

**FACTORS AFFECTING TAX COMPLIANCE AMONG REAL ESTATE OWNERS IN
KENYA, BUSIA TOWNSHIP, BUSIA COUNTY**

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DECLARATION

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

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Admission Number: HDB336-C016-0433/2018

This project has been submitted for defense with my approval as the Supervisor

Signed

Date

Dr. Marion Nekesa

DEDICATION

I dedicate this work to my mum.

ACKNOWLEDGEMENT

I deeply thank my supervisor, Dr. Marion Nekesa for constantly guiding me, encouraging and giving useful critiques during my research period.

I also recognize tremendous support from my mum, dad and friends. I wouldn't accomplish this without you.

ABSTRACT

Taxes have a very vital part in the Budget of every country's bargain and one the key motives as to why Governments impose taxes is to create revenue distribute and manage resources. However, its hard task to persuade all taxpayers to pay taxes. The Government of Kenya has been having a continuously increasing Budget in the recent years in terms of Government expenditure. This is an indicator that the Government has to partake well-organized tax structure in order to fund this budget. The real estate sector being among the fastest emergent sectors is set to contribute a lot to the total revenue collected. This study explicitly seeks to investigate the influence of compliance cost, tax knowledge and education, and fines and penalties on tax compliance among real estate owners in Kenya. The study was directed by economic deterrence theory, Fischer theory and theory of planned behaviour. This study seeks to reach out to a sample size of 178 respondents. A structured questionnaire was the chief instrument of data collection. The data will then be analysed quantitatively by means of descriptive and inferential statistics. The real estate owners will understand and appreciate the significance of voluntary tax compliance hence be able to reduce of non-compliance costs that could have otherwise arise. This study will also improve the Government to enable tax system more competent and increase compliance.

The study implemented a descriptive research design in which a sample size of 178 respondents who were picked through random sampling. Primary data was gathered from respondents by way of a questionnaire. The data was analysed and presented in tables, pie charts as well as histograms. Regression was also piloted to form the relationship amid tax compliance among real estate owners in Kenya. The findings indicate there was significant positive relationship among the components of tax knowledge and education and tax fine and penalties with tax compliance among real estate owners in Kenya. The study commends that tax compliance need to incorporate all the KRA department into the system to enable them to advance tax compliance among real estate owners in Kenya.

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CHAPTER ONE

INTRODUCTION

1.0. Introduction

This section comprises of background of the study whereby focus under discussion is presented, the statement of the problem specified, the objectives of the study drawn, scope and significance of the study clarified.

1.1. Background of the Study

Tax compliance means producing and submitting information and making tax disbursements to tax authorities in the required formats and in a timely manner. The subject of tax compliance is such as ancient as taxes themselves. As per, (Andreoni J, 1998) the subject of tax compliance may be looked in several viewpoints: may be look at as public finance concern, law execution, administrative strategy, labour supply ethics or a blend of everything of these.

1.1.1. Global Perspective

Concerns on tax compliance in various sectors has been a task for succeeding governments in developing countries including a number of taxes imposed on real estate property transactions. Some of the common taxes applicable to real property transactions take account of the income tax of a company, capital gains; value added tax and stamp duty (Nwosu, 2004).

Notwithstanding the numerous tax reforms taken on by Government of Nigeria to upsurge tax returns over the years, preceding numerical proof designated that the impact of revenue tax to the total revenue stayed constantly low and was rather decreasing, (Alabede, Zainol and Kamil, 2011).

Hovering more local income is of significance to most Sub-Saharan African nations, therefore, evolving countries give comparatively higher levels of tax compliance (35%); African countries estimate less than 23%. (GIZ), 2010 proposed that non-existence of proper tax plan; low compliance and deprived tax administration are alluded to high points of avoidance and evasion reported in evolving countries.

Governments are making efforts more than ever to generate greater tax revenue domestically. In this regard, most countries are increasingly reaching out to engage and inform today's taxpayers as well as the future ones. The main objective is to foster an overall culture of tax compliance that is based on rights and responsibilities, where citizens of a country view tax paying as an integral part of their relationship with the Government. (Fieldstad&Heggstand, 2012).

The issue on tax non-compliance remains a space of alarm in nearly all tax establishments as well as Governments at large, and it stands as a vital concern that ought to be centred on. Notwithstanding place and time, the fundamental question confronted by all tax establishments is the fact that it is difficult to coax all taxpayers to conform to principles of a tax structure. Besides this, main stream of in people in employment who in countless nations are remunerated salaries by means of taxes being withheld upfront, real estate sector financiers frequently are required to self-assess as well as account for revenue and remit taxes themselves. Real estate investors have to not only remit revenue tax but must account of several other business taxes for example property taxes, corporate tax among other forms of taxes, also, sales taxes such as VAT should be collected; personal income taxes should be withheld in the event of partaking at least one worker (Christensen et al., 2001).

As per Clapp (1990), the most vital solitary basis of local revenue, property tax, is disapprovingly reliant on the tax assessor's judgement value of property. Then again, solemn technical glitches are connected to giving existing valuations of price for every tract within real property in any taxing jurisdiction. However, it is reasoned that representations of impartiality in tax assessment should emphasis on market behaviour which gives rise to unobservable market assessment.

According to Oladipupo and Obazee (2016), there is inadequate capability of emerging countries to raise incomes for growth. Countless aspects distress the low tax compliance in these republics, and the real estate area is not an exception. Such factors as approaches, penalty, revenue, education, information, sex plus age of taxpayers, dishonesty, elevated fringe tax rates, limited information

and accounting structures, huge informal sector, feeble controlling systems, vagueness of tax law, actuality of non-enthusiast philosophy, then ineptitude of tax management are important to consider.

1.1.2. Kenyan Perspective

Taxes play a significant part in the financial plan of nearly all country's economy, one of the key motives why the governments impose taxes is to create revenue to redistribute resources and succeed the economy. In excess of time, the Government of Kenya has commenced numerous income administration transformations intended to improving collection of revenue. (Masinde and Makau, 2010).

Among measures implemented so as to upsurge income assemblage in Kenya was through self-assessment systems (SAS) introduction in 1992. The purpose of the scheme existed for intensification of voluntary compliance, lessen tax establishment' encumbrance of evaluating tax yields and enhancing tax collection proficiency (Masinde and Makau, 2010). Nonetheless, notwithstanding managerial improvements being undertaken, tax compliance has continued to be low. A research directed by KIPPRA, KRA and also the Treasury, grounded on 1999/2000 statistics publicised VAT sum compliance stood at as small as 55% whereas income lodgement compliance stood at 65% (Masinde and Makau, 2010). This has however improved over the years. Tax non-compliance is a major world-wide marvel that surpasses political and cultural restrictions and happens in most if not all economic schemes. Countless revisions have been steered to clarify the behaviour of tax compliance in a further genuine state. The attention on contributing factors of tax compliance, correspondingly on financial as well as non-financial issues (Nicoleta, 2011).

The real estate sector is fairly broad when it comes to revenue, topography as well as forms. The sector accommodates for all persons comprising high, middle and low income persons. The real estate property kinds includes mainly land and buildings mainly found urban as well as rural

areas. The real estate sector's contribution to the GDP has grown from 12.6% in 2012 to 13.6% in 2016. The sector has seen a boom since mid to late 2000s, with Nairobi, the capitals rebirth attracting global attention attributed by the largest number of expatriate communities in the continent other multinationals who have chosen the country as their African hub. The city was ranked among the wildest growing real estate market worldwide, outdoing cities like Miami and Monaco (Knight, 2012.)

An enormous plea for housing, which up to date stands unmet fixed the basics for a vast prospect in this sector. The low presentation of the immaterial property market segment in previous years, prior to this thriving era was the motive behind nobody ever bothering to come up with an information data bank, policies and legislations to protect better and clear dealings. A steady taxation structure and property directories is what is crucial to make available required evidence to anyone who wished to get intricated in the market.

In the present day, markets have progressed and there are numerous accessible indexes, figures, universal players, and fresh regulations in regards to the sector. The major difficulty is that masses of people who get entangled in this market don't recognize or don't wish to utilize all these gears to comprehend the market undercurrents and safeguard their securities. Contrary to this, mainstream investors have a preference of following the chit-chats and illogical expectations, which may not be supported by this market or expounded with proofs.

1.2. Statement of the Problem

In most third world nations, rental taxation has been categorized as taxation that is a little problematic to notice due to large numbers of citizens tangled (OECD, 2012). Tax compliance therefore has stayed a very important focus to researchers in various nations in the world. According to Berhane&Yesuf, (2013), the system of rental taxation, just like other systems has been threatened by countless tests both on the taxpayer's side as well as tax administrator's side.

In Kenya, taxation has been, over the years, stands as the foremost basis of revenue to Government. . In this regard, Kenya Revenue Authority (KRA) is authorized to evaluate and enlighten all taxes owing to the administration (KRA Act cap 469). Low level of tax compliance, being an interior aspect distressing tax income not merely undercuts tax management organisation but moreover narrows tax base renders it unfair. When the compliance level is low, then government revenue collection automatically falls below target.

In the financial year 2016/2017, the Kenya Revenue Authority failed to hit its goal by 50 billion and had collected 1.365 Trillion. This was a 13.8% increase but was attributable to growth in consumption taxes. According to KRA report for the 2016/2017 financial year, the real estate owners owed KRA 50 billion in back taxes, penalties and interest payments.

Since 2016, tax from real estates has been on the downside prompting KRA to double its enforcement efforts. As per Alegana, (2014), even though in the past years income collection by Kenya Revenue Authority has improved, revenue collected has stood not adequate to fund proposals in the country's budget, in turn causing to budget discrepancies. Additionally, there has been an upsurge in Government spending which obligates Government towards tasking every sector to be able to fund for public good and services as well as development. Therefore there is a necessity to evaluate tax compliance, assess dynamics instigating non-compliance and also realise prospects of the tax paying community using an opinion to convey plans intended at improving tax assemblage in this sector. It is with this context that this research has been taken on so as to endorse procedures to be set by KRA and government to boost collection of tax in this prosperous sector.

1.3. General Research Objectives

To identify factors influencing tax compliance among real estate owners in Kenya

1.3.1. Other objectives

1. To determine effect of compliance cost on compliance among real estate owners in Kenya.
2. To assess the effect of tax knowledge and education on tax compliance among real estate owners in Kenya.
3. To examine the effect of fines and penalties on tax compliance among real estate owners in Kenya.

1.4. Research Questions

1. What are the effects of compliance cost on compliance among real estate owners in Kenya?
2. What are the effects of tax knowledge and education on compliance among real estate owners in Kenya?
3. What is the impact of fines and penalties on tax compliance among real estate owners in Kenya?

1.5. Significance of the Study

The outcome of this study made clear to the general public on importance of tax compliance especially on the real property transactions

1.5.1. Government of Kenya

This project will clarify to Government of Kenya and policy creators on compliance level on taxes by parties to real property dealings in the country with an aim of discovering long-lasting answer to matters of non-compliance within our tax system.

1.5.2. Kenya Revenue Authority

The research anticipates to have great importance towards the administration of Kenya Revenue Authority for purpose of decision making that involves tax compliance of real estate owners; to check on compliance of landlords, to formulate policies, to widen the tax base in this sector and also set targets.

1.5.3. Tax Practitioners

Tax Practitioners help taxpayers to comprehend and infer complex tax law plus aid in applying the regulation to their tax revenues. This research therefore will be of help to these experts because it will help them comprehend several tests confronted by taxpayers in regard to voluntary compliance and assist in advising their clients thereafter.

1.5.4. Future Researchers

This study also aided as a source base for other researchers and scholars engrossed in carrying out advance investigation in this field subsequently, to carry out research that might arise in future.

1.6. Scope of the Study

This investigation pursued to inaugurate dynamics impelling tax obedience in Kenya. It specifically sought to inaugurate the factors impelling tax compliance by the real estate owners in Kenya; who are located in Busia Town. To define the upshot of compliance cost on compliance, the special effects of tax knowledge and education on compliance by real estate owners, and the influence of fines and penalties on compliance. The target population for this study was 320 real estate owners of Busia Town and a sample size of 178 respondents. The study was done from January 2020 to March 2020.

1.7. Limitation of the Study

Uncooperative Respondents

It was predicted that some respondents would not provide data with the thought of their identity being revealed and would work on their disadvantage. To resolve this restraint the researcher explained to them the significance of the study to the business thus resounding them to contribute.

Confidentiality being very subtle problem in the workplace, it was expected to be implemented. However, the researcher guaranteed respondents that data provided was used for no other tenacity other than research.

Top organisation had a propensity to be doubtful of researcher, it was foreseen that some respondents were worried concerning extent of information. However, this apprehensions were addressed straight using letter from KESRA and the necessary reassurance to the respondents.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This part gives the theoretical framework, perception of tax compliance and tax compliance models, the factors Affecting tax compliance over and above the conceptual framework.

2.2. Theoretical framework.

Theories addressing matter relating to tax compliance stand not fully developed, however, there are a number of models advanced to discuss the concern.

2.2.1. Fischer Tax Compliance Theory

This tax compliance theory provides an arrangement seeking to apprehend the impression of socio-economic as well as psychological workings on tax payers' compliance conclusion. A partial improvement has been done to this theory by integrating another vital environmental aspect: Beliefs and the interface outcome amid tax arrangement on tax compliance and non-compliance opportunity.

Conferring to this notion, behaviours of persons inside the civilization are beneath the impact of certain dynamics which definitely instigate from definite reasons and materialise in an intended way. The capacity to execute a certain behaviour is dependent on the surety that a person has a drive in the course of that conduct better referred to as behavioural intention. Behavioural intention in line is determined by three features which are: The Insolence to the behaviour, Particular norms and lastly behavioural control that is perceived. These three main issues are also caused by behavioural beliefs, control beliefs as well as normative beliefs.

Attention of this theory thus is continuously the ethics plus integrity of taxpayers. Further, this theory proposes that although the likelihood of exposure is stumpy, a taxpayer can still comply.

Unlike the economic theories which emphasise on increase in penalties plus audits by way of

answers to issues of compliance, this theory stresses on changing people's attitudes towards tax arrangements.

Tax evasion being a global spectacle witnessed across all civilizations and financial structures in both established as well as developing nations, is a subject of discussion. Consequently, centred on the importance of the matter, compliance of tax antecedents founded on Fisher model (Fischer et al., 1992) stays as imperative theme of investigation in established states in preceding few years. Basically this model delivers an outline designed to comprehend the impact of socio-economic as well as psychological antecedents on the decisions of taxpayers concerning tax compliance. This is by creating salient factors that determine the rate of compliance and showing all that all if not some of them working together generates non-compliance (Fischer et al.,1992).

According to Jackson and Milliron (1986), wide ranging assessment of tax compliance collected works that have been consequently studied by other several researchers was conducted in regard to tax compliance, and fourteen key determinants were classified. These determinants were classified concisely by Fischer in an expanded form into four distinguished groups which have been eventually known as the Fischer Model: The primary determinant is demographic angle that comprises of education, gender and age among others. Secondly. Is the aspect of non-compliance opportunity which categorized into taxpayers occupation, income level and taxpayers source of income. Third aspect is the perceptions and attitudes, for instance, even-handedness of systems of tax, peer influence and feelings towards payment of tax. Lastly, is tax organisation or system which is characterized by complication of structures of tax, penalties, tax rates, likelihood of exposure as well as attendant costs. In addition, this model also integrates economic, psychological and sociological determinants into a wide ranging one.

According to KRA (2010), real estate owners in Kenya and particularly in Nairobi have exponentially grown over the past few years. Both small scale and large high end apartments for

sale or rent and major estates have exploded the market yet this have not been reflected accordingly in the tax revenue. The rental segment is particularly disreputably tough to tax compliance in most developing countries. This is attributed by informal nature of the construction process, rental payment being fundamentally done in cash and limited number of registrations. The aspects of amnesty, simplified tax systems, trainings and change of perception fall within the anchors of this model making it a basis for this study.

2.2.2. Economic Deterrence Theory

The representations on tax compliance remain founded on deterrence theory. This is a concept from criminology that had been established and advanced by Becker (1968). The theory attempts to explain that, when the magnitude of compelling a criminality overshadows the advantage of that crime, then a person shall be prevented as of obliging to that crime. It is on the notion that all persons stand conscious of the dissimilarity amid what is right as well as what is wrong and costs linked to criminal behaviours or doing wrong. Protagonists of the deterrence theory solely have confidence that persons decide to either submit to or infringe the law once they scheme the advantages and magnitudes of their arrangements.

According to Sutinen & Keperan (1999), an enhanced theoretic model of regulatory compliance was established. The form of experimental proof exhibits clearly that the unadulterated deterrence model of controlled compliance, that concentrates principally on inevitability plus strictness of authorizations as crucial causes of compliance makes available a limited enlightenment on compliance behaviour. To provide for an additional comprehensive enlightenment, the prototype advanced thus integrating economic theory together with sociology psychology theories so as to justify for tangible as well as intangible incentives impelling choices of individuals, if to meet the terms of a particular set of guidelines. In detail, this theory explains social influence and moral responsibility in addition to the predictable revenues and costs that are allied to unlawful

behaviour. This concept advanced here is further appropriate to a diverse institutional state of affairs. The subsequent structure aids the plan and execution of a further well-organized compliance and controlling plans than it was before.

Economic Deterrence ideal, being unique among economic grounded replicas were reputable by Allingham and Sandmo (1972) who lengthened projected utility prototype of activities associated with crime. This theory slots in the theory of a frugally coherent taxpayer who will dodge taxes provided that the pay-off consequently from dodging is more probable than charge of getting trapped. Allingham and Sandmo (1972) suggested an influential economic deterrence prototype built on estimated utility purpose of the taxpayers who avoid paying what's due.

In addition, this theory combines several other features. At the outset, the taxpayer takes an approximate risk aversion level such that the further risk opposed the taxpayer stands, the less he or she stands likely to dodge taxes. Also, the taxpayer is required to partake information on the subject of the organization of taxation with the intention of evaluating the likelihood of being discovered, and the magnitude of the punishments that could be suffered upon revelation.

According to Slemrod (2007), no administration can proclaim a tax system and at that time count on solely on taxpayers' sagacity of obligation to pay taxes payable. Some compliant persons will certainly remit what they are obliged, however, countless others may not. The positions of the compliant ones will shrivel since they realise just how they are being used by others over time. Therefore, disbursing of taxes needs be made a lawful obligation for people, charging penalties on non-compliance. But then again with these such penalties, extensive tax evasion still occurs. Tax evasion remains prevalent, has always been, and perhaps always will be present.

Under self-assessment model, taxpayer affirms on sum of levies to interpret to taxing administration. While creating this judgement, the payer hunts on capitalizing probable utility that is well-stated by the totality of the utility worth to each result prejudiced by the possibility that the

certain consequence takes place. This model further demonstrates that high prospects of audit deters underreporting and that advanced charges of relative tax result to lower levels of stated proceeds.

The inclusive inference of this theory states compliance principally relies upon penalties charged in addition to tax assessment. The repercussion of the theory indicates taxpayers resolve to pay taxes just for the reason that they fear of penalties involved.

2.2.2. Theory of Planned Behaviour

This theory maintains that perception of behavioural intent such that a person's aim of performing a particular behaviour is the top forecaster of whether the person will in fact perform the behaviour or not. TPB is foretells deliberate behaviour for the reason that behaviour may be planned and deliberative. In addition, Theory of planned behaviour is a significant hence presents inside the range of social psychology and attempts to expound on human conducts.

TPB is a replacement of the Theory of Reasoned Action by Ajzen and Fishbein (1975, 1980). The chain was a consequence of findings that actions seemed not to stand 100% intentional and restricted, which in turn gave rise in accumulation of apparent behavioural regulator. With this count, the philosophy was therefore termed the Theory of Planned Behaviour. Conferring to TPB, human deeds is engaged as a result of three types of concerns. They include: behavioural views which involves beliefs around the probable concerns of the actions, normative views that involves beliefs around the normative expectations by others. Lastly control principles which involves beliefs on presents of issues that might enable or hinder the presentation of behaviour.

As per Ajzen (1991), theory of Planned Behaviour was set up to be sustained by empirical proof; Intentions to execute behaviours of diverse styles can be projected with elevated precision from approaches in the direction of the behaviour, independent norms as well as supposed behavioural switch, these intents, accompanied by insights on behavioural control substantial alteration

in definite behaviour. Independent norms, attitudes and apparent behavioural control are made known to be interconnected to suitable groups of outstanding behavioural, normative, and regulated beliefs around the behaviour, nonetheless, the precise nature of these associations remains unclear. Expectancy-value interpretations stand to be simply partially successful in working on these associations.

Prime rescaling of probability and assessment methods is presented by way of dealing with capacity restrictions. Lastly, attachment of former behaviour in the forecast calculation is revealed to deliver a way of challenging sufficiency of the theory, one more subject that stands unsettled. The partial presented suggestion regarding this interrogation demonstrates that the theory is envisaging behaviour fairly fine in comparison in comparison to the upper limit enforced by behavioural dependability.

Behavioural beliefs provide for positive or adverse influence concerning conduct, normative beliefs results in alleged societal compression while subjective custom and control beliefs bring about perceived behavioural control. A blend of these three results in the establishment of a behavioural goal; the favourable they are, the sturdier the person's aim to achieve the behaviour at hand should be. TPB further suggests that a person's intentions as well as their actions are supposed regulate the manners to define if they will really take part in the action or not. It stresses that individuals behaviours are directed by not only particular influences, but also societal burdens plus a logic of control. (Cooke and Sheeran, 2004).

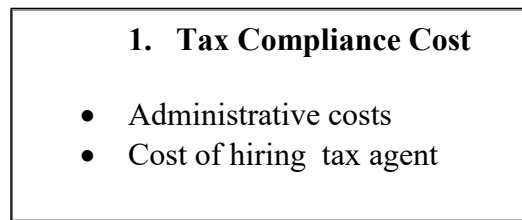
It has been perceived that empirical revisions done in the interior constraint of the Theory of Planned Behaviour typically inspect behaviours that persons account for and researches investigating the behaviours executed by individuals is somewhat rare. (Chang, 1998; Allen, 2004). This is based on the fact that seeing the individuals' behaviour is pretty expensive regarding money as well as time (Erten, 2002). The drive of this research is likewise to analyse behaviours

conveyed by the taxpayers as an alternative of spotting the behaviours of individuals in respect to tax compliance, hence the significance of this theory to the research.

2.3. Conceptual Framework

This research intellectualizes that tax compliance may perhaps be influenced by compliance cost, fines and penalties and tax knowledge and education. Independent variables are tax compliance cost, tax knowledge and education and tax fines and penalties. Tax compliance cost is characterized by all costs incurred in ensuring tax compliance including administrative and transport costs. The second variable is tax knowledge and education variable and it is characterized by educational level of the taxpayers and the number of tax educational programmes. Thirdly, is fines and penalties and it is characterized by amounts imposed as a result of non-compliance. The dependent variable under study is tax compliance among real estate owners where timely payments, timely filling and timely registration and correct income declaration will be the key measures for the study.

Independent variable



Dependent variable

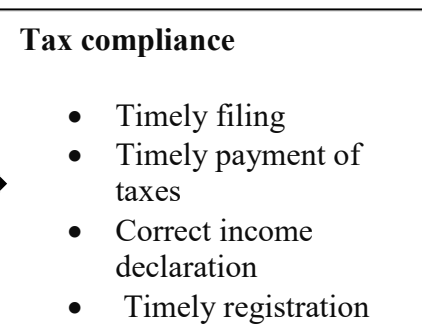
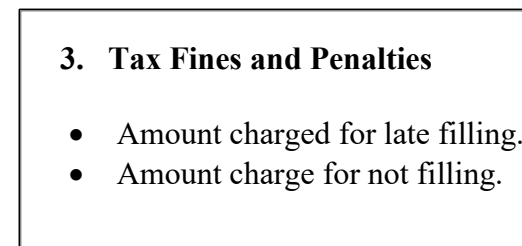
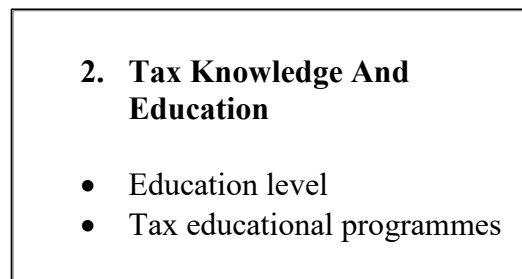


Figure 2.1. Conceptual framework

Researcher, 2020.

2.4. Empirical review

The precise denotation of tax compliance is well-defined in various means. Andreoni et al., (1998) well-stated tax compliance as will by taxpayers to adapt to tax rules so as to attain economy symmetry of a nation. Kirchler (2007) supposed a meeker description whereby tax compliance is said to be the utmost unprejudiced word to taxpayers' inclination to pay taxes in owe.

Tax non-compliance is termed as disappointment to conform to tax regulations or reporting inappropriate revenue, the action of calling for unseemly inappropriate deductions, rebates and relief or remitting wrong tax sum past the required time edge (Mohd *et al*, .2011).

Non-compliance also, is alleged to be failure of taxpayers to correctly state actual revenue, entitle deductions claims, rebates and remit real sum of tax payable to taxation power and proceeding time (Kirchler, 2007). Taxpayers differ when it comes to prospects presented to them in overstressing expenditures and understating returns. Higher tax non-compliance chance usually as a result of self-employment as well as revenue bases not imperilled on withholding taxes. Duties may stay categorized as binary core forms: Direct and indirect taxes. Direct levies indicates that the weight or tax incidence is abided exclusively by the person that pays for it, therefore will not be handed on to one more person; for instance, individual corporation as well as income tax.

Indirect tax indeed elevates the charge of the goods and customers buy by repaying additionally for products. Nothing like indirect taxes, direct taxes base on capacity to pay standard amount but they occasionally work as a deterrent to grind harder and produce more for the reason that it would result to disbursing more tax (Mansor *et al*, 2005). Persons don't prefer paying duties thus partake a number of arrangements to diminish tax responsibilities. Nearly all these engagements could be categorized as tax avoidance, constituting lawful lessening in tax legal responsibilities by activities

that take total advantage of tax codes, including splitting incomes and deferment of taxes for instance over involvement in Home Ownership Savings Plan.

The additional arrangement of activities is tax evasion whereby intentional and unlawful actions undertaken by persons to lessen their validly due tax duties. Firms and people may evade taxes as a result of under-reporting proceeds, wealth, or sales, by exaggerating deductions or through not filing proper tax yields. In all single authority, tax establishments are authorized to amass proceeds from the taxpayers. Even though there are a lot of taxpayers that properly report revenues and pay tax liabilities, a few other taxpayers do not.

Therefore, it is part of Governments responsibility to engage themselves so as to guarantee compliance by tax decrees. In Kenya, self-Assessment arrangement remained familiarized 1992 such that the doctrine of this scheme was voluntary compliance. On two sorts, tax compliance is alienated as: Administrative Compliance which discusses compliance with the managerial guidelines of timely payment of taxes. This comprises of amenability to the commentary requirements, technique and guidelines. The other one is technical compliance which talks about compliance in the calculation of taxes payable as per the practical provision necessities of the tax laws and correct tax amount to be paid.

Spans of empirical studies on compliance of tax have created consciousness regarding intricacy of tax compliance and non-compliance worldwide. Observing compliance necessitates founding and upholding current explanations of taxpayers and administrate information systems that covers equally final taxpayers as well as third party go-betweens for example banks involved in the tax system and suitable and swift measures to identify and make follow ups regarding non-filers, nil filers as well as overdue payments.

According to Masinde and Makau (2010), preventing non-compliance necessitates creating equally a realistic risk of exposure along with relating penalties successfully. The perfect tactic is to organise these procedures in order to exploit their outcome on compliance in place where it stood, to change a republic from a squat to a high compliance setting. A concern with recognising prices and profits aimed at raising a threat profile by tax assemblage interventions has shown that limited thought partakes focus in the direction of dealing with non-compliance after it has befallen.

Grounded on the existing literature, overriding environmental aspects presently modelling the enactment of revenue administrators in emerging states are vast casual sectors, globalization and restricted managerial capability. Tax plan and organizational restructurings largely have single or numerous of subsequent points: Enhancing fairness of the tax system, crafting an allowing surrounding for growth of private sector, amassing revenue pool.

On execution, the test to synchronise policy reforms using corresponding reforms in tax running has seldom been copiously addressed up till now, the bill of fare of managerial restructuring opportunities have greatly been augmented with different tactics to structural strategy, taxpayer facilities, ICT resolutions, human resource inducements as well as official anti-corruption approaches. Compliance control is not centred only on an implementation line of attack, nonetheless on a blend of execution and superior taxpayer amenities.

The question of tax compliance remains exceedingly significant to persons alarmed through main character of enhancing tax practices in reinstating macroeconomic equilibriums well as those anxious about tax strategy and its possessions on the overall economy. Tax collection although vital, is a gullible measure of efficiency of tax management. A further precise degree is compliance level. Simplifying amenableness encompasses rudiments like refining amenities to taxpayers.

2.4.1. Compliance Cost

According to Blazic (2004), compliance costs is clearly the costs sustained by taxpayers so as to meet the necessities levied on them by the decree and the revenue establishments, beyond the definite payment of tax over and above somewhat alteration costs characterised in the tax nature(Sandford, 1995). They involve cost of labour, external costs along with other interior non-labour costs such as hardware and software costs, practises and writing materials, stamp price fee and telephone, instructional works, conferences, travelling costs and law court costs. Tax development is also encompassed as an intrinsic portion of tax compliance costs.

Taxation compliance costs, in the past decade, have been a matter of developing importance, exclusively in industrialized republics; on scholars as well as states. However, research of this nature is actually rare amongst transitioning nations, typically since it calls for complex examination comprising the gathering of hefty amounts of records unobtainable from available sources, nonetheless since there has been an inclination towards neglecting the problem (Blazic 2004).

Sandford (1989) delineates tax compliance costs as per charges acquired by taxpayers so as to meet requirements set by tax law and income powers that be. Furthermost available exploration obeys the resolution renowned by Sandford hence makes a distinction amid net compliance costs and gross compliance costs. After deductions acquiescence costs are unrefined compliance costs minus aids accrued from tax compliance for instance tax deductibility, cashflow reimbursements and administrative aids. Tax reduction benefits is an outcome commencing at a point that taxpayers are eligible to tax inferences for compliance costs sustained.

Slemrod and Yitzhaki (1996) on the other hand acknowledged compliance costs in place of apparatuses of collective charges of taxation. These societal charges is summarized as budgets sustained by humanity in the course of moving procuring control from taxpayers to the

administration. Other fundamentals take account of managerial charges and deadweight efficiency damage upon taxation.

Administrative costs are charges occurring above and beyond the existence of compliance costs typically tolerated by corporations. These expenses allude to costs that administrations must account for as public costs to warrant that tax statute is trailed. Case in point, it finds the costs of tax collection system maintenance. For instance, once a state hands over after a structure where tax administrative centre determines the taxes due, to a self- assessment structure. Subsequently, an augmented difficulty ascends on the establishment. Collectively, the administrative and compliance charges are demarcated as operating taxation charge. (Evans, 2001).

On the other hand, deadweight efficiency loss after taxation is an opportunity costs. Stipulating compliance costs as unnecessary anymore, they may perhaps be second-handed to employ additional workforce, obtain extra resources or present sophisticated earnings in lieu of personnel. The Government of Kenya, through Kenya Revenue Authority always has worked to modernize the tax system such that they can recognize the most efficient means of tax compliance. For a long time now, taxation of the numerous privately owned businesses, including real estate owners has not been fully optimized due to the various complexities involved in the process. While numerous readings have stayed done on the tax schemes, not much focus has been put on compliance of real estate owners in the developing towns. Housing is considered as one of the most developing sectors and is even included in the Big Four Agenda, and much more revenue is expected from this sector. There is therefore need to look at major factors that are making real estate owners non-compliant and adopt the best strategies to ensure optimized compliance.

2.4.2. Tax Knowledge and Education

As per Palil et al., (2013), in the time of Self-Assessment System (SAS), tax consciousness amid taxpayers shows a significant part regarding tax compliance. Consequently, tax education and tax knowledge level is weighty in ensuring that administration of tax is doing well. Accordingly, taxpayers can evaluate their tax accountability appropriately and timely filing of profit. Normally, duties are the foremost foundation of the development of country. In consequence, the tax arrears problems, tax valuation and other connected tax management maybe massive problem for the administration in general expressly, if the problems linked to taxation are not controlled appropriately.

Conferring to Professor Dr.Sommerfeld, it was alarmed that taxation constitutes an education's orphan (Sommerfeld, 1966). He suggested taxation ought to be taught instead of just accomplished and cultured. He additionally recommended developed institution to bid exclusive standpoint on matter of tax to all scholars. In Malaysia, as revealed by Barjoyai (1992) and Ho (1992) proposed the enactment of tax education interested in the theoretical curriculum irrespective of the scholars' academic restraints. The significance of tax teaching is a common understanding with the aim of helping each resident with probable liability of paying tax. As a consequence, all forthcoming taxpayers essentially prepared with adequate tax knowledge in tertiary institutions or universities so as to enhance tax literacy. Disappointingly, the vocation remains unheard after 16 years; tax education has not been lawfully familiarised at tertiary tutoring in all restraints in Malaysia and also other countries (AniesBarieyah et. al., 2009).

Tax education permits persons to well comprehend the tax structures. Eriksen and Fallan (1996) supposed rational indulgent of laws of tax, persons become eager to obey the tax arrangement, accordingly they become extra submissive to remit tax as an alternative of evasion. Additionally, persons become sophisticated, which is well-informed regarding of tax planning, tax regulation

and such likes. In unison, tax knowledge improves character's consciousness and moral code to decrease inclinations towards non-compliance. This evidenced the revision in Kasipillai et al. (2003) amongst Malaysian scholars; establishing that tax training prejudiced the mind sets insouciances of Malaysian scholars (imminent taxpayers) in the direction of tax avoidance and evasions.

Taxpayers shall willingly receive somewhat new system presented, such as the SAS, if they partake sufficient information to comprehend the scheme. As a result, education agendas systematized by tax power otherwise other communal edification organizations are desirable in development of taxpayers' capability to comprehend these systems as well as up surging assurance in satisfying their duties as taxpayers (Mohani, 2001).

2.4.3. Fines and Penalties

Taxation, however authentic, institutes a forced extraction of wealth. It is conventional that a penalty imposed on failure to pay taxes endorses compliance. Even though one rationally considers provide that government needs taxpayers to conform to their tax requirements, this only increases the additional query why administration would suppose tax penalties to encourage compliance. In any case, if a taxpayer fails to conform to commitment to pay taxes or files late returns, an additional tax will root him or her to remit equally the tax as well as penalty. The rationalisation for penalties on tax seem to turn on whatever provokes taxpayers to observe tax responsibilities. Over the last several years, the subject of why taxpayers abide by and just how tax penalties ought to be designed to stimulate compliance have occupied immediate strategy significance since tax administrators and relevant legislators have revived the "tax gap," which is the alteration amid what taxpayers really owe and what they in fact pay.

As per Doran (2009), Tax penalties aid in two main purposes. Primarily, they assist inactive purpose of compliance of tax. This is extensively acknowledged in the economics as well as legal

literatures, however, there is slight agreement on how drawbacks uphold compliance with the main argument being that different fines and penalty organisations may influence compliance different ways. Secondly, tax consequences also oblige the meaning of describing tax compliance. The policy obligation to a self-assessment tax organization suggests an exact beginning of tax compliance, and the consequences resulting for taxpayers, practitioners, and management bureaucrats should set down that commencement into applicable values of behaviour. If tax penalties set forth the incorrect formation of tax compliance, those consequences if properly premeditated for contributory resolutions will not persuade manner compatible to the correct outset of tax compliance.

Bestowing to Oladipupo and Obazee, (2016), Tax penalty is a corrective portion that tax law executes on enactment of an act that is forbidden, or for disappointment to achieve a mandatory deed for instance botch to organise return filing, timely or erroneous filing or underestimated revenues. When a taxpayer is obliged to file returns or excise duty yield and flops to fix so timely, delayed filing penalty might exist as evaluated.

The structure of fine system may be vary from country to country. There may exist numerous forms of forfeit degree by the diverse tax themes or dissimilar construction of penalty amounts by varieties of taxpayer. Therefore, penalty tolls are independently functional by the numerous tax issues such as the separate income tax, business income tax, and value added tax among others. Additionally, the penalty charges collectively for tax matter remain distinguished by diverse kinds of evasion, for instance; non-filing, timely filing as well as under-reporting, improper book-keeping and invoices. The penalty executed contrarily to the forms of taxpayer's contingent to their dodging actions. If more or less taxpayers deliberate non-compliance, the punishment is greater than unintended non-compliance (Hyun, 2005). In conclusion, studies suggests fines and

penalties varying in terms of influence on tax compliance since it depends on the structures put in place.

2.5. Critiques of the Study

The theory of economic deterrence is used in the study as a traditional theory of compliance. This theory is however considered logically inconsistent and not empirically accurate. Rational intellectuals have therefore contended with perfect deterrence, which typically adopts the fact that may diverge in their internal features as well as reliability of their intimidations of retaliation. This makes this theory account for only a minor portion of actual compliance levels.

Also, traditional methods of tax compliance such as use of penalties and fines on taxpayers only explain a small percentage of voluntary tax compliance and that the judgement to conform is not entirely coherent. This is because the literature clearly suggests that tax morale shows the most crucial part in tax compliance, however, tax morale is not yet fully has not given the precise mechanisms on how they work.

Taxpayers who joined a course on tax are expected to consume improved tax information and tax compliance insolvency as compared to taxpayers who have on no occasion attended a tax course (Mohd, 2010). Dr.Sommerfeld even alarmed that taxation has turn out to be an education's orphan and further suggested that taxation ought to be taught as opposed to just being practiced and learned. This is however not easy to achieve in real time.

Oladipupo (2016), pursued to discover the paraphernalia of tax knowledge and penalties on tax compliance amid SMEs in Nigeria by use survey research strategy and collected data by use of questionnaire. The outcomes indicated that tax fines and penalties showed insignificant constructive bearing on tax compliance despite the fact that tax knowledge registered a great stimulus on tax compliance in Nigeria. On the other hand, Osebe (2013), focused on tax

compliance in the real estate in Nakuru. The revision engaged an explanatory research design and facts was poised by means of structured questionnaire. Outcomes disclosed that compliance cost indicated undesirable outcome on tax compliance while tax knowledge and education required affirmative outcome on tax compliance amongst real estate financiers. Likewise, fines and penalties registered optimistic result on tax compliance in this sector. In addition the reading delivers some primary suggestion that striking fines and penalties hence establishes of tax knowledge and education among real estate owners ought to greatly advance compliance.

Kirchler et al., (2010) suggests that there are multiplicative connection between fines and audit charges which possibly will substitute each other. They also further state that advanced fines modestly brand evading levies further dangerous for taxpayers hence ought to, as a result, discourage from evasion. Theoretically, the preventive result of fines cannot constantly be buoyed. The experiential possessions were feebler than predicted and educations also advocate for escalation of penalties can give unwanted effects thus end in additional tax avoidance.

In researches by Friedland, Maital, and Rutenberg (1978), and by Park and Hyun (2003) compliance remained intensely influenced by sum of fines rather than by review likelihoods. In disparity, Friedland (1982) reported that audit degrees affect compliance over and above sum of fines and penalties. To conclude, Alm, Sanchez, and De Juan (1995) pointed out fines stay operational in arrangement with great audit tolls. The interface of measures appear to be extra significant than their properties separately.

2.6. Research Gaps

Multiple research has been done on the tax compliance among real estate owners both internationally and locally. However, most studies have been between five and ten years ago. There are a lot of changes within the taxation authority and therefore this study will seek to investigate whether these improvements have made any difference. Additionally, the previously

conducted studies have based on high income real estate owners. Osebe, 2013 for example concentrated on high income earners. This study is set to put an emphasis on average income since this are the investors who are in large numbers thus their compliance is crucial in rental revenue collection. This study will seek to depict an image of rental revenue collection in developing towns such as Busia and not concentrate on the capital city Nairobi as in the previous studies.

Young (2016) carried out a study on China's individual tax compliance. The discoveries of their research exposed that Confucianism and legalism as Chinese ethical and social values have effect on individual tax compliance. These values have effect on prompting ethical behaviours to regulatory issues. There should be inclusion of both incentives and disincentives in prompting individuals to conform to tax commitments. In addition, they concluded that the level and degree of various elements are reliant on each person's level of risk aversion, fiscal restraints and surrounding reference groups. In addition, individual aspects play a substantial part in defining the level of tax assurance. Taxpayer's edification and tax compliance is therefore a crucial exercise in the government of South Africa.

2.7. Summary of the Literature Review

Theoretical as well as empirical reviews have reported that compliance behaviour is as difficult as the personality of the taxpayer. No tax authority can therefore proclaim a tax structure and then depend on solely on taxpayers' logic to remit the taxes payable. Some compliant people certainly pay their dues, however, several others will not. This is why it is important for the authorities concerned to be more aggressive in ensuring efficient systems are introduced to escalate tax compliance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This part defines research methodology engaged in the study. This is established under; research design to be employed, the target population, sampling technique, data collection mechanisms and process, and lastly, data analysis and exhibition approaches employed in the research.

3.2. Research Design

The study engaged a descriptive research design in order to explain and interpret aspects influencing tax compliance level by real estate owners in Kenya. Key tenacity of descriptive research design was to define the state of activities the way it is currently. As per Lampert and Lampert, (2012), the objective of qualitative descriptive studies was to provide a wide-ranging summarization, in daily standings, of precise happenings knowledgeable by individual persons or groups of persons.

This design was best apposite for this study for the reason that it ensured exhaustive in-depth examination as well as narrative of the numerous phenomena under analysis. The study included together qualitative and quantitative data. As per to Cooper and Schindler (2003), descriptive design determines and events the origin and effects of connections amid variables. The data essential for investigation was collected from a big population drawn from Busia Town.

3.3. Sampling Frame

This study was conducted among residential property owners in Busia Township in Busia County. The study focused on one main category of property owners; middle level income real estate owners.

3.4. Target Population

The target population consisted of the real estate owners in Busia town all through the research time. The study pursued facts from administrators as well as owners of individual real estate. Conferring to Municipal council records, close by 321 registered real estate owners existed in Busia Township.

3.5. Sample Size and Sampling Technique

A sample is a smaller, manageable proportion of a larger group. This study therefore adopted probability sampling where each and every subject from the sample size got an equal chance to be selected. Simple random was employed since it best fits the study.

To achieve the ideal sample size, the study adopted Israel (2009) formula in the form: $\frac{N}{1+N(e^2)}$

Where;

n is sample size

N is population size

α will is error term (0.05).

$$n = \frac{321}{1 + 320(0.05)^2}$$

$$n = \frac{321}{1 + 0.8}$$

$$n = \frac{321}{1.8}$$

$$n = 178$$

The calculated sample size (n) was 178 respondents.

3.6. Data Collection Method

This research integrated mutually primary and secondary data. Data was acquired from real estate owners by means of questionnaires to acquired primary data, whereas the secondary data was gained from present literature/records for example KRA reports and Kenya National Bureau of Statistics accounts.

3.6.1. The Questionnaire

This means was useful in this research since the researcher knew in advance what he or she was seeking, and also simplified comparisons between respondents. The data collected from the questionnaire included information on background information of respondents and other segments collected data on the study variables which consisted of tax compliance costs, tax knowledge and education and tax fines and penalties. Structured questions were used to guarantee that respondents answered alike established queries. Questions enquired were closed-ended.

3.7. Pilot Study

3.7.1. Validity of the Instruments

As per to Cronbach (1982), validity of an instrument can be recognized deductively by displaying that the detail matches to the description of the characters anticipated to be measured. The researcher sought expertise from the supervisor so as to create the validity of the content as well as assess relevance of the instruments.

3.7.2. Reliability of the Instruments

Conferring to Mugenda (1999), the reliability of an instrument is the amount in which a study instrument vintages constant outcomes or statistics upon recurrent trials. Reliability of trial matters in the questionnaire were confirmed during piloting.

3.8. Data Analysis and Presentation

Data was summarized described by means of descriptive statistics which involved the use of measures like mean and frequencies that aided in expressively stating the dissemination of results. Numerous inferential statistics were used to gather population features from the sample. Pearson's correlation coefficient was used to show relations between variables.

A Multiple linear regression model was also employed to forecast tax compliance by the three independent variables in the research: tax compliance cost, tax knowledge and education and fines and penalties.

The regression model used to assess is shown below:

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

Where; Y - Tax compliance (dependent variable)

a - Constant

$\beta_1, \beta_2, \beta_3$ and β_4 - Slope representing the degree to which tax compliance alters as the independent variable changes by a single unit.

X1 - tax compliance cost

X2 - tax knowledge and education

X3 – tax fines and penalties.

ϵ - Error term

3.9. Measurement of variable

Variable	Measure/ indicator	Likert
Compliance cost	Administrative costs Cost of hiring tax agent	5 points
Tax knowledge and education	Tax training programs Education level	5 points
Fines and penalties	Late filing Correct return filing	5 points

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

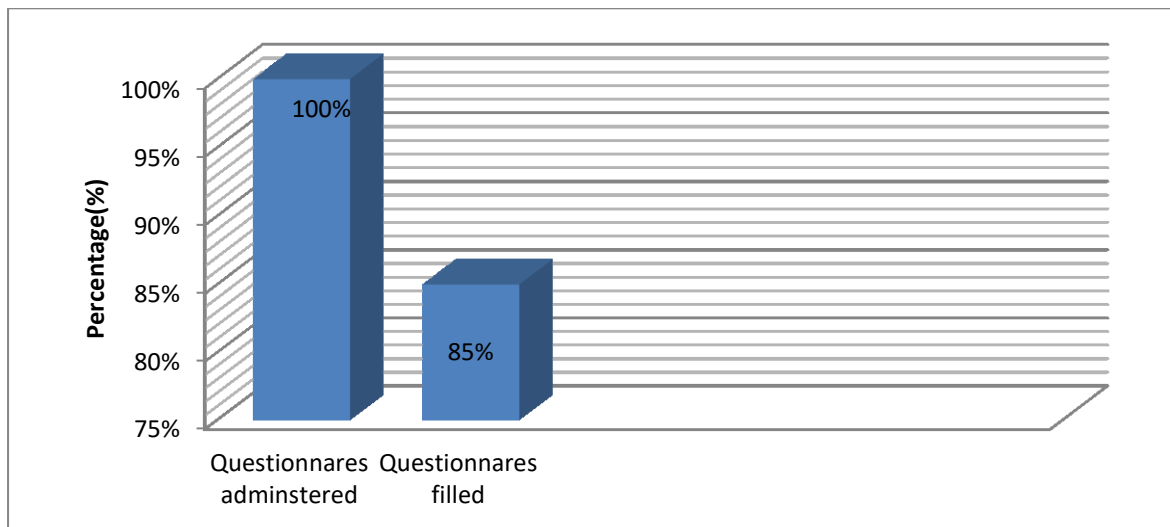
This division gives an analysis and explanation of the research outcomes. Outcomes were founded on primary data collected in the field with the aid of self-administered questionnaires. It also presents demographic features of respondents who engaged in the study. The data was examined by help of computer software, Statistical Package for Social Sciences (SPSS) and summarized in frequency tables, pie charts and bar graphs that were used to illustrate level of responses. Haggeret *al.*, (2003) recommends that a researcher ought to achieve a response rate of 50%, 60% or 75%.

The data analysis was founded on the study objectives. Also, questionnaire objects were analyzed using statistical gears like graphs and result of analysis given.

4.2 Response Rate

The data was gathered by usage of questionnaire whereby the researcher organised 178 questionnaires of which 152 were well answered. From the research perspective, the response was excellent and the representative to the target population. As per William (2012), any reply of 50% and above is satisfactory for analysis hence 85% was found to be adequate. From the figure 4.1 below it is evident that the questionnaires were 85% answered.

Figure 4.1: Response Rate



Source: Author (2020)

4.3 Pilot Study Results

The investigator designated a pilot study of 6 real estate owners from Busia County to examine the reliability of research instruments. The questionnaires reliability was done statistically via Cronbach's Alpha. To guarantee validity and reliability questionnaires were pre-tested on respondents besides the target population. A wary created but wide ranging questionnaire targeting on prompting responses were piloted so as to identify any obscurities or integral glitches from the annotations and comments from respondents. The study indicated that alpha coefficient for the six items stood beyond 0.757 signifying that objects ought to somewhat great inside dependability. Reliability coefficient of above 0.7 is measured satisfactory in most research circumstances. These findings visibly demonstrate that research instruments used in this study were reliable.

Table 4.1: Reliability Coefficients

Scale	Cronbach's Alpha	No. of Items	Comments
Tax Compliance	0.88	7	Accepted
Cost			
Tax Knowledge & Education	0.85	8	Accepted
Tax Fines & Penalties	0.89	7	Accepted

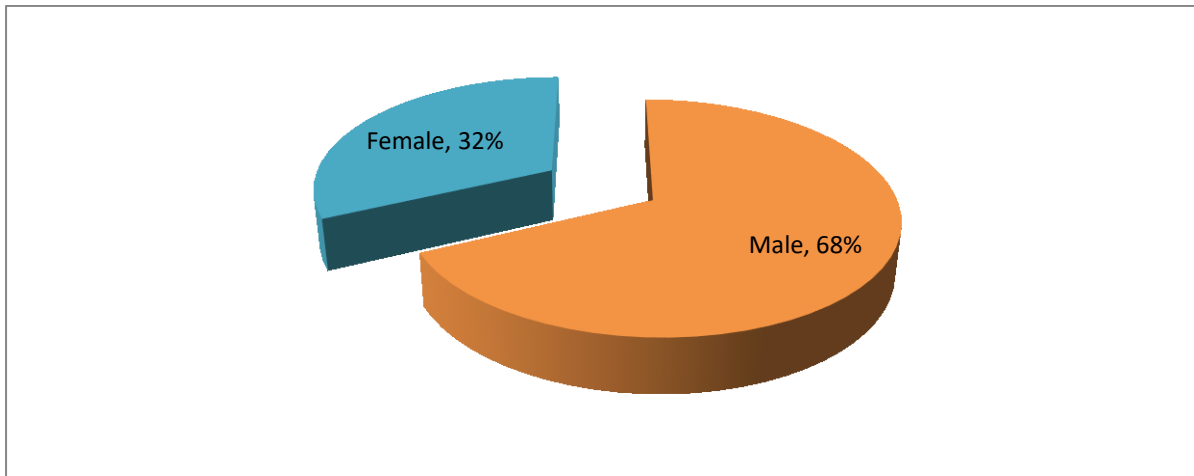
4.4 Demographic Information

This sector analyses several demographic features of the population. Subsidiary tables and figures were given hand in hand relative information gathered from the respondents.

4.4.1 Gender Composition of Respondents

The researcher categorized respondents and the findings were as follows: - out of 152 respondents, 68% were male whereas 32% were female.

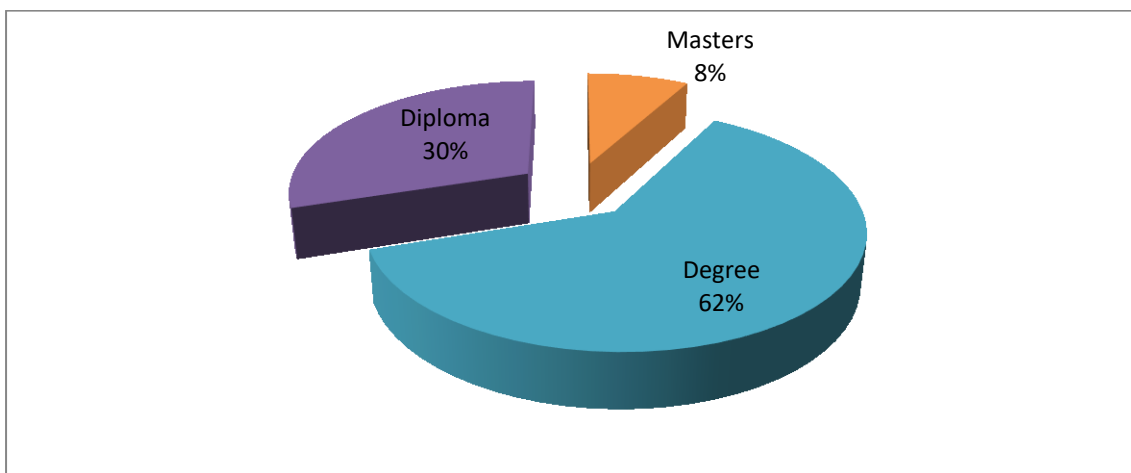
Figure 1: Gender Composition of the Respondents



4.4.2 Composition of respondents according to their education level

Respondents were categorised as per education level; Masters, Degree, Diploma and the findings were obtainable on the basis of highest credentials of the study respondents. It was established that 8 percent of respondents had Masters, 62% had a bachelor’s degree whereas 30% of the respondents had college diploma. This proposes that all study respondents had acceptable educational experiences to assist them to respond to the survey instrument as shown in figure 2

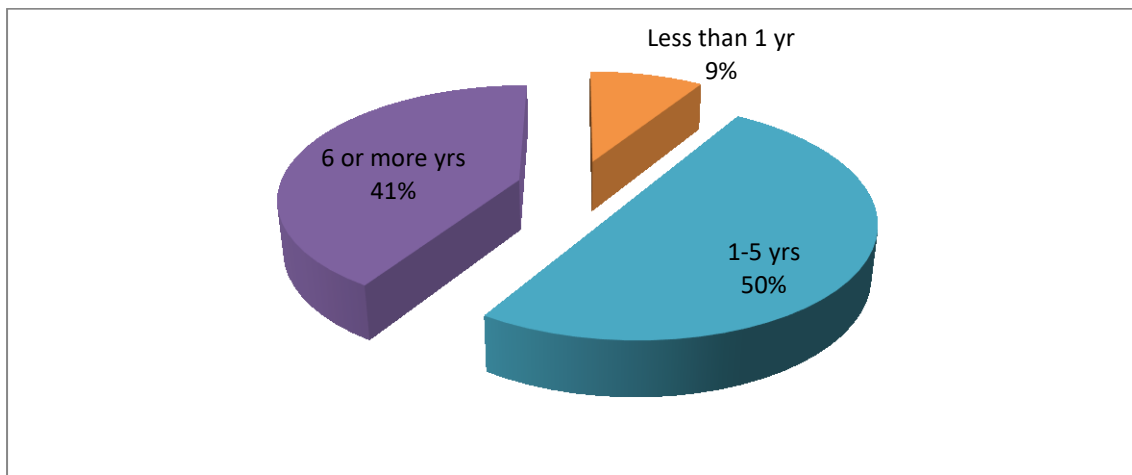
Figure 2: Education Level of the Respondents



4.4.3 Compositions of respondents according to their extent of service.

The respondents were categorised as per years of work. The review recognized that mainstream of the respondents, 50%, had been in business between 1 to 5 years, 41% operated for 6 or more years whereas 9% of the respondents functioned for below 1 year. This meant that most respondents had achieved a level adequate to impact on tax compliance among real estate owners in Kenya.

Figure 3: Years of operation of Respondents



4.5 Descriptive Analysis

Table 4.2: Respondent response in regards to tax compliance cost

Very low, low, neutral, high, and very high have ratings of 1,2,3,4, and 5, respectively

STATEMENT	Number of respondents (n)	Rating (r)	Total rating (nr)	Mean rating $\sum \frac{nr}{n}$
How would you rate the cost of filing a return	70	5	350	$\sum \frac{549}{152} = 3.61$
	23	4	92	
	18	3	54	
	12	2	24	
	29	1	29	
How do you rate the travelling costs incurred in filling returns	9	5	45	$\sum \frac{375}{152} = 2.47$
	13	4	52	
	45	3	135	

	58	2	116	$\sum \frac{591}{152} = 3.89$
	27	1	27	
How would you rate the costs of hiring a tax agent	68	5	340	
	51	4	204	
	3	3	9	
	8	2	16	
	22	1	22	

Table 4.3: Descriptive Findings of Tax Compliance Cost

Statement	Mean	Standard Deviation of Number of respondents
How would you rate the cost of filing a return	3.61	1.574
How do you rate the travelling costs incurred in filling returns	2.47	1.067
How would you rate the costs of hiring a tax agent	3.89	1.407
Average	3.32	

Table 4.2 and Table 4.3: Respondents in regards to tax compliance cost indicate that it affected the respondents affected neutrally, average of 3.32. Results point out that uppermost mean values were 3.89, 3.61, that matches the Likert scale value of 3. This shows that most respondents tend to be settle on the fact that tax compliance cost could boost tax compliance. The lowest mean assessment was 2.47, which signposts that the respondents disagreed that fines and penalties is very corrective in terms of tax compliance among real estate owners in Kenya.

Table 4.4: Respondents response in regards tax knowledge and education

Strongly disagree, disagree, neutral, agree, and strongly agree high have ratings of 1,2,3,4, and 5, respectively

STATEMENT	Number of respondents (n)	Rating (r)	Total rating (nr)	Mean rating $\frac{\sum nr}{n}$
I am aware that rental income is taxable	34	5	170	$\frac{575}{152}=3.78$
	65	4	260	
	43	3	129	
	6	2	12	
	4	1	4	
I know how to properly file my tax returns	23	5	115	$\frac{576}{152}=3.79$
	98	4	392	
	12	3	36	
	14	2	28	
	5	1	5	
I have attended taxpayer educational trainings	22	5	110	$\frac{467}{152}=3.07$
	16	4	64	
	67	3	201	
	45	2	90	
	2	1	2	
I know how to keep proper documentations	39	5	195	$\frac{595}{152}=3.91$
	72	4	288	
	34	3	102	
	3	2	6	
	4	1	4	
I know how to determine the actual taxable income	41	5	205	$\frac{448}{152}=2.95$
	7	4	28	
	25	3	75	
	61	2	122	
	18	1	18	
I am aware there are penalties for tax non compliance	51	5	255	$\frac{585}{152}=3.85$
	52	4	208	
	34	3	102	
	5	2	10	
	10	1	10	
KRA should have conducted adequate training before introducing tax on real estates	44	5	220	$\frac{562}{152}=3.70$
	55	4	220	
	19	3	57	
	31	2	62	
	3	1	3	

Table 4.5: Descriptive findings of tax knowledge and education

Statement	Mean	Standard Deviation of Number of respondents
I am aware that rental income is taxable	3.78	0.927
I know how to properly file my tax returns	3.79	1.039
I have attended taxpayer educational trainings	3.07	1.024
I know how to keep proper documentations	3.91	0.912
I know how to determine the actual taxable income	2.95	1.417
I am aware there are penalties for tax non compliance	3.85	1.123
KRA should have conducted adequate training before introducing tax on real estates	3.70	1.511
Average	3.58	

According to Table 4.4 and Table 4.5, respondents in regards to tax knowledge and education recorded an average mean of 3.58, which indicates that they agreed that this affects tax compliance. The highest mean values was 3.91 which shows that most owners keep proper documentations. The results also recorded the lowest mean as 2.95 which shows that most owners do not know how to properly determine their taxable income and this would contribute highly to non-compliance. A number of respondents were indifferent of having attended tax education programs by KRA which means that awareness should be enhanced to boost compliance of residential income.

Table 4.6: Respondents response in regards fines and penalties

Strongly disagree, disagree, neutral, agree, and strongly agree high have ratings of 1,2,3,4, and 5, respectively

STATEMENT	Number of respondents (n)	Rating (r)	Total rating (nr)	Mean rating $\sum \frac{nr}{n}$
I believe that if I do not pay may exact taxes, KRA will be tolerant towards my offence	9	5	45	$\sum \frac{367}{152}=2.41$
	12	4	48	
	28	3	84	
	87	2	174	
	16	1	16	
Enforcement is strong	47	5	235	$\sum \frac{604}{152}=4.00$
	80	4	320	
	7	3	21	
	10	2	20	
	8	1	8	
I believe the penalties involved in evading taxes are affordable	5	5	25	$\sum \frac{517}{152}=3.40$
	88	4	352	
	40	3	120	
	1	2	2	
	18	1	18	
I believe that the chances of KRA detecting whether I have declared the correct income or not are low	9	5	45	$\sum \frac{328}{152}=2.16$
	10	4	40	
	4	3	12	
	102	2	204	
	27	1	27	
The fines and penalties incurred are lower than the tax saved as a result of not complying.	6	5	30	$\sum \frac{409}{152}=2.69$
	13	4	52	
	67	3	201	
	60	2	120	
	6	1	6	

Table 4.7: Descriptive Findings of fines and penalties

Statement	Mean	Standard Deviation of Number of respondents
I believe that if I do not pay may exact taxes, KRA will be tolerant towards my offence	2.41	1.051

Enforcement is very strong	4.00	1.048
I believe the penalties involved in evading taxes are affordable	3.40	1.081
I believe that the chances of KRA detecting whether I have declared the correct income or not are low	2.16	0.991
The fines and penalties incurred are lower than the tax saved as a result of not complying	2.69	0.848
Average	2.93	

Table 4.6 and Table 4.7: Respondents in regards to fines and penalties indicate that it affected the respondents neutrally, average 2.93. According to the results, the highest mean value recorded was 4.00 which suggests that respondents highly agreed that enforcement by taxing authority is strong. They also disagree with the fact that KRA will be tolerant towards non-compliance, mean of 2.41. Also, most respondents seemed indifferent on whether penalties involved are affordable, recording a mean of 3.41. The lowest mean recorded being 2.61, revealed that chances of KRA detecting whether they have declared the correct amounts of income are low especially because this is a self-assessment system.

Table 4.8: Respondents response in regards to tax compliance

Strongly disagree, disagree, neutral, agree, and strongly agree high have ratings of 1,2,3,4, and 5, respectively

STATEMENT	Number of respondents (n)	Rating (r)	Total rating (nr)	Mean rating $\sum \frac{nr}{n}$
I understand that income rental is taxable	70	5	350	$\sum \frac{676}{152}=4.45$
	80	4	320	
	2	3	6	
	0	2	0	
	0	1	0	
I file the tax returns on time	22	5	110	$\sum \frac{486}{152}=3.20$
	45	4	180	
	50	3	150	
	11	2	22	
	24	1	24	

I declare and pay the right amount of taxes	61	5	305	$\Sigma \frac{656}{152}=4.32$
	85	4	340	
	1	3	3	
	3	2	6	
	2	1	2	
I can manipulate my taxable income since KRA does not require supporting documents	0	5	0	$\Sigma \frac{270}{152}=1.78$
	2	4	8	
	12	3	36	
	88	2	176	
	50	1	50	
I know that I can have the property auctioned by the Government if I don't pay taxes	46	5	230	$\Sigma \frac{632}{152}=4.16$
	94	4	376	
	4	3	12	
	6	2	12	
	2	1	2	

Table 4.9: Descriptive Findings of Tax Compliance

Statement	Mean	Standard Deviation of Number of respondents
I understand that income rental is taxable	4.45	0.525
I file the tax returns on time	3.20	1.254
I declare and pay the right amount of taxes	4.32	0.713
I can manipulate my taxable income since KRA does not require supporting documents	1.78	1.102
I know that I can have the property auctioned by the Government if I don't pay taxes	4.16	0.764
Average	3.58	

Table 4.8 and Table 4.9 show that respondents in regards to tax compliance. The impact pointed out that main stream of respondents agreed, mean of 3.58. Most respondents strongly agreed they are aware that rental income is taxable, 4.45. The lowest mean recorded was 1.78, which suggest that respondents disagree on manipulating taxable income since KRA does not require

supporting documents. Also, most of the respondents signposted that they affirm correct amounts of tax, mean of 4.16.

4.5. Correlation Analysis

4.5.1 Correlation results on independent variable

Correlation demonstrates relationship existing between variables under study. The study's dependent variable is tax compliance and the independent variable consists of compliance cost, tax knowledge and education and fines and penalties.

Table 4.8: Correlation between independent variable and dependent variable

Variables		Tax Compliance	Tax Compliance cost	Knowledge on Taxation	Fines and Taxation cost
Tax Compliance	Pearson Correlation	1			
	Sig. (2- tailed)				
Tax Compliance cost	Pearson Correlation	-0.361	1		
	Sig. (2- tailed)	0.000			
Tax Knowledge and education	Pearson Correlation	0.612	0.662	1	
	Sig. (2- tailed)	0.001	0.069		
Fines and penalties	Pearson Correlation	0.217	-0.659	-0.162	1
	Sig. (2- tailed)	0.000	0.115	0.874	

As per the results analysed in table 4.8 above, the following were presented. Pearson's correlation indicated that tax compliance cost was negatively correlated ($r=-0.361$). This therefore means that tax compliance cost showed a 36.1% negative correlation in respect to tax compliance. The other positive correlation exhibited was amid tax knowledge and education and tax compliance among real estate owners. There was a 0.612 Pearson's correlation which indicates a 61.2% positive correlation amid the two variables. Finally, the connection amid tax fines and penalties and tax compliance among real estate owners also depicted a positive correlation ($r=0.217$), which demonstrates a 21.7% positive correlation.

In conclusion all the variables considered under this study depicted a positive correlation in regards to tax compliance among real estate owners.

4.6 Regression Analysis

4.6.1 Model Summary

Table 4.9: Model summary statistics

Model	R	R Square	Adjusted R square	Std. Error of the Estimate
1	0.763a	0.581	0.163	0.887

Predictors: (Constant), tax compliance cost, tax knowledge and education, fines and penalties

A Multiple linear regression ideal was castoff to calculate tax compliance in this research. The estimate was done centring on the influence of the three independent dynamics which include: tax compliance cost, tax knowledge and education and tax fines and penalties.

Table 4.9 show that correlation coefficient was 0.763 thus shows the model projected in excess of 70% of the change on the independent variable. Also, R Square value of 0.581 pointed out the independent variables in variation to independent variable, indicating 58.1%. Therefore the model was adequate for the study.

4.10 Analysis of Variance (ANOVA)

Model	SS	Df	MS	F	Sig. F
Regression	3.280	3	1.093	1.389	0.0397
Residual	2.360	3	0.787		
Total	5.640	6			

Dependent variable: Tax compliance

Predictors: (Constant), tax compliance cost, tax knowledge and education, fines and penalties

The ANOVA model on Table 4.10 shows that regression model is substantial since F statistics value was 1.389. Also, the Sig. F was 0.0397 which is less than 0.05, therefore means the regression model was adequate,

Table 4.11: Regression Coefficients

Model	Unstandardized		Standardized	T	Sig
	Coefficients		Coefficients		
	B Error	Std.	Beta		
(Constant)	6.269	4.925		1.273	0.293
Tax compliance cost	-1.381	1.061	-0.396	-1.301	0.177
Knowledge and education	0.521	0.296	0.132	1.759	0.028
Fines and penalties	0.178	0.628	0.156	0.283	0.035

Dependent variable: Tax compliance

Predictors: (Constant), tax compliance cost, tax knowledge and education, fines and penalties

Outcomes in table 4.11 point out that tax compliance cost showed $\beta = -0.396$ which implies that that for every unit increase in the negative effect of tax compliance cost, there exists 0.396 units decrease in tax compliance. Additionally, result of tax compliance cost was quantified by the t-test value =1.301 suggesting that the standard error linked to the factor is less than the outcome of the factor.

Also, the table demonstrates tax knowledge and education value as $\beta = 0.132$ which infers that for every unit increase in tax knowledge and education, there exists a 0.132 unit increase in tax

compliance. Correspondingly, the effect of tax knowledge and education is illustrated by the t-test value =1.759 which denotes that the impact of tax knowledge and education exceeds that of the error by approximately over 2 times.

Fines and penalties recorded a value of $\beta = 0.156$ which shows that for every unit increase in tax fines and penalties, there exists 0.156 units increase in tax compliance. The impact of tax fines and penalties is specified by the t-test value = 0.283.

4.7. Discussion of the key findings

4.7.1. Tax compliance cost

Findings from the study indicate that there stood a positive correlation among two of the three variables under the study in regards to tax compliance. Tax compliance cost was negatively correlated to tax compliance (-0.396) thus showing an indirect impact on tax compliance among real estate owners. This study finding contradicts with Slemrod and Yitzhaki (1996) on the fact that compliance charge is among the three fundamentals of social costs of taxation sustained when buying power is shifted from taxpayers to the state. Therefore tax compliance cost has no weighty influence on compliance among real estate owners. Also, the study findings indicated a significance of 0.177 which is more than 0.05 hence indicating insignificance of tax compliance cost on tax compliance.

4.7.2. Tax knowledge and education

Findings also show that tax knowledge and education (coefficient= 0.132) shows that tax knowledge and education backs unswervingly to tax compliance which is in line with education by (Kasipillai, 2003) findings that knowledge relates to compliance as a result of its consequence on comprehending taxation guidelines and facts connected to the chance to evade tax. The significance of tax knowledge and education was 0.028 which is less than 0.05 hence the variable was significant. Tax education courses planned by tax authorities or further public

schooling organizations are compulsory in enhancing taxpayers' capability to grasp Self-assessment systems as it incorporates computation of sums of tax remitted. Stipulating that tax knowledge is heightened, then taxpayers will willingly admit methods of payment of tax like the SAS, (Mohd, 2010).

4.7.2. Tax fines and penalties

The study findings indicate that fines and penalties depicted a weighty impact on tax compliance in this sector (coefficient= 0.132, Sig = 0.035). This shows that greater fines modestly lessen the instances of tax evasion hence boosting tax compliance. These findings concur with previous research by Allingham and Sandmo (1972) which recorded that penalties as have effect on tax compliance, hence the greater the penalty and the bigger the dissuasion for probable tax evasion.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section makes available a precipitate of findings from the previous chapter, gives conclusion and also recommendations of the research as per the study objectives and further suggestions to other researchers.

5.2 Summary of Major Findings

The crucial outcomes of the study were obtained in this division. This findings indicate that Tax Knowledge and Education and Tax Fines & Penalties affect Compliance directly with p value of <0.05 specifying that the influence is substantial unlike Tax compliance cost which proves immaterial. As a result, it can be stated that the influence is significant tax compliance among real estate owners in Kenya.

5.2.1 Tax Compliance Cost

The outcome of the study indicated that most real estate owners agreed that costs of hiring agents are high and rather preferred to do this themselves to cut on these costs. Also the effect of compliance cost on tax compliance showed a negative correlation which indicates that compliance cost has influence on of tax compliance such that when compliance costs are high then it will reduce tax compliance among real estate owners.

5.2.2 Tax Knowledge & Education

Findings on tax knowledge and education depicts a strong positive relationship on tax compliance thus assuming that developed knowledge on taxation will in line heighten tax

compliance among real estate owners. Results also indicated that real estate owners that were neutral on determining how to determine actual taxable income. This therefore means that KRA should upsurge the amount of trainings to enhance tax compliance.

5.2.3 Tax Fines & Penalties

As of the findings, respondents signposted penalties and fines as a way of encouraging tax compliance. Most taxpayers don't want to mislay their solid gotten money by wagering with tax establishments. Self-employed persons are more prospective on avoiding taxes in comparison to employed persons. Measures of enforcement are part of the strong-arm tactic that campaigns solid movements against non-compliance of tax. The existing problem is how to detect such persons or entities that would probably avoid paying taxes. Consequently, it is vital for any tax administration to enhance their system so as to curb non-compliance and in turn punish or fine tax evaders.

5.3 CONCLUSIONS

The study led revealed that the taxpayer can submit an alternative declaration if there is information in the periled out form that the taxpayer considers incorrect or incomplete. Tax compliance costs mostly are castoff as portion of, evenhanded melded with the extra encumbrance of the process of taxation. Tax organizations should likewise augment surveillance and observation to guarantee taxpayers being hooked on the tax net.

5.4 RECOMMENDATIONS

Tax Compliance Cost

It is important to ensure that tax administrations are well equipped with the modern technology. This will make it easier to perform regular compliance checks on taxpayers, as well as facilitate

other tax administration activities. As such, there is also the need for the tax administration across the world to try out new ways of treating taxpayers so as to reduce various cost of compliance that taxpayers bear.

Tax Knowledge & Education

The tax system should provide clear guidelines and principles that states clearly all the relevant procedures of filling tax returns. Consequently, it is also important to create awareness and conduct more education of taxpayer services to help them understand their rights and responsibilities. The tax arrangement ought to be implemented and executed in a particular approach that targets persons at income levels to cover gaps that may embolden evasion of tax.

Tax Fines & Penalties

The study established that fines and penalties partakes a noteworthy stimulus on tax compliance, thus, there is need to moderate all the different fine levels and taxes to levy. This way, a good number of taxpayers and more specifically that estate owners resolve to getting encouraged to conform as they will be able to preserve correct and precise records in regards to tax so as to elude fines and penalties. This would be essential on having a significant upshot on tax compliance.

5.5 SUGGESTION FOR FURTHER STUDY

The researcher saw necessity for additional research because this study did not cover fully on tax compliance among real estate owners in Kenya. Further research should comprise other variables like, revenue collection policy and other factors advancing the research under study. It is consequently recommended that further studies can be done in other counties apart from Busia Township, Busia County to discover other dynamics that may touch on tax compliance among real estate owners in Kenya, especially in developing towns.

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Appendix 1: Questionnaire.

The aim of this review is to analyse the factors affecting tax compliance by the real estate owners with an intention to formulate strategies that will enhance tax collection. All reactions delivered in this survey will solitary be used for academic resolutions and will be kept trustworthy.

Instruction: Tick where appropriate

SECTION A: BACKGROUND INFORMATION OF THE RESPONDENTS

1. State your gender

Male

Female

2. What is your age bracket?

20-30

30-40

40-50

50-60

Above 60

3. Tick on your appropriate level of education.

Certificate/Diploma

Degree/Professional

Masters

SECTION B: BACKGROUND INFORMATION OF THE BUSINESS.

1. What is the name of your business/property?
(Optional).....

2. How many properties do you own/manage?
.....

3. How many years have you been in the business?

Years

- 1 or less
- 1-5
-
- 6 or more
-

4. What is your annual turnover?

- Below 200,000
- 200,000-300000
- 300,000-400,000
- Above 500,000

5. Who files your returns?

- Self
- Tax agent
- Others (specify)

SECTION C: TAX COMPLIANCE COST

Please tick appropriately

STATEMENT	Very low	Low	Neutral	High	Very high
How would you rate the cost of filing a return					
How do you rate the travelling costs incurred in filling returns					
How would you rate are the costs of hiring a tax agent					

SECTION D: TAX KNOWLEDGE AND EDUCATION

STATEMENT	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
I am aware that rental income is taxable					
I know how to properly file my tax returns					
I have attended taxpayer educational trainings					
I know how to keep proper documentations					
I know how to determine the actual taxable income					
I am aware there are penalties for tax non compliance					
KRA should have conducted adequate training before introducing tax on real estates					

SECTION E: FINES AND PENALTIES

Please tick appropriately

STATEMENT	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
I believe that if I do not pay may exact taxes, KRA will be tolerant towards my offence					
Enforcement is strong					
I believe the penalties involved in evading taxes are affordable					
I believe that the chances of KRA detecting my whether I have declared the correct income or not are low					
The fines and penalties incurred are lower that the tax saved as a result of not complying.					

SECTION F: TAX COMPLIANCE

Please tick appropriately

STATEMENT	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
I understand that income rental income is taxable					
I file the tax returns on time					
I declare and pay the right amount of taxes					
I can manipulate my taxable income since KRA does not require supporting documents					
I know that I can have the property auctioned the Government if I don't pay taxes					

THANK YOU.

Appendix 2: Budget

EXPENSE	AMOUNT(KSHS)
Transport	10,000
Printing and binding services	10,000
Data analysis	20,000

Appendix 3: Work plan

Activity	April, May, June, 2019 (3 months)	September to November 2019	December 2019	January to February 2020
Proposal Writing				
Corrections				
Proposal Defense				
Data Collection				