

**Determinants of Residential Monthly Rental Income Tax Compliance  
among Landlords in Masii Town in Machakos County, Kenya**

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for the Post Graduate Diploma in Tax Administration of the Jomo  
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## DECLARATION

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

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## **DEDICATION**

This research project dedicated to other scholars who would like to research on the same topic, and to my friends and families whose valuable encouragement and support was instrumental in the completion of the research project

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I would like to express my sincere gratitude to my supervisor Dr. Bruce Ogaga for his guidance in coming up with this project

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## **ABBREVIATIONS AND ACRONYMS**

**GDP** Gross Domestic Profit

**HRMC** Her Majesty's Revenue and Customs

**ICT** Information communication Technology

**IRS** Internal Revenue Service

**KPMG** Klynveld, Peat, Marwick and Goerdeler

**KRA** Kenya Revenue Authority

**ECD** Organisation for Economic Co-operation and Development

**SAS** Self-Assessment System

**SPSS** Statistical Package of the Social Sciences

**UGX** Ugandan Shilling

**UK** United Kingdom

**US** United States

**USD** United States Dollars

## DEFINITION OF TERMS

**Procedural Compliance:** is also known as regulatory compliance and it the process of following or obeying procedures and requirement of tax laws to calculate and pay tax (Brown & Mazur, 2003).

**Tax Administrative:** is the compliance is the monitoring of a number of tax laws that oversee the collection and payment of taxes (Brown & Mazur, 2003).

**Tax Avoidance:** is the process of “getting around the law to reduce a tax liability to the tax collectors” (Higgins, 2009).

**Tax Compliance Cost:** This are the costs that tax payers earn earned by tax payers in adhering to tax law, regulations and requirements (Sandford etal 1989).

**Tax Compliance:** defines tax compliance as the ability of people to willingly obey tax laws and regulations (Ayuba, Saad & Ariffin, 2016).

**Tax Knowledge:** is the process where a taxpayer is able to know and understand tax rules and regulations that are implemented (Fauziati & Kassim,2020).

## ABSTRACT

In Kenya, tax compliance is still low despite the use of adverse measures such as; penalties, armed monitoring, routine audits and fines. This has been attributed to the fact that there is still deemed to be a lack of proper mechanisms to impose tax collection and ease of tax calculation for all tax payers. The study aimed to determine factors that influence residential monthly rental income tax compliance among landlords in Masii Town in Machakos County. The study was guided by three research objectives: To examine the effect technology on residential monthly rental income tax compliance among landlords in Masii Town in Machakos County; To establish the effect of tax payers knowledge on residential monthly rental income tax compliance among landlords in Masii Town in Machakos County; To determine the effect of compliance costs on residential monthly rental income tax compliance among landlords in Masii Town in Machakos County. The study was guided by three theories namely: Economic Deterrence Theory, Diffusion of Innovation (DOI) Theory and Fiscal Exchange theory. The target population was 255 respondents and Sample size of 155 respondents with response rate of 85%. Data was collected from a primary source. A Questionnaire was used to collect the primary data while Data analyzed included both descriptive and inferential statistics. The study findings indicated that technology, taxpayer knowledge and compliance cost significantly affects residential monthly rental income tax compliance with p value of 0.001, 0.002 and 0.000 respectively which is less than 0.05. The model summary showed that a unit change in technology increases residential rental income tax compliance by 0.316, a unit change in taxpayer knowledge increases residential rental income tax compliance by 0.239 and a unit change in cost of compliance decreases residential rental income tax compliance by -0.383. Finally, the summary of the findings reveal that technology and taxpayer knowledge positively affects residential monthly rental income tax compliance while compliance costs negatively affect residential monthly rental income tax compliance. The study results reveal that the use of I-tax has saved respondents time while filing taxes and taxpayers find filling returns online on a monthly basis to be an easy process due to internet access. Technology is used to increase tax administration efficiency, increase taxpayer services and boost tax compliance. Findings on knowledge showed that having knowledge and understanding of tax regulation helps taxpayers know the importance of declaring their taxes, dates of making payment, where and how to make tax payment. Cost remains a challenge as taxpayers incur cost such as; getting and organizing information, record keeping, employing tax experts, buying stationaries and materials that will be used during filing and time spent calculating and filing taxes. Based on the findings, the study recommends that KRA, the government and tax practitioners should formulate policies that emphasize leverage on technology to enhance collection of tax revenue. Furthermore, cost reduction mechanisms should also be adopted to enable taxpayers to comply at minimum costs. Therefore, future studies should be carried out to examine the effect of stakeholder sensitization on residential monthly rental income tax compliance.

# CHAPTER ONE

## INTRODUCTION

### 1.0 Introduction

This section looks at the background of the study globally, in the region and in Kenya. The chapter further discusses the statement of the problem, the objectives, the research questions, justification and scope of the study.

### 1.1 Background of the Study

In developed and developing countries rental income tax is a source of government income. Nonetheless, the total of income that is created from income tax is used by the government depends on willingness of property owners to comply with the law imposed in the country (Kirchler, 2008). Rental income tax is tax that property owners are required to pay as income from rent they collect for their tenants. This is because income that is collected from renting out a property is legally chargeable to income tax. Therefore, based on law and regulations anybody who owns a property in the form of a land or building and decides to rent it is required to declare money collected from rent as income on their tax return (Berhane & Yesuf, 2013).

Tax compliance is the process where individuals report their income and expenses claims based on law developed in relation to tax (Sapiei & Kasipillai, 2013). Ayuba *et al*, (2016) also defines tax compliance as the ability of people to willingly obey tax laws and regulations. Cummings (2007) stated that tax compliance is the process where taxpayers declares or declare their income based on tax laws and regulations developed by its government. According to OECD (2009), tax compliance can be classified into administrative and technical compliance. Tax administrative compliance is the monitoring of a number of tax laws that oversee the collection and payment of taxes whereas, procedural

compliance or regulatory compliance is follow or obey procedures and requirement of tax laws to calculate and pay tax (Brown & Mazur, 2003).

