Other section of the findings are the descriptive statistics and regression analysis results.

4.2 Response Rate

The study targeted Ongata Rongai Town of Kajiado County and all land lords in the town. The study used purposive sampling design and targeted all 635 landlords in Ongata Rongai. From the targeted 635 respondents, the researcher purposively worked with 100 landlords selected using convenience sampling design. Out of the 100 sampled respondents 97 responded while 3 were not available. This representation was 97%. This was deemed adequate to be relied as enough response rates because according to Mugenda and Mugenda (2010) a 60% response rate should be accepted as good. Determining the response rate from this assertion, the study managed to get a response rate of 97%, which is very good. This was considered adequate for analysis.

4.3 General Information

The study sought to get general information about the respondents to authenticate their level of knowledge about the topic under study, the years of experience in the real estate,

their age, their interaction with KRA officials and the education level. This helped to gauge the appropriateness of respondents in answering the research questions.

4.3.1 Respondents Education Level Distribution

The objective sought to determine respondent's education level among the landlords who were the respondents in the study. The findings are shown on Figure 4.1.

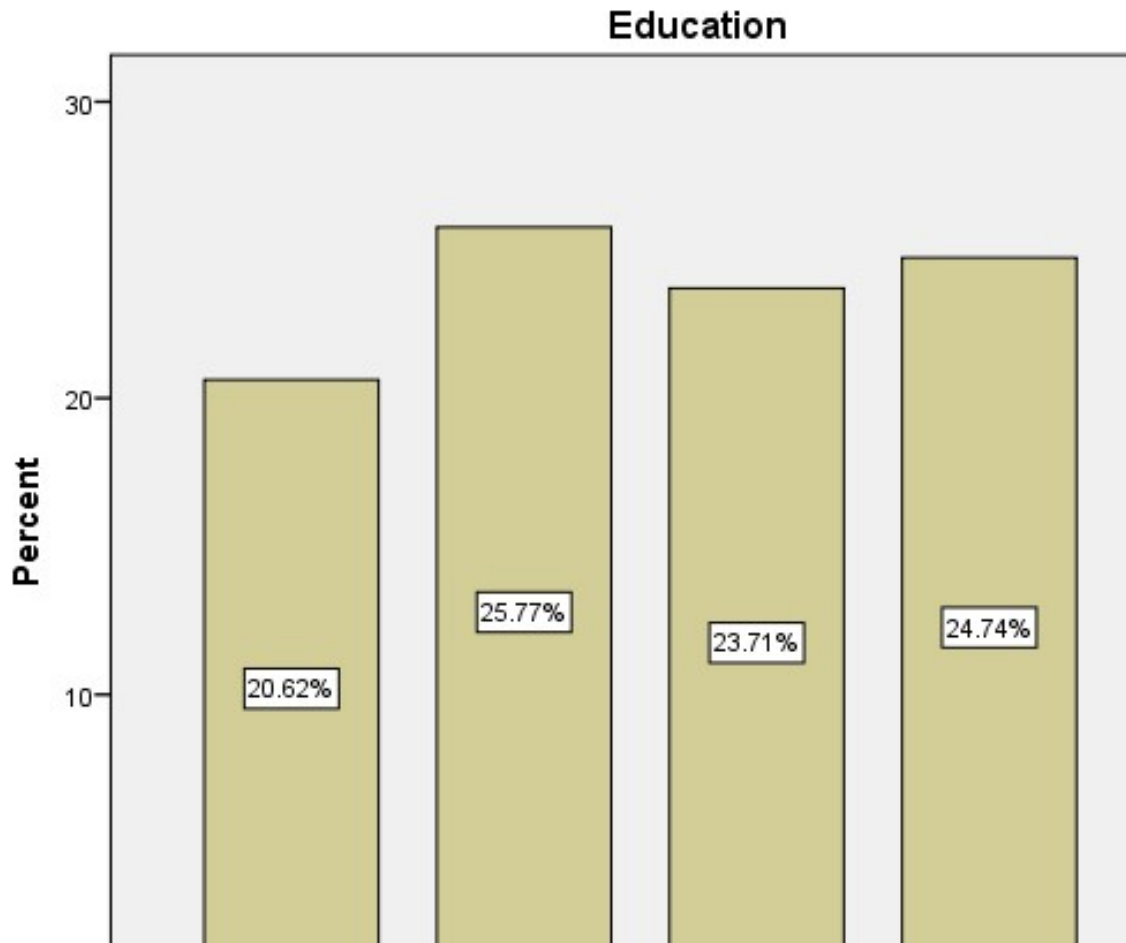


Figure 4.1 Respondents Education level

The study sought to determine the highest professional qualification to help identify the respondent's level of education which would imply their potential ability to understand the questions and respond appropriately. The study found that 20.6% of the respondents

had secondary school level of education, College level is 25.7%, and University Undergraduate degree level had 23.7% while postgraduate Degree holders were 24.7%. The study further found that those with other forms of education levels were 5%. The study found that most respondents had college level of education. The study can therefore confirm from the most landlords in Ongata Rongai town in Kajiado County has got adequate level of education to understand the questionnaires and respond appropriately.

4.3.2 Years in Real Estate

The study sought to analyze years that each respondent have been in the real estate industry. The findings are shown on Figure 4.2.

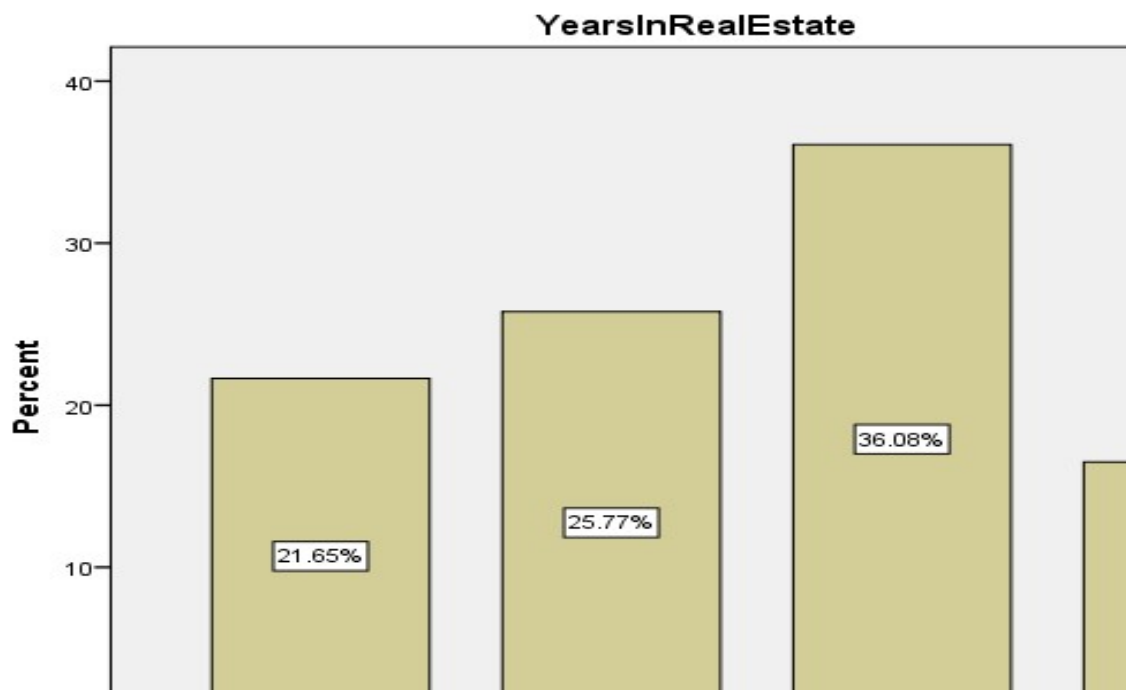


Figure 4.2 Years in Real Estate

The study sought to understand the experience the respondent have in the real estate industry. This was better captured by checking on years they have been landlords. The

study found that 21.6% of the respondents had below 2 years as landlords, 25.7% had between 2-4 years in the real estate industry, while 36% had 5-8 years in the industry. The study further found that 16% had worked for 8 years in the real estate sector. Finally the study found that majority represented by 36% had worked for between 5-8 years in the real estate sector. This implies that most of the landlords in the Ongata Rongai town are persons who have invested in the area in the last 10 years or less.

The study further confirms that with the landlords having been in the location for between 5-8 years and others having been there for more than 8 years, they must have proper knowledge about the sector, the KRA regulations about the rental income tax and the importance of paying for the rental income tax or other mandatory taxes as landlords. With the high number of other landlords being people who have been in the sector for less than 2 years, it mean there is high importance by KRA to launch landlord training on how to pay rental income tax and other taxes that are supposed to ensure there is no failures or noncompliance due to lack of information or any other reason.

This imply that a good number of landlords are tax defaulters in regards to rental income tax owed to the Kenya Revenue Authority (KRA). With the less experienced landlords, managing property comes with its fair share of legal responsibilities, so a landlord needs to be conversant with the current laws governing his relations with the tenants.

4.3.3 Respondents Gender Distribution

The study sought to determine gender disparity of the landlord respondents in Ongata Rongai Town of Kajiado County. The findings are shown on figure 4.3.

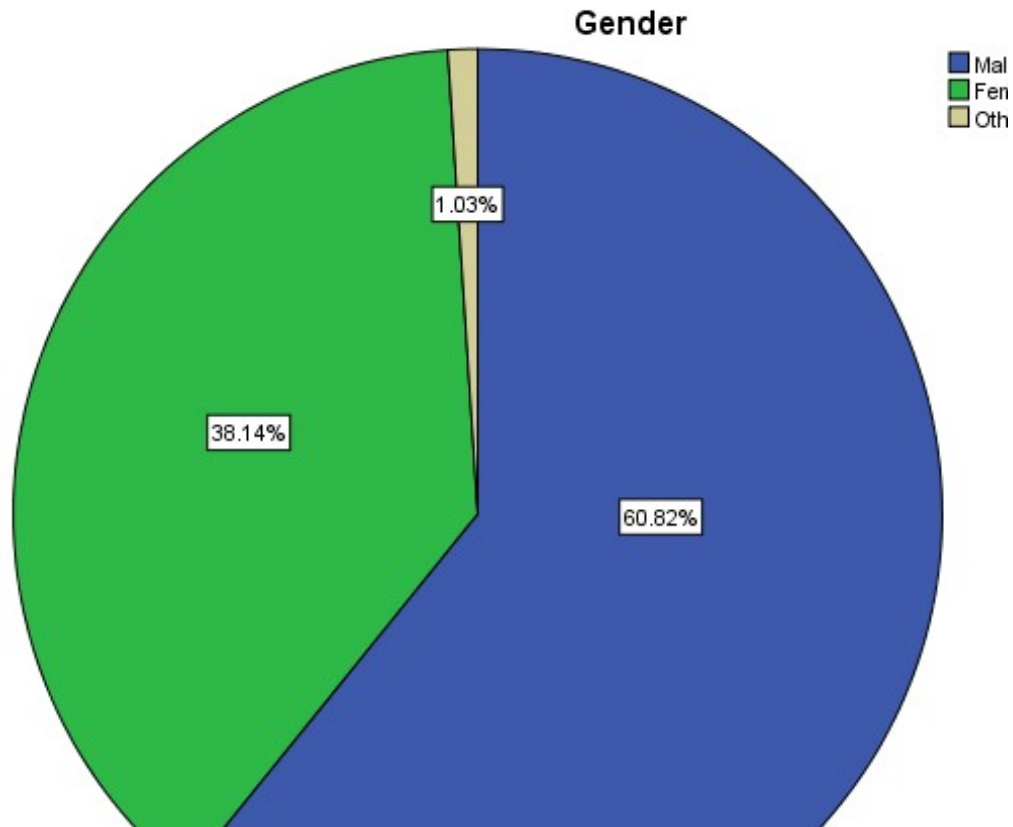


Figure 4.3 Respondents Gender Distribution

The study also sought to understand the gender of the landlords in Ongata Rongai town in Kajiado Country. The analysis found that majority of the landlords were male which is represented by 60.8% while female landlords form the minority which was represented by 38%. The study further found that there is a very small fraction of 1% that could have defined their gender in a different way than that of male or female.

This disparity is mainly high on male landlords as traditionally most fixed assets have been owned by men especially in Kajiado where the predominant community is Maasai.

The percentage of women landlords is mainly from the women who have either been widowed or women from other regions who have bought pieces of land in the region, build and become landlords. It is important for KRA to grasp this data and ensure more strategies are put in place to avoid noncompliance with taxes especially for those who have built the house and not living in the area.

4.3.4 Respondents Age Distribution

The study sought to analyze age distribution among the landlord respondents in Ongata Rongai Town of Kajiado County. The findings are shown on figure 4.4.

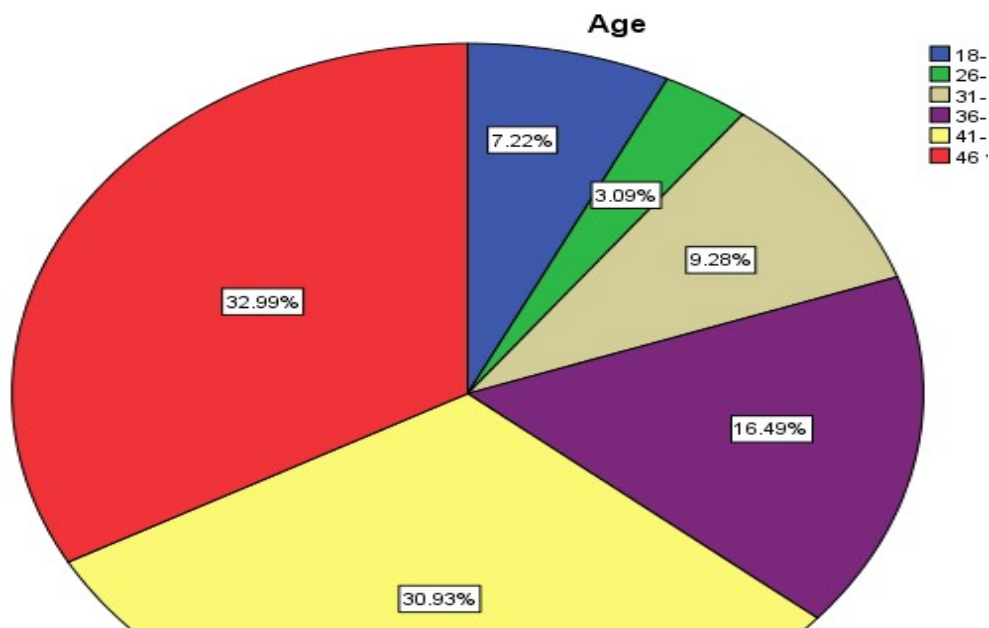


Figure 4.4 Distribution of Age of Landlords

The study from figure 4.4 above indicates that majority of the persons who are landlords in Ongata Rongai are aged above 46 years. The study found that those aged between 41-45 years are 30.9% while those aged between 36-40 years are 16.5%. The minority ages

of landlords in Ongata Rongai are those aged between 31-35 years at 9%, 18-25 years at 7% and 26-30 years at 3%. The study found that the older people within the ages of 45 and above are the majority landlords in Kajiado County indicating they either invested much earlier when land was not expensive then built house or could be they are more economically stable thus making it easier to raise capital enough to build their own houses for rent.

4.3.5 Respondents Rental Income Tax Initiative

The study sought to analyze rental income tax initiative among the respondents in Ongata Rongai Town of Kajiado County. The findings are shown on Table 4.1.

Table 4.1 Rental Income Tax Initiative

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Monthly rental income tax	39	40.2	40.2	40.2
	Annual rental income tax	58	59.8	59.8	100.0
	Total	97	100.0	100.0	

The analysis found that, most of the respondents know about the annual rental income tax as presented by 59.8% while 40.2% were more conversant about the monthly rental income tax. A study by Kinyati (2017) found out that there is awareness on the both monthly and annual residential income tax. Further to this, the new rental income tax guidelines effected at 10% on gross rent as from 1st January 2016 has led to increased awareness among landlords on tax obligations. These changes necessitated increased

awareness to reduce non compliance among landlord, including those in Ongata Rongai the chances of noncompliance are very high.

4.3.6 Interaction between Landlords and KRA officials

The study sought to analyze interaction opportunity between Landlords and KRA officials. The findings are shown on Table 4.2.

Table 4.2 Whether Respondents interact with Kenya Revenue Authority officials

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	33	34.0	34.0	34.0
No	64	66.0	66.0	100.0
Total	97	100.0	100.0	

The study sought to understand the interaction of KRA officers with landlords and how such interactions have helped landlords to become better compliant in making their returns to the KRA. From the analysis it was found from the 34% of the respondents, that yes, landlords have interacted with KRA officials before, while 66% indicated that they have not been able to interact with KRA officials on matters relating to paying rental income tax as landlords. This indicated that more need to be done by the KRA officials in reaching out to more landlords and ensuring they are able to understand the importance of paying the income tax as landlords and actually becoming compliant. A study by (Gerald, 2018) found that KRA has now required landlords and property owners with annual rental incomes surpassing Ksh. 10 million to account for the rental tax charged at 10 percent of gross revenues. The big-time proprietors have until now been exempt of the

tax but have been incorporated into the levy as KRA comes under increasing pressure to meet its revenue collection targets set by Treasury.

A survey by Daily nation on 2019 January 12th KRA is expected to collect Ksh. 1.7 trillion by June 30th 2019 to increase revenue as a share of GDP to 17 percent as the government targets to bridge its debt funded budget deficit under ongoing fiscal consolidation.

4.3.7 Respondent's Views on Utilization of Tax Revenue

The study sought to analyze the opinion of landlords of Ongata Rongai on whether government is utilizing tax revenue well. The findings are shown on figure 4.5.

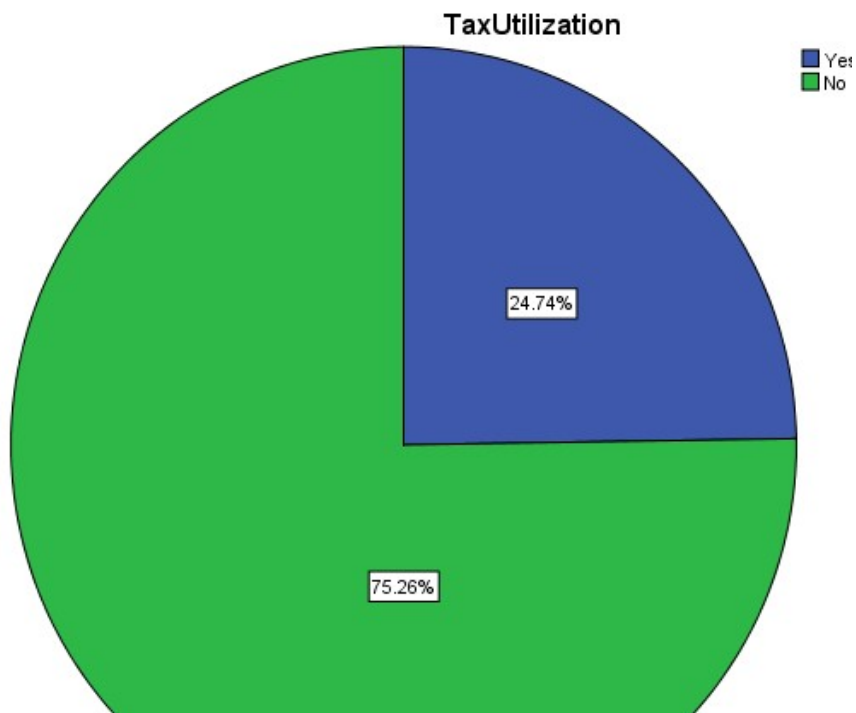


Figure 4.5 Views on Utilization of Tax Revenue

The study sought opinion of the landlords about what they think of the government usage of the taxes they pay. The analyses found that 24.7% of the respondents believed

government is using the taxes well, while 75 % believed the government does not use the taxes well. These findings support the results of KNHCR (2015) that showed that majority of the citizens believe that tax revenue are not properly utilized.

4.4 Section B: Rental Income Tax Compliance

4.4.1 Responses on Rental Income Tax Compliance

The findings are shown on Table 4.3.

Table 4.3 Rental Income Tax Compliance

	Strongly Disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly Agree 5	Mean	std dev
	Percentages						
Landlords should be taxed like other Kenyans.	72%	22%	3%	3%	0%	1.28	0.51
There us equity in rental Income tax	64%	22%	11%	0%	3%	1.56	1.00
Rental income tax should be abolished.	6%	21%	10%	33%	30%	3.42	1.91
Rental income is meagre to warrant taxation	50%	31%	19%	0%	0%	1.69	0.79
Landlords contributes to the realization of government goal of affordable housing for all	0%	0%	0%	0%	100%	-2.81	1.28
Rental business should be tax free to allow for more investment in real estate.	1%	8%	8%	33%	50%	1.75	0.94

The study found that 72% of the respondents strongly disagreed with the statement that Landlords should be taxed like other Kenyans while 64% strongly disagreed that rental

Income tax rate is equitable. The study however had 33% of the respondents agreeing that rental income tax should be scrapped. But on the flip side, 50% of the respondent strongly disagreed that rental income is meagre for government to claim a portion of it, while 100% strongly agreed that Landlords are central to the government goal of housing its citizens thus should not be taxed. The study finally agreed strongly that Rental business should be considered as an investment allowance to encourage more investment in real estate industry. This is as shown by 50% of the respondents and 33% of those who agreed. This agreed with the an American scholar Gerald (2017) that argued for the need of tax breaks for landlords to encourage more investment in housing schemes. This point is emphasized by Thananga (2013) who stressed that Kenya should adopt the American system where the U.S. Department of Housing and Urban Development (HUD) gives tax breaks and incentives to spur the development of affordable and safe houses in the country.

4.5 Section C: Factors affecting Rental Income Tax Compliance

4.5.1 Factors affecting Rental Income Tax Compliance

Table 4.4 Taxpayers' Perception of KRA

	Strongly Disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly Agree 5	Mean	std dev
	Percentages						
KRA carries out more awareness among Landlords on importance of paying taxes.	40%	15%	10%	10%	25%	1.28	0.51
Dealing with KRA tax officers is easy when tax disputes arise.	25%	10%	20%	20%	25%	1.56	1.00
Landlords are not obligated to pay rental income taxes since the government does not help landlords to lay infrastructure leading to their houses.	5%	0%	15%	10%	70%	4.42	1.91
As a landlord I don't think it's in order for me to pay taxes as they favour the rich	4%	10%	10%	10%	66%	1.63	1.29
Landlords should not pay taxes because big tax papers don't pay taxes like the small taxpayers like Landlords	10%	6%	64%	10%	10%	1.81	1.22

The analysis of the study found that 40% of the respondents strongly disagreed that KRA carries out more awareness among Landlords on importance of paying taxes, 25% strongly agreed and strongly disagreed that dealing with KRA tax officers is easy when tax disputes arise. A further 70% of the respondents strongly agreed the landlords are not obligated to pay rental income taxes since the government does not help landlords to lay

infrastructure leading to their houses. 66% strongly agreed that as a landlord they don't think it's in order for them to pay taxes as they favour the rich. Finally 64% of the respondents were neutral on the question, landlords should not pay taxes because big tax payers don't pay taxes like the small taxpayers. This analysis agrees with the study by Wanyoike (2017) which holds that the factors that influence taxpayer's compliance can be broadly categorized into awareness, beliefs and economic biasness in taxation process.

4.5.2 Factors affecting Level of Awareness

Table 4.5 Level of Awareness

	Strongly Disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly Agree 5	Mean	std dev
	Percentages						
KRA should conduct adequate training to all Kenyans on rental income tax.	0%	0%	15%	30%	55%	3.28	0.51
I am aware of tax burden for rental income.	50%	20%	10%	10%	10%	3.56	3.00
I understand that property can be auctioned if one doesn't pay taxes.	30%	33%	10%	21%	6%	3.42	3.91
The tax laws are not supportive to the citizens	8%	10%	12%	26%	44%	3.69	3.79
I have participated on rental income tax seminar	50%	20%	10%	10%	10%	1.81	2.28

The study further sought to understand the level of awareness about rental income tax compliance in Kenya, from the analysis 55% of the respondents strongly agreed that there is need for KRA to conduct adequate training on rental income tax. However, 50% of the respondent strongly disagreed that they know that rental income tax is taxable, however

33% indicated that they disagreed any understanding that property can be auctioned if one doesn't pay taxes. From the analysis 44% of the respondents strongly agreed that tax laws are not supportive of the common citizens while 50% of the respondents strongly disagreed that they have attended awareness seminars on rental income. The study agreed with a research by Nugroho and Zulaikha (2012) that revealed that low level of awareness is attributed to lack of knowledge and understanding of tax regulations.

4.5.3 Factors Affecting fines and penalties

Table 4.6 Fines and Penalties

	Strongly Disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly Agree 5	Mean	Std dev
	Percentages						
There are penalties for tax noncompliance.	0%	0%	20%	25%	55%	1.28	0.91
One can buy themselves out of tax fines and penalties.	33%	11%	11%	30%	15%	2.56	4.00
There are many Kenyans who own bigger properties than mine and not tax compliant	0%	20%	10%	20%	50%	1.42	0.91
Landlords construct roads leading to their premises yet they are not compensated by the government so why pay taxes.	20%	5%	15%	17%	43%	1.69	0.79
We don't get equal returns on payment of taxes so why pay?.	10%	20%	10%	10%	50%	3.56	3.00

According to the study, 55% of the respondents strongly agreed that there are penalties for tax noncompliance, 33% of the respondents strongly disagreed that One can buy themselves out of tax fines and penalties, 50% strongly agreed that there are many Kenyans who own bigger houses than theirs yet they don't pay taxes and also 43% indicated that Landlords construct roads leading to their premises yet they are not compensated by the government so why pay taxes. The study further found from 50% that most landlords wondered that they don't get equal returns on payment of taxes so why pay?. The analysis agreed with the results by Badara (2012) that Audits, punitive measures and tax investigation are the most important measures in improving tax investigation.

4.5.4 Factors Affecting Tax Rates

Table 4.7 Tax Rates

	Strongly Disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly Agree 5	Mean	Std Dev
	Percentages						
Rental income tax computation of tax is easy to understand.	33%	22%	13%	20%	12%	1.28	0.51
The current residential rental tax rate is fair to us.	26%	28%	34%	6%	6%	2.56	1.10
The 10% tax rate put low tax burden on landlords	7%	10%	21%	32%	30%	1.42	0.91
The current 10% rate has influenced compliance among landlords.	5%	5%	10%	30%	50%	1.09	1.79
Landlords are willing to pay tax due to the well-structured tax rate.	20%	20%	10%	30%	20%	0.21	0.28

The analysis of the study sought to analyse the factors affecting tax rates. The study found that 33% of the respondents strongly disagreed that the rental income tax computation is easy to understand while 34% were neutral that 10% current residential tax rate is fair to landlords. From the analysis 32% indicated that the current 10% tax rate lower tax burden. However, 50% felt that the 10% rate has influenced the willingness of landlords to be tax compliant while 30% agreed that Landlords are willing to pay tax due to the well-structured tax rate. The analysis resonates with the findings by Gebrie (2016) that revealed that increase in tax revenue collection is enhanced by willingness of tax payers to pay, with willingness being a factor of tax rate and tax burden.

4.6 Regression

Regression analysis was used to analyze the factors affecting rental income at Ongata Rongai. The findings were as shown on Table 4.8.

Table 4.8 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.883 ^a	.780	.777	.59257	.780	304.152	3	258	.000

a. Predictors: (Constant), Taxpayers' perception of KRA, level of awareness, fines and penalties, tax rates

From the Table 4.8 the significance of F (.000) is below .05 thus showing that the model is fit for use in testing factors influencing rental income. An R squared of 78% demonstrate that 78% of the changes in compliance by landlords towards rental income

tax can be explained by the model factors, with the 22% of changes in rental income attributed to factors that are not in the study. Further the results showed a model coefficient of correlation (R) of 0.780 and this shows a strong positive association between the factors and rental income in the study.

4.7 Coefficients

The analysis from the coefficients table 4.9 indicated that the variables had varied coefficients. The constant had a perfect correlation coefficient of +3.283 which implies a perfect relationship with the predictor variables. From the results in table 4.9 below, the tax payers perception of KRA had a significant and negative association with compliance among landlords. This implies that a unit rise in negative perception results to low compliance levels by 0.583. The results also showed that level of awareness has positive and significant influence on compliance levels among Landlord tax payers. This indicates that a rise in awareness among taxpayers only results to increase in compliance levels by 0.098 units.

Further the results revealed that fines and penalties have a significant and positive effect on the compliance levels among Landlords. A unit increase of fines and penalties results to an increase in compliance levels among landlords by 0.504. Finally, the results also showed that tax rates also increases compliance levels significantly and positively, with a unit increase in compliance for rental income by 0.499 units.

4.8 Coefficients^a

Table 4.9 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.283	.215		15.297	.000		
	Taxpayers' perception of KRA,	-.583	.041	-.519	-14.387	.000	.657	1.522
	Level Of Awareness,	.098	.031	.094	3.131	.002	.953	1.049
	Fines And Penalties,	.504	.038	.471	13.127	.000	.665	1.504
	Tax Rates	.499	.039	.391	12.128	.000	.756	1.435

a. Dependent Variable: rental income tax compliance in Kenya

4.8 Discussion of Results

From the results, it was established that taxpayer's perception of KRA has a negative and significant relationship with compliance levels of Landlords. These results confirm the findings of Lumumba (2010) who demonstrated that negative attitudes of taxpayers results to lower level of tax compliance. According to Abdul & Adafula (2013), low tax compliance levels among tax payers arise out of the belief that the system is unfair and is

not working for the general citizens. Similar views were shared in the current study thus affirming the negative attitude of Landlords in Rongai.

Results from the study indicated that an increase in tax awareness results to increased level of compliance among taxpayers. These results support the findings by Mukhlis, Utomo & Soesetio (2015) and Musau (2015) that revealed tax payers knowledge enhance level of compliance among tax payers. However, these findings contradict the findings by Oladipupo & Obazee (2016). This according to Maseko (2014) is because enhancing tax knowledge without addressing belief on unfair tax practices and corruption is only likely to lead to negative effects on compliance.

Study results indicated that tax fines and penalties have a positive effect on level of tax compliance. These results are similar to the findings by Devos (2013) and Gitaru (2017) tax enforcement measures leads to increase in compliance level. This according to Maseko (2014) is for the reason that tax fine and penalties have a net effect on avoidance rates among taxpayers.

Finally, the findings revealed that tax rates is associated with high rates of tax compliance among taxpayers. Pommerehne & Weck-Hannemann (1996) confirmed that increase in tax rates does results to compliance levels only upto a level after which it decreases. Thus, it affirms that increase in tax rates is still within the optimum level that leads to increase in compliance level. This finding contradict the results by Mas'ud et al, (2014) and Robin (2018) that proved that tax rates are associated with reduction in compliance levels among tax payers.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The summary section provides highlights of the study findings based on the study objectives. The section on conclusion gives important implication based on the study findings with a section on recommendation based on conclusion of the study findings. This section gives important implication for KRA. The final section of this chapter focuses on areas of further study.

5.2 Summary of the Findings

5.2.1 Taxpayers' Perception and Compliance Levels of KRA

The study sought to analyze the taxpayers perception on KRA. The study results revealed that majority of the Landlords believed that the Kenyan tax system is unfair and discriminatory. Further the results also indicated that increases in negative attitude by Landlords about KRA tax system reduces the level of compliance among rental income tax payers. This highlights the importance of tax payer psychology on tax compliance and the importance of establishing positive attitude amongst tax payers.

5.2.2 Level of Awareness and Tax Compliance

The study found that the KRA has done great strides in enhancing the awareness of the tax compliance in the Kajiado County. Further, the findings showed the respondents believed that to considerable level they are knowledgeable about existing tax systems. In addition, the results showed that level of increases in level of awareness improves tax compliance among Landlords. This implies that increase in level of awareness has the potential to improve tax compliance.

5.2.3 Fines and Penalties

Fines and penalties are some of the measures that the KRA uses to ensure all noncompliance are punished. The analysis found that most of the respondents are knowledgeable about existing fines and penalties. Fines and penalties were believed to be unfair by majority of respondents. Results showed that fines and penalties was linked with increase in tax compliance among the Landlords. This demonstrates that fines and penalties results to improved tax compliance among landowners in Rongai Town.

5.2.4 Tax rates and Rental Income Tax Compliance among Landlords

The study findings revealed that majority of the respondents believed that there has been an attempt to revise the tax system, more so the tax rates and the tax processing system. The findings also showed that tax rates was found to have positive and significant effect on tax compliance. This suggests that progressive tax rates can reduce tax avoidance and enhance tax compliance.

5.3 Conclusions

5.3.1 Rental Income Tax Compliance

The study concluded that there is need for more strategies and technologies to address the issues of rental income tax compliance. It was concluded that an e-business solution that must comply with multiple countries' tax requirements has to address the problem of ongoing change in the areas that KRA has identified as strategic areas of tax collection. Businesses and their service providers need to acknowledge that tax compliance change is a systemic issue, and therefore maintenance needs to be addressed systematically.

5.3.2 Taxpayers' Perception of KRA

The study concluded that the trust in government is related to landlord's perception of tax and tax compliance. The study concluded that the findings obtained as a result of the analysis reveal that there is a positive and statistically significant relationship of the trust in government on tax compliance through tax justice perception (mediation), there is a positive and statistically significant relationship of the trust in government on the tax compliance, and there is a positive and statistically significant relationship of the trust in government on the perception of tax justice.

5.3.3 Level of Awareness

The study findings revealed that knowledge & awareness in tax is associated with the ability to understand the laws and regulations of tax, and the ability to adhere to them. It concluded that organizations whose staff are well-trained employees on matters tax had a high chance of voluntarily complying with tax laws and regulations.

The study also led to a conclusion that tax knowledge and awareness had a positive and significant relationship with tax compliance. The study concluded that the Revenue Authorities should embark on public awareness campaigns to educate the public and investors on their role and responsibilities in taxation rather than approaching the matter from a legal obligation perspective. This will create a sense of responsibility in compliance rather than fear for non-compliance.

5.3.4 Fines and Penalties

The study concluded that fines and penalties is an effective way of improving deterrence among Landlord taxpayers. KRA should enhance public knowledge on fines and penalties as they have a potential of increasing tax compliance. Taxation should be a subject of study in schools. The study demonstrates the importance of heavy sanctions as a way of improving tax compliance.

5.3.5 Tax Rates

The tax system in a country is a major determinant of tax compliance. Given a choice, taxpayers will not allow 30% of their earnings to be paid to the government as tax. Thus lower tax systems is more likely to improve tax compliance as opposed to higher tax rates. Hence the study concludes on the need to lower tax rates.

5.4 Recommendations

The study recommends that the Revenue Authorities should embark on reforming the tax system as a way of promoting fairness perception from the public.

The study suggests the needs for the tax authorities to lay emphasis on promoting awareness of tax fines and penalties as a way of promoting compliance among Landlords in Kenya.

The study recommends that Progressivity tax system geared to tax exemptions should be introduced to improve transparency in tax obligation and process.

It is recommended that the Government should put in place tax legislation to support revenue collection from the sector. For quite some time, investors in rental, commercial and residential premises were required to remit taxes and file corresponding tax returns annually.

5.5 Areas for Further Research

The study did not exhaust the all factors affecting rental income tax compliance in Kenya in Ongata Rongai Town of Kajiado County. Thus there is need for studies that explore the non-included factors in the study such as whether lowering percentage of taxes levied on SMEs can increase tax compliance. Other areas of research should be on whether tax breaks, reductions, exemptions, credits and subsidies enhance rental income tax compliance in Kenya. There is need for qualitative studies that will provide more insights on the factors affecting compliance among Landlords.

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APPENDICES

Appendix 1: Research questionnaire

Part I: Introduction letter

Dear Respondent,

I am Post Graduate Diploma student at the Jomo Kenyatta University of Agriculture and Technology. To help fulfill the requirement of the study I am undertaken a study and so I am requesting for your participation in the study by filling the attached questionnaire below.

Any information shared will be kept confidential.

I look forward to your co-operation.

Yours faithfully,

PART II: QUESTIONNAIRE

Questionnaire Number.....

Date.....

Section A: Respondents' demographics

1. What town do you reside in?

.....

2. Highest education level attained

Secondary ()

College ()

University graduate ()

Post graduate ()

Other specify _____

3. How long have you been in the real estate sector?

Less than 2 years ()

2 to 4 years ()

5-8 years ()

Over 8 years ()

4. What is your gender?

Male ()

Female ()

Other Specify _____

5. What is your age?

18-25 years ()

26-30 years ()

31-35 years ()

36-40 years ()

41-45 years ()

46 years or above ()

6. What rental income tax initiative are you on?

Monthly rental income tax ()

Annual rental income tax ()

7. Have you had an opportunity to interact with Kenya Revenue Authority officials?

Yes () No ()

8. Do you think the government is utilizing tax revenue well?

Yes () No ()

Section B: Rental Income Tax Compliance

The following statements relate to compliance with rental income tax in Kenya. Please tick as it applies.

No.	Statement	Strongly Agree	Agree	Neither	Disagree	Strongly Disagree
		5	4	3	2	1
1.	Landlords should be taxed like other Kenyans.					
2.	There is equity in rental Income tax					
3.	Tax on rental income should be suspended.					
4.	Rental income is meagre to warrant taxation					
5.	Landlords are playing the role of government by providing housing and hence should not be taxed.					
6.	Rental business should be tax free to allow for more investment in real estate.					

Section C: Factors affecting Rental Income Tax Compliance

The following statements relate to the factors affecting rental income tax compliance in Kenya. Please insert a tick as it applies.

TAXPAYERS' PERCEPTION OF KRA

No.	Statement	Strongly	Agree	Neither	Disagree	Strongly
		Agree				Disagree
		5	4	3	2	1
1.	KRA carries out more awareness among Landlords on importance of paying taxes.					
2.	Landlords on importance of paying taxes					
3.	Dealing with KRA tax officers is easy when tax disputes arise.					
4.	As a landlord I don't think it's in order for me to pay taxes as they favour the rich					
5.	Landlords should not pay taxes because big tax papers don't pay taxes like the small taxpayers like Landlords					

LEVEL OF AWARENESS

No.	Statement	Strongly Agree	Agree	Neither	Disagree	Strongly Disagree
		5	4	3	2	1
1.	KRA should conduct adequate training to all Kenyans on rental income tax.					
2.	I am aware of tax burden for rental income.					
3.	I understand that property can be auctioned if one doesn't pay taxes.					
4.	The tax laws are not supportive to the citizens					
5.	I have participated on rental income tax seminar					

FINES AND PENALTIES

No.	Statement	Strongly Agree	Agree	Neither	Disagree	Strongly Disagree
		5	4	3	2	1
1.	There are penalties for tax non compliance.					
2.	One can buy themselves out of tax fines and penalties.					
3.	There are many Kenyans who own bigger houses than mine yet they don't pay taxes.					
4.	Landlords construct roads leading to their premises yet they are not compensated by the government so why pay taxes.					
5.	We don't get equal returns on payment of taxes so why pay?.					

TAX RATES

No.	Statement	Strongly Agree	Agree	Neither	Disagree	Strongly Disagree
		5	4	3	2	1
1.	The computation of tax on gross rental proceeds is easy to apply.					
2.	The current residential rental tax rate is fair to us.					
3.	The 10% tax rate put low tax burden on landlords					
4.	The current 10% rate has influenced compliance among landlords.					
5.	Landlords are willing to pay tax due to the well structured tax rate.					

9. Do you have any suggestion that can improve rental income tax compliance?

.....

Thank you for participating