Garrett and Mitchell (2001) notes that the main purpose of taxation is to raise money that can be used by government to finance projects that are supposed to increase a country's economy and benefit its citizens. Gcabo and Robinson (2007) argue that tax collection is important because it play a big role in the development of the economy but it is not understood or liked by a lot of people. To encourage people to file their taxes government should ensure that its citizens understands the benefit of filing taxes and how important it is to a country (Oberholzer, 2008). OECD (2012) argues that in some developing countries taxation for house rental is seen as an economic transaction and it is usually hard to detect given the large number of citizen that a country has.

Rizal (2011) argues that a lot of property owners fail to declare tax return because of the attitude they have in regard to taxation, lack of knowledge, unfair tax rate, dishonesty of rental tax payers, complex tax law and regulations and insufficient government spending. Karanja (2014) maintains that even though landlords have to pay taxes a lot of them especially those who are less literate still fail to pay their tax due to lack of transparency and tax systems are usually not explained properly. A lot of landlords also argue that tax assessment method is based on individual assessments and are usually subjected to being over taxed.

### **1.1.1 Global Perspective on Tax Compliance**

According to IRS (2016), it was revealed that in US the reduction of tax due to non-compliance was around USD 458 billion in the year 2009-2010. In UK HRMC (2017) reported that in the year 2014-2015 the country experienced a decrease in tax due to non-compliance. Asia Times (2007) stated that noncompliance by multinational companies in China made the country lose around US\$ 3.88 billion each year whereas in Hong Kong

Inland Revenue department noted that between 2003 to 2007 the country was able to collect around US \$ 1.15 billion from back tax and penalties.

In Indonesia tax compliance is still low. In 2018 the Yemen government was only capable of collecting Rp900.82 trillion tax funds (Sugianto, 2018) whereas, in 2017 out of 18 million people only 10.59 million were able to pay their tax. In that year the country had targeted 14 million people who were supposed to report their annual tax returns (Hery & Jasman, 2019). According to Yulianto, Fen, Dew and Alamsya (2019) taxpayer's happiness, welfare, age, level of education and electronic participation are some of the factors that affect tax compliance in Indonesia. Nevila (2016) tax compliance is usually affected by tax rate, penalty, likelihood of being audit, macroeconomic factors, sociocultural and institutional factors such as; corruption and cost compliance.

In Yemen non-compliance with tax is valued. In 2004 a self-assessment system (SAS) was developed. The country also created a detailed public administration do deal with tax evasion, do a number of international, regional and governmental jobs to reduce financial crime and tax evasion (Aljamaree & Algaylee 2007). However, Embassy of Yemen (2007) noted that despite all this effort, level of tax evasion was still high. Helhel and Ahmed (2104) suggested that some of the factors that affects tax compliance in Yemen includes; high tax rates, unfair tax system and inadequate number of tax officers.

Due to non-tax compliance a lot of countries have developed strategies to increase revenue collection. Countries such as; Sri Lanka, Indonesia, Australia, Irelan, New Zealand and United Kingdom are using self-assessment systems (SAS) for individuals. SAS is the process where tax authority is in charge of assessing tax return and determine tax liability which is moved to tax payers. Tax payers have to make sure that when filing for their taxes they

correctly declare their income and compute the tax payable a cost is then deducted before making a claim in their return (Mohd, 2010).

### **1.1.2 Regional Perspective on Tax Compliance**

In a lot of developing countries, a lot of tax revenue is usually not collected (Bird, 2012). Karanja (2014) adds that a lot of self-owned businesses do not comply with tax laws and regulations and it is estimated that it has caused a loss that ranges from \$93.20 billion to \$95.30 billion. Tanzi (2010) claims that in most developing countries tax is usually not collected because of lack of tax administration strategies that can be used to observe compliance among rental taxpayers. Garrett and Mitchell (2001) noted that a lot of tax payers also fail to pay their taxes because they do not see the benefit that the government claims it had done with the money.

In Ethiopia enforced a direct and indirect tax strategy to promote its economy. However, Akalu (2016) suggested that in Ethiopia the tax contribution to GDP ratio was recorded as being constantly low and moderately reducing because of low tax compliance. This is because of non-compliance, resentment, taxpayer's perception and attitude on paying taxes (Yesegat and Fjeldstad, 2016). Mpambara, Byiringiro and Donatille (2013) adds that a lot of tax collectors are facing a challenge due to; culture that taxpayers have to evade and avoid paying tax, communal disapproval among taxpayers against tax offences and delay in declaring taxes. Tilahun and Dinberu (2014) argues that in Ethiopia, there is still need for more emphasis to be placed on tax compliance. This is because tax compliance is still low due to, lack of knowledge, tax system is very complex, citizen's opinions on government spending, penalty, lack of fairness and equity, changes in government policies, influence from referral groups and financial limitation.

In Uganda tax compliance level is still low (Ayoki, Obwona, & Ogwapus, 2005). The Ugandan government had developed administrative strategies such as; penalties, rates and tax audits to make sure that the compliance to tax is effective (Kangave, 2005).

Musimenta, (2020) argue that a lot of taxpayers in Uganda fail to pay their taxes due to lack of knowledge and tax systems are complex. However, Ali, Fjeldstad and Sjursen (2013) stated that tax compliance attitude among tax payers is 32% lower than other neighboring countries, in Kenya it was recorded at 54% and in Tanzania 46%.

Property tax is a source of income used by Tanzanian government to develop the economy. The tax is charged to people who own properties. The amount that property owners have to declare is a rate that is fixed by the government by passing property laws. In Tanzania, avoidance to pay property tax is one of the challenge that the country is facing. Most property owners do not pay their taxes thus reduction in revenue collection (Kumburu, 2014). Priya and Tanner (2021) noted that in Tanzania in 2020 less than one in ten billion property owners paid their taxes on time and only 29.2 billion UGX was collected from. It was noted that a lot of property owners failed to file for their taxes because of poor relationship between Kampala Capital City authority officials and taxpayers, poor communication, and poor service delivery. Machogu and Amayi (2016) noted that a lot of taxpayers who are educated are able to pay their tax payers as compare to tax payers who are illiterate. Payment of tax helps tax payers avoid paying penalty and late filling.

### **1.1.3 Kenyan Perceptive on Tax Compliance**

In Kenya, taxation on rental income has been there since 1973 when the Income Tax Act was implemented. However, according to KRA (2020) records it showed that the number of landlords and developers who comply with tax obligations is less low despite the strengthening of the rental income tax provision. On 1<sup>st</sup> January 2016 the Kenya government implemented a 10% rental income tax on total rent received by landlords. This meant that

property owners were required to pay their tax return each year (KRA, 2015). According to KPMG (2015), residential rental income is simple and it has a 10% flat rate on total amount of rent a landlord receives from its tenants. It is not mandatory for landlords to produce records to show total amount of rent they receive from their properties. Moreover, Finance Act also offers pardon on taxes, penalties and interest on rental income for the period prior to 2014. Despite all this benefits, landlords still finding it hard to pay their taxes.

Karingi, Ndungu and Kiringai, (2005) noted that some of the challenges that affects tax compliance in Kenya includes, poor audit quality, politics and corruption. Thananga, Wanyoike and Wagoki (2013) adds that a lot of landlords fail to pay their taxes because of lack of proper government instruments to find and bring property owners into the tax net. Furthermore, most landlords usually collect rent on their own or use an agent. This makes it hard to trace income they have received thus, making taxation a challenge. According to Mwangi (2014), one of the main tax evasion reason is the high personal income tax rates, which tend to lead taxpayers to evade tax.

## **1.2 Statement of the Problem**

In Europe, tax evasion accounts for 8% of the GDP of economies in the region. In North and South America, tax evasion is estimated to cost economies 2% and 10% of their GDP respectively (Mansor, Tayib & Yusof, 2013). Even in perceived developed economies in the world, tax evasion undermines revenue collection substantially (Rile, 2011). Italy for instance lost close to \$340 billion to tax evasion in the year 2011 alone (The Washington Post, 2011). The country's debt of \$ 2.6 trillion representing just over 10 years of tax evasion could easily have been repaid in 8 years using these evaded taxes (Mohd & Ahmad, 2015). Tax evasion has been a universal problem affecting tax collection in all countries as well as modern economic systems in both the developed and developing nations. In the United States, it is estimated that the difference between taxes owed and taxes filed for 2015 was US\$ 475

billion (IRS, 2015). Across the globe, rental income taxes form an important source of revenue to government in both developing and developed countries. However, the volume of revenue to be generated from these sources for its expenditure program relies on among other things, the tax payers willingness to comply with the existing tax laws (Kirchler, 2007).

In Kenya, tax compliance is still low with the Kenya Revenue Authority not meeting its revenue budget as it had a performance of 98.6% having collected 1.51 T against a budget of 1.47T (KRA 2019/2020).The deficit indicates that some tax payers still remain non-compliant yet the government primarily relies on taxes to meet its budget. Landlords and developers who comply is still with this tax obligation is low despite the introduction the simplified rental tax regime in 2017.Hence, in the 8<sup>th</sup> Corporate Plan by KRA (KRA, 2021), real estate is part of the tax base expansion plan. Moreover, ever since rental income tax was introduced, tax from the sector has not contributed effectively to the economy despite the fact that the sector has recorded high growth. From the collections of the domestic taxes of Ksh.1.092T against a target of Ksh.1.116T (KRA FY 2019/2020) rental tax did not contribute significantly. The government will not be able to meet its objectives effectively without the necessary resources which are majorly financed by taxes and all stakeholders in the economy are expected to contribute. Consequently, covering this knowledge gap on the determinants of monthly rental income tax compliance amongst the rental income taxpayers in Masii town which is in Machakos County is the main purpose of this study. This is because tax evasion causes the government to lose on revenue for development of the country.

### **1.3 Objective of the Study**

The studies general objective was to find out the determinants of residential monthly rental income tax compliance among landlords in Masii Town in Machakos County.

#### **1.3.1 Specific Objectives**

The specific objectives were to:

- i. To determine the effect of technology on residential monthly rental income tax compliance among landlords in Masii Town in Machakos County.
- ii. To establish the effect of tax payers knowledge on residential monthly rental income tax compliance among landlords in Masii Town in Machakos County.
- iii. To determine the effect of compliance cost on residential monthly rental income tax compliance among landlords in Masii Town in Machakos County.

### **1.3.2 Research Questions**

- i. What is the effect of technology on residential monthly rental income tax compliance among landlords in Masii Town in Machakos County?
- ii. What is the effect of tax payer's knowledge on residential monthly rental income tax compliance among landlords in Masii Town in Machakos County?
- iii. What is the effect of compliance cost on residential monthly rental income tax compliance among landlords in Masii Town in Machakos County?

### **1.4 Justification**

The study sought to understand what determines residential monthly rental income tax compliance among landlords in Masii town in Machakos County. The study will be of importance to; scholars who will use finding and recommendations of this study to identify the gap and conduct further research in another county and determine other factors that determine residential rental monthly tax compliance. Kenyan government will also be able to use this study to develop effective policies that will be favorable and encourage landlords to pay their income tax obligation and reduce non-compliance. Property owner will also benefit from this study because it will give them insight on factors that determine residential monthly rental income tax compliance thus look for ways that they can use to improve their compliance in relation to tax.

### **1.5 Scope**

The general objective of the study is to determine residential monthly rental income tax compliance determinants among landlords in Masii Town in Machakos County. The study looked at the following variables: technology, taxpayers knowledge and compliance cost. The study was done in Machakos County and it targeted landlords who received rent monthly from residential tenants in years 2018-2020.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section looks at literature review on effects of technology, knowledge and compliance cost. The chapter also discusses theoretical review, conceptual framework, empirical literature, summary and research gap.

#### **2.2 Theoretical Review**

##### **2.2.1 Economic Deterrence Theory**

Different tax systems are faced with the challenge of taxpayers failing to comply with tax obligations which are filing returns and making payments. Economic deterrent theory is the most favored in trying to explain this tax collection challenge (Hasseldine & Bebbington,1990).

The economic deterrence theory, is viewed as one of the major theoretical areas that have an impact on tax compliance. However, this theory has been impacted upon by the development of social and psychological models (Frey & Feld, 2002; Slemrod, 2007). The theory includes deterrence through punishment, which may be a retroactive interference. It holds out the threat that if a taxpayer commits a wrong, the punishment will be unleashed (Guth & Sausgruber, 2004; Feld & Frey, 2006; Devos, 2007).

According to the economic deterrence theory, taxpayers are moral profit seekers, and their actions are empowered by the calculation of costs and the opportunities that come with that. As a result of the impact that economic deterrence theory has on taxpayers, they weigh the likelihood of being charged against the cost of the offense when managing their tax affairs (Guj, Bacoum & Limerick, 2013). The taxpayer employs the economic rationale, assuming

that the taxpayer will circumvent taxation as long as the associated payoff of the tax evasion is higher than the average cost of being apprehended (Guth & Sausgruber, 2004).

Economic deterrence has been shown in theoretical studies to have a positive impact on tax evasion deterrence. This is because the theory emphasizes the use of menace, coercion, and intrinsic material incentives. Governments will use interest rates on late payment, the perceived likelihood of being caught in the case of evasion, legal consequences that can result from being caught, and the severity of those consequences to ensure that the thought of punishment will bring them into compliance (Feld, Schmidt & Schneider, 2007).

Since the study aims to find out the determinants of residential rental income tax compliance, the theory emphasizes the fact that the economic consequences, which are a cost, to tax evasions could deter taxpayers from non-compliance. On the other hand, when the economic consequences are considered minimal, then taxpayers may tend to intentionally evade paying taxes as they could easily bear the consequences (Sacks, 2012). In evaluating what determines residential monthly rental income tax compliance among Landlords; the influence of taxpayers knowledge is associated to the theory because when the tax laws are considered weak and less punitive to tax defaulters and offenders, the taxpayers are likely to fail to comply since they can easily beat the existing tax laws. On the contrary, when tax laws are strict and are highly punitive, then the taxpayers will weigh the consequences and hence comply as per the requirements of the law. On cost of compliance the theory relates that when the cost of non-compliance is higher than cost of compliance, taxpayers will be deterred from defaulting and still when the cost of compliance is bearable and could be easily absorbed by the individuals and the business, this may lead to assumptions and failure to comply to set dates and other requirements for tax computation and payment thereof.

Based on the foregoing discussions, the economic deterrence theory supports the study dependent variable because rental income tax compliance has economic consequences to the taxpayer. Those taxpayers, who choose to voluntarily comply, would save on the costs of audits, fines and penalties that may arise. However, to avoid facing these economic consequences of non-compliance, there is a need for taxpayers to be aware of the applicable tax laws, procedures and rules that govern the administration of residential monthly rental income. All these bear the economic consequences hence the theory encourages compliance behaviour while deterring non-compliance due to the economic consequences borne by the taxpayer. Even though these factors may vary depending on the category of taxpayer, it is a common practice that the economic consequences inform individuals and businesses to decide on whether to be tax compliant or not. Failure by the landlords to understand either of the variables in the study may ultimately lead to higher costs of doing the residential rental business hence hindering the owners from realizing their economic goals.

### **2.2.2 Diffusion of Innovation (DOI) Theory**

This hypothesis was created by Lazarsfeld in the year 1949. It depicts the examples of selection of innovation, clarifying the instrument of the reception and further anticipating whether and how another creation or advancement will be fruitful. The Diffusion of Innovation hypothesis recommends that mechanical development is imparted through specific channels, after some time, amongst the individuals from a social framework. In light of this definition, utilizing technological innovations is a genuinely new practice in Kenya and can be viewed as a development for every individual. As indicated by Rogers (2003), the phases through which a mechanical development passes includes five stages which normally take after each other in a period requested way. The stages are: Persuasion, Knowledge, Decision, Confirmation and Implementation. Advancement choices might be discretionary, group or expert based (Sahin, 2006). This hypothesis demonstrates that mechanical

development is conveyed by means of particular channels, after some time, amongst the people from a social system. The hypothesis identifies with the nation Kenya in tax compliance that with the advancement of I-tax framework compliance is improved.

Diffusion is a social process that occurs among people in response to learning about an innovation such as a new evidence-based approach for extending or improving health care. In its classical formulation, diffusion involves an innovation that is communicated through certain channels over time among the members of a social system. The typical dependent variable in diffusion research is time of adoption, though when complex organizations are the adopters, subsequent implementation is a more meaningful measure of change. (Rogers ,2018).

The proponent of the Diffusion of Innovation Theory argues that Adoption of a new technology, behavior, or product does not happen simultaneously in a social system; rather it is a process whereby some people are more apt to adopt the innovation than others. Therefore, people who adopt an innovation early have different characteristics than people who adopt an innovation later. When promoting an innovation to a target market, it is important to understand the characteristics of the target market that will help or hinder adoption of the enhanced technology systems needed to improve collection of revenues (DeYoung & Rice, 2017),

This theory is useful in to this research since it lays out the manner in which new technological tax systems of revenue collection is spread. Innovation of new technological tax systems will therefore, spread if end users got to know about it and are persuaded that it is good, if taxpayers decide to adopt and implement it and if others confirmed it as a good choice. Failure at any stage may hinder the spread of the innovated new technological tax systems resulting to a positive or negative revenue collection.

### **2.2.3 Fiscal Exchange Theory**

According to the fiscal exchange theory, the presence of government spending may motivate compliance. The proposition is well rooted in economics and political science (Moore, 2004). For instance, Alm *et al.* (1992) notes that compliance rises in direct proportion to (perceptions of) the availability of public goods and services. They propose that governments can boost compliance by providing goods that citizens prefer in a more efficient and accessible manner, or by emphasizing more effectively that taxes are required to receive government services.

This theory assumes that agents behaviour are motivated by the effort of the government to provide public goods and services. Individuals pay taxes when they perceive that it actually serves to finance public goods. They think that their contributions could be used for purposes other than intended and would need evidence or motivations. This thesis is similar to the gift theory where the government receives taxpayer resources and in return provides public goods.

Das *et al.*, (2014) showed that in India, the annual tax cost related to the lack of primary teachers is 1.5 billion dollars. The quality of education services provided by the state seems to be very important in explaining the tax behaviour. According to these authors, increasing the number of inspectors to monitor teachers would reduce the tax loss. In the same note, Bodea and LeBas (2014), in a study of the Urban Area in Nigeria, found that individuals pay taxes with regard to the supply of public goods. Using logit regression on survey data, they showed that when individuals acquire club goods without the intervention of the state, they are less likely to take payment of the tax as an obligation. Authors also concluded that in conflict areas, where the delivery of club goods is limited, individuals perceive the tax as a duty. Furthermore, empirical evidence of this theory. Ali *et al.*, (2013) indicated that in

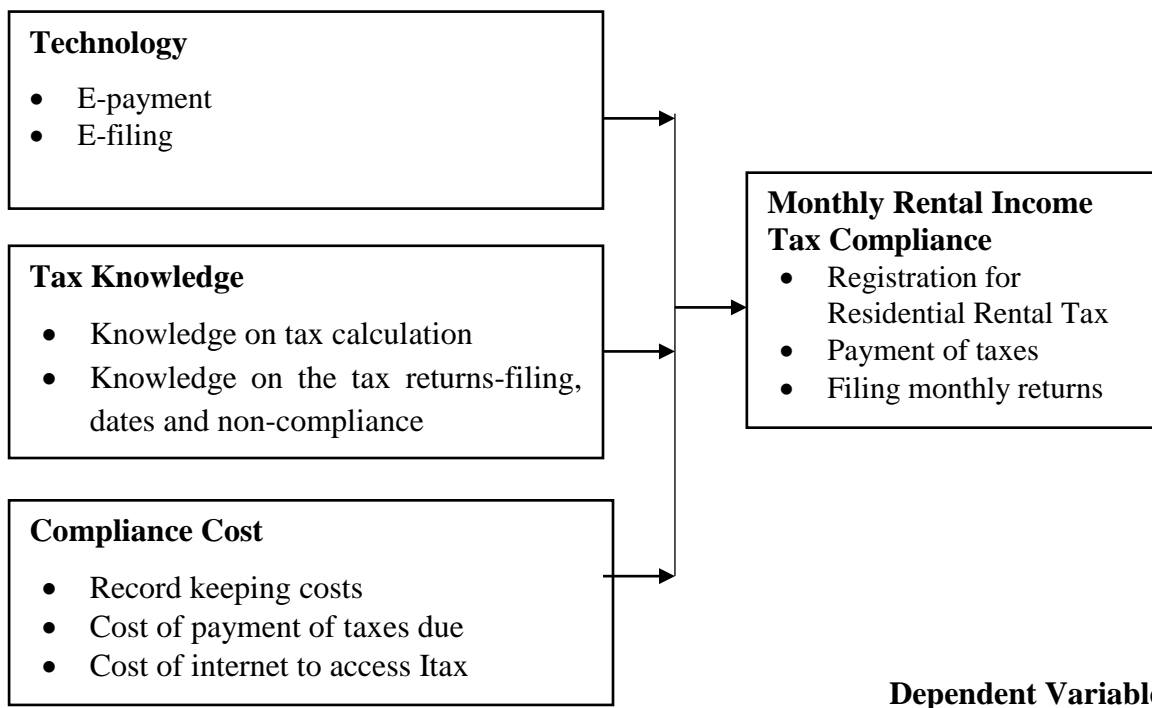
Tanzania and Uganda, individuals who are satisfied with the government's provision of basic health services and educational needs are more likely to have compliant attitude.

They also found that in Kenya, individuals who are more satisfied with the provision of infrastructure, such as roads and electricity, are more likely to have a tax compliant attitude, while in South Africa, individuals who are more satisfied with the issuing of identity card and obtaining household and police services, are more likely to have a tax compliant attitude. In contrast, Fjeldstad (2004) found no solid empirical evidence of this theory in South Africa. D'Arcy (2011) pointed out that tax behaviour goes beyond the simple relationship between two actors; taxpayer and tax administration. The decision to evade taxes depends not only on the relation between a citizen and the tax authorities but also between the citizen and all the other citizens in the country as their taxes will be used to finance public goods for their own consumption but also for the consumption of other individuals in society. This is partially explained by the nature of "non-exclusion" of public goods. This explanation puts forward a selfish vision of the taxpayer and could explain the use of non-economic explanations of the taxpayer behaviour. If property owners believe that the taxes they pay will improve infrastructure like roads, electricity and garbage collection, they will aim to comply with the taxes the government has put in place.

### **2.3 Conceptual Framework**

A conceptual framework is a diagrammatic demonstration or representation of the relationship between independent and dependent variables being studied (Cooper & Schindler, 2012). In this study the independent variables were technology, knowledge and compliance cost and the dependent variable was Monthly Rental Income Tax compliance as shown in Figure 2.1

### Independent Variable



**Figure 2.1: Conceptual Framework**

The independent variables were technology, measured by e- payment and e-filing. Taxpayer knowledge was measured by knowledge on tax calculation and knowledge on the tax returns- which covers the filing dates and non-compliance implications. Compliance cost was measured by record keeping cost, cost of filing a tax return and cost of internet. The dependent variable was Monthly Rental Income Tax compliance was measured by

registration for Residential Rental tax and timely payment of taxes and filing the required monthly returns.

## **2.4 Empirical Literature**

### **2.4.1 Technology and Monthly Residential Rental Income Tax compliance**

Technology plays a vital role in creating transparency among government organizations. This is because it helps government and organizations delegate information and provide services through electronic systems. It increases the speed in which government authorities provide citizens services and it also covers a wide geographical area (Vasconcellos & Rua, 2005). Jankeepsad and Nienaber (2016) maintained that the use of technology also helps citizens in South Africa request for government services after paying taxes. In developed countries, the use of technology affects the way tax systems are created, designed and administered. Technology is used to increase tax administration efficiency, increase taxpayer services and boost tax compliance (Dowe, 2008). An effective technology should be used in tax administration if it is able to reduce life of tax, increase efficiency, reduce errors in procedures, increase multi-tasking and is simple and easy to use by tax payers thus, increase tax compliance (Caho et al, 2006).

Duncan (2010) noted that the use of technology enables tax authority to create a filing program that is interactive that can be used for filing complex tax and administrative function such as; registration of taxpayer, maintenance of taxpayers account and tracking of refund status. The use of technology should increase tax process, save time and money and offer good and affordable customer service. Technology should also help tax collection agencies put all taxpayers' information in one database and it should also have a tool that that can be used to identify or combat non-compliance to facilitate tax compliance (Allink & Kommer, 2010).

The use of I-Tax has helped increase the speed at which tax services are being offered, increase timely checking of taxpayers penalties and interest and it has also increase revenue collection (Shekidele 2007). Victor-Nyambo, (2009) the use of technology helps government authorities store taxpayers' information which can be retrieve especially when needed as evidence to show if tax has been paid and filed returns. It also helps to boost tax compliance because taxpayers know that government sector has correct and up to date information based on tax liabilities and payment. Technology also helps government sector to do monitoring and evaluation, plan, increase administrative process and correct application of tax return.

Kamau (2014) examined the adoption of technology as strategic tool in enhancing tax compliance in Kenya: A Case Study of large taxpayers of Kenya Revenue Authority. The study showed that adoption of technology has a positive effect on the tax compliance levels of the large taxpayers. It was however recommended that KRA should sensitize tax payers on systems that they are using and how they can use them to file for their taxes thus increase tax compliance. Nyakundi (2018) investigated the effect of tax compliance strategies expenditure on government tax revenue in Kenya. It was established that use of technology, law implementation and tax payer's education has a positive effect on tax revenue collection. Odongo (2016) investigated effects of electronic tax filing systems on compliance amongst small and medium enterprises within Mombasa Central Business District. The findings showed that the knowledge that tax payers have on electronic filling and payment has an effect on tax compliance.

Manly, Thomas, Ristema, (2005) noted that electronic taxation system are currently being used all over the world to increase collection of tax revenue, reduce mistakes that used to occur while using manual filing and help stop tax evasion. Muturi and Kiarie (2015) conducted a research on effects of online tax system on tax compliance among small taxpayers in Meru County, Kenya. It was indicated that online tax system has an impact on

taxpayer's compliance level. Kariuki (2013) in his study on assessment of Internet usage on SMEs it was established that the use of ICT influences revenue administration and collection. It reduces errors, data processing time, costs, increase customer service and voluntary tax compliance which in turn increases revenue collection. Kiring'a and Jagongo (2017) examined impact of online tax filing on tax compliance among small and medium enterprises (SME's) in Kibwezi sub-county in Kenya. It was established that online filing system has an effect on tax compliance.

Ninis, Isnalita and Noorlailie (2018) explored the effect of e-filing implementation, level of tax comprehension, and tax sanction on formal compliance of individual taxpayer. The findings showed that implementation of E-filing, tax sanction and tax knowledge had a positive and significant effect on tax compliance. Wasao (2014) investigated the effect of online tax system on tax compliance among small taxpayers in East of Nairobi Tax District. It was indicated that online system affects tax compliance. Sihar and Yeny (2017) conducted an analysis on the effect of e-filing on the of compliance individual taxpayer, moderated by taxation socialization. The findings revealed that e-filing has a positive and significant effect on tax compliance.

#### **2.4.2 Taxpayers Knowledge and Monthly Residential Rental Income Tax compliance**

Tax knowledge is the process where taxpayers are able to know and understand well tax rules and regulations that are implemented by the law (Fauziati, Minovia & Muslim., 2016). It is very important for tax payers to have knowledge on tax rules thus reduce their negative behavior regarding tax. This will increase tax payer's level of compliance (Tutik & Mono, 2017). Nugroho and Zulaikha (2012) stated that having knowledge and understanding tax regulation helps taxpayers know the importance of declaring their tax, dates of making payment and where and how to make tax payment. OECD (2001) noted that amount of knowledge that taxpayers have will greatly influence their level of compliance. Akintoye and

Tashie (2013) adds that knowledge also helps taxpayers understand their rights, responsibilities and sanctions.

Kirchler (2008) argued that tax payer's knowledge has a positive effect of taxpayer's attitude towards tax compliance. Tax payers will be able to know what they are supposed to do and at what time. However, lack of tax knowledge among tax payer will create distrust and negative attitude towards tax (Hofmann, Hoelzl & Kirchler, 2008). Devano and Blessed (2006) indicated that tax knowledge and compliance of taxpayers to meet their tax responsibility does not only depend on tax collection methods and procedures, tax rates and penalties but is also dependents on tax payers willingness to pay their tax. In Indonesia, lack of awareness and compliance is influenced by lack of understanding of tax regulations and negative attitude that customers have and tax fraud (Listyowati & Suhendro., 2018).

Yayuk, Margono and Eka (2017) investigated the role of taxpayer awareness, tax regulation and understanding in taxpayer compliance. It was revealed that tax payers knowledge and understanding of tax rules and regulation and awareness has a positive effect on tax compliance. It was also revealed that taxpayers do not understand tax administration, use of information technology and importance of paying taxes. Nurkhin, Novanty, Muhsinand Sumiadji (2018) studied the influence of tax understanding, tax awareness and tax amnesty toward taxpayer compliance. The findings showed that tax awareness, understanding and perception have a positive effect of tax compliance.

Nurlis (2015) studied the effect of taxpayer awareness, knowledge, tax penalties and tax authorities' services on the tax compliance: Survey on the Individual Taxpayer at Jabodetabek & Bandung. It was indicated that awareness has an effect on tax compliance whereas, knowledge has a negative effect on tax compliance. Because taxpayers who have tax knowledge looks for ways of avoiding tax obligations. Berhane and Yesuf (2013) conducted an assessment of the challenges and opportunities of business house rental income

taxation in regional state of Tigray. It was revealed that in Tigray has inadequacy and insufficient number of business house rent tax assessment and collection officers. The study also showed that a lot of taxpayers do not have the required knowledge of tax assessment and collection procedures, do not know tax rules and regulation.

Waithira (2016) conducted a study on determinants of residential rental income tax compliance by property owners in Thika Town. The study showed that there was a positive and significant relationship between residential rental income tax compliance and tax knowledge attitude, tax rate and perception. The study suggested that training programs should be developed to create awareness among taxpayers on residential rental income tax compliance. Wadesango and Mwandambira Nokhu, (2018) conducted an evaluation on the impact of tax knowledge on tax compliance among small medium enterprises in a developing country. It was revealed that tax payers do not have the required tax knowledge. The study therefore recommended that a more awareness should be created on income tax and proper record keeping.

Niway and Wondwossen (2017) investigated tax awareness and perception of tax payers and their voluntary tax compliance decision: evidence from individual tax payers In Snnpr, Ethiopia. The study showed that tax awareness influences voluntary tax compliance. It was also revealed that a lot of individuals consider tax rate and penalty as being very high and that the tax system is not fair. Musau (2015) conducted a research on determinants of tax compliance among small and medium enterprises in Kenya: A case of Nairobi County. The study revealed that tax payers who are happy with what the government is doing for the economy with the taxes collected usually have a lot of tax information, trust government representatives to handle their taxes and have a positive perception toward tax compliance.

However, a study done by Bird (2014) is it really so hard to tax the hard-to-tax? The context and role of presumptive taxes; prepared for a conference on the hard to tax sector. It showed

that tax knowledge does not affect tax compliance. A study done by Fauziati and Kassim, (2020) also showed that tax knowledge does not have any effect on tax compliance. Harris (2012) in his study also revealed that tax knowledge does not have any effect on tax compliance.

### **2.4.3 Compliance Cost and Monthly Residential Rental Income Tax compliance**

Tax compliance cost is expenses acquired by an organization or individual in meeting tax rules and regulation (Nahida, Copp, Freudenberg & Sarkerl., 2014). Tax compliance is defined by Sandford *et al.*, (1989) as the costs that tax payers earned in adhering to tax law, regulations and requirements. Individual cost includes; monetary and time cost of getting financial knowledge to meet their legal requirements. The cost is usually based on time spent in filling tax returns, getting, filing and storing data to complete filing for returns (Chattopadhyay & Das-Gupta, 2002). Eragbhe and Modugu (2015) argued that compliance cost consist of internal compliance cost, external compliance cost and incidental costs such as psychological cost. Usually, taxpayers incur cost such as; getting and organizing information, employing internal auditors, buying stationaries and materials that will be used during auditing and time spent calculating and filing taxes (OECD, 2009).

Compliance cost are actual cost that are used to calculate tax that tax payers are supposed to pay (Pope, 2008). Thiga and Muturi (2015) argue that cost that taxpayers incur due to preparing for tax usually vary however, unlike taxes preparation cost is usually expensive. Taxpayers are able to measure tax compliance preparation costs by measuring the number of hours it takes and organization to calculate and pay its taxes. Deogratius (2017) noted that high tax compliance cost makes a lot of individuals and business not to file their taxes. This is because a lot of people sees tax system as being not being fair. Friedland (2008) stated that the higher the tax rates the lower the tax compliance. This is because high tax rates makes tax compliance become expensive to tax payers because it will decrease their profits. Higher tax

rates also makes taxpayers especially businesses hide their income which leads to non-compliance.

Shaw, Slemrod and Whiting (2008) argued that tax compliance costs declines when the number of tax rates decreases and also when compliance procedures are organized and managed effectively. KPMG (2006) reported that in UK and Australia tax compliance cost reduces when there is an increase tax law stability and when new tax laws are not introduced often. This gives people an opportunity to incur fewer costs and spend less time to become familiar with the current tax laws. A report done by OECD (2014) showed that tax compliance cost usually increases as the number of taxes that a taxpayer is subject to, difficult tax rules, how often tax payers file their tax returns and the number of government personnel who are involved in imposing and gathering taxes.

Kariuki and Njeru. (2019) studied determinants of tax compliance by small and medium businesses in Embu County, Kenya. It was revealed that compliance cost has a positive effect on tax compliance. It was suggested that Kenya Revenue Authority should develop policies to reduce tax compliance cost acquired by SME's thus, avoid limiting their growth and encourage voluntary tax compliance. Deogratius (2017) studied the impact of tax compliance costs on tax compliance behaviour. The findings showed that tax compliance is affected by compliance cost. The study recommended that tax system should be made simple. Mukabi (2014) studied factors influencing turnover tax compliance in the Kenya revenue authority domestic taxes department in Nairobi County. It was revealed that compliance cost and tax systems that are complicated leads to low compliance among tax payers.

Mogeni (2014) in his study on the effects of compliance cost on tax compliance of companies listed at the Nairobi Securities Exchange. The study suggested that tax compliance cost should be in such a way that it will not make tax payers avoid paying their taxes and the government should enforce effective strategies that will make taxpayers pay for fine and be

punished if they avoid paying their taxes. The tax process should also be made simple and easy. Osebe (2013) conducted an analysis of factors affecting tax compliance in the real estate sector in Kenya: A Case of real estate owners in Nakuru town. The study showed that compliance cost has an effect on tax compliance among real estate sector. This is because most property owners believe that high tax compliance cost leads to tax avoidance and fraud hence, low tax compliance. Jemaiyo and Mutai (2016) studied determinants of tax compliance and the influence on the level of tax compliance in the real estate sector in Eldoret. The findings revealed that tax audits, penalties and tax compliance costs have a positive effect on tax compliance.

#### **2.4.4 Rental Income Tax compliance**

We often hear the agony of taxpayers who are willing to comply with their tax obligations but due to complications in the procedures and process of paying taxes, they end up not being able to comply. If only the tax law and tax administration could be simplified in that the processes and procedures of paying taxes is shorter and simpler, many taxpayers would be willing to voluntarily comply. (Lumumba et al. 2010)

The Simplified Rental income tax was introduced by the Finance Act of 2015. This tax is to be charged at a flat rate of 10% on gross rent received in a month by a landlord in accordance to Section 6A of Income Tax Act CAP 470 (KRA, 2021). For one to be eligible, there must be collection of a minimum monthly rent of Ksh.24, 000 and maximum 15M per annum. Rental income tax is payable when the landlord received rent either monthly, quarterly semi-annually or annually. The returns must however be filed on or before the 20<sup>th</sup> of the following month. Residential rental income is a final tax. In case of late filing of MRI, there is a penalty charge. Ksh.2, 000 or 5% of the tax due whichever is higher for individuals and Ksh.20, 000 or 5% of the tax due whichever is higher for corporates. Late payment of taxes due also

attracts a penalty of 5% of the tax due and late payment interest of 1% per month on the unpaid tax until the tax is paid in full.

In case of where the taxpayers view the tax system to be unfair i.e. in terms of high tax rates, then there is need for KRA to lobby National Treasury do some adjustments to the tax rates. The rates need to be reduced to enable taxpayers to duly pay their taxes and by so doing the government will collect high revenue and tax compliance rate will be high (Lumumba, Migwi and Obara, 2010). In areas where the taxpayers view the tax system to be too complicated, reforms need to be taken on the tax system in order to simplify it to accommodate every tax payers who may default or not comply because of the complexity of the tax system. Education need to be carried out frequently and throughout to educate the taxpayers on the current tax system (Lumumba et al, 2010).

Most taxpayers would like to pay taxes but once a taxpayer view the tax system to be unfair and unjust, the willingness to voluntarily pay taxes fade away. Not that many truly enjoy writing tax cheques to their government but if a high level of taxpayer compliance is to be achieved, respect for this basic obligation of citizenship is crucial. The lack of a strong, fair and just national tax system, we are unable to provide for national defense, health care, social security, and the other public services that are of importance to the country. Acceptance of this is vital to the proper functioning of government and to this end, the legislative and executive leaders are uniquely positioned to strengthen public support. Their daily words and actions clearly shape national thought. It is through repeated emphasis on the tax systems significance to the well-being of our democracy does have a positive and meaningful effect (Richardson, 2000).

Sensitizations need to be done to encourage a tax payer on voluntary compliance to tax payment. Tax education need to be part and parcel of KRA. New products and upgrading of

the systems is important and aim to achieve the optimal objective for tax compliance but without communication all these will be drawbacks to the tax institution (Lumumba, Migwi and Obara, 2010).

## **2.5 Critique of Existing Literature**

Technology plays a vital role in creating transparency and efficiency in service delivery. The Kenyan Revenue Authority has used ICT used to streamline the tax administration process, increase tax collection and tax compliance. Evidence show that use of I-Tax has helped increase the speed at which tax services are being offered, increase timely checking of taxpayer's penalties and interest and it has also increase revenue collection (Chatama, 2013).

Manly, Thomas, Ristema, (2005) noted that electronic taxation system is currently being used all over the world to increase collection of tax revenue, reduce mistakes that used to occur while using manual filing and help stop tax evasion. Kiring'a and Jagongo (2017) examined impact of online tax filing on tax compliance among small and medium enterprises (MSE) in Kibwezi sub-county in Kenya. It was established that online filing system has an effect on tax compliance.

Tax knowledge the process where taxpayer are able to know and understand tax rules and regulations that are implemented (Fauziati, Minovia & Muslim., 2016). Nugroho and Zulaikha (2012) stated that having knowledge and understanding tax regulation helps taxpayers know the importance of declaring their tax, dates of making payment and where and how to make tax payment.

Berhane and Yesuf (2013) noted that a lot of taxpayers do not have the required knowledge of tax assessment and collection procedures, do not know tax rules and regulation. Wadesango and Mwandambira Nokhu, (2018) noted that tax payers do not have the required

tax knowledge. They recommended that a more awareness should be created on income tax and proper record keeping.

Musau (2015) also noted that tax payers who are happy with what the government is doing for the economy with tax collected usually have a lot of tax information, trust government representatives to handle their taxes and have a positive perception toward tax compliance.

Tax compliance cost is expenses acquired by an organization in meeting tax rules and regulation (Nahida, Copp, Freudenberg & Sarkerl, 2014). Eragbhe and Modugu (2015) argued that compliance cost consists of internal compliance cost, external compliance cost and incidental costs such as psychological cost. Deogratius (2017) noted that high tax compliance cost makes a lot of individuals and business not to file their taxes. This is because a lot of people sees tax system as being not being fair.

## **2.6 Summary**

This section looks at literature review on effects of technology, knowledge and compliance cost. The chapter also discusses theoretical review and this study incorporated the Economic Deterrence Theory, Diffusion of Innovation Theory and Fiscal Exchange Theory. The section also presents the conceptual framework which outlines the relationship between the dependent and independent variables. The empirical literature in this chapter looks at the past studies done on Tax compliance. The last section presents the summary and research gap.

## **2.7 Research Gap**

Berhane and Yesuf (2013) conducted an assessment of the challenges and opportunities of business house rental income taxation in regional state of Tigray. It was revealed that in Tigray has inadequacy and insufficient number of business house rent tax assessment and collection officers. The study also showed that a lot of taxpayers do not have the required knowledge of tax assessment and collection procedures, do not know tax rules and regulation.

Nyakundi (2018) investigated the effect of tax compliance strategies expenditure on government tax revenue in Kenya. It was established that use of technology, law implementation and tax payer's education has a positive effect on tax revenue collection. Kariuki (2013) in his study established that the use of ICT influences revenue administration. It reduces errors, data processing time, costs, increase customer service and voluntary tax compliance which in turn increases revenue collection. Gathanja (2013) also agreed that Kenya Revenue Authority should embark on public awareness campaigns to educate the public on their role and responsibilities in taxation rather than approaching the matter from a legal obligation perspective. Thananga, Wanyoike and Wagoki (2013) examined compliance on rental tax policy in Nakuru. Karanja (2014) and Kuria (2013) examined the factors affecting voluntarily tax compliance by landlords in Nairobi and Kilifi, Kenya respectively. Additionally, Maseko (2014), Musau (2015), Mukabi (2014) and Makori et al (2013) assessed the various factors which influence tax compliance by SMEs in various parts of Kenya. However, most of the existing and reviewed studies have focused more on small and medium enterprises compared to residential rental property owners. Moreover, taxation of rental properties in Kenya is still a young concept since residential rental property owners did not have a specific tax regime in the past years till 2017. This current study is done to determine Monthly Residential Rental Income Tax compliance by landlords in Masii town in Machakos County.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents research methodology that was used in the study. It discusses research design, target population, sampling frame, sample and sampling technique, instruments, data collection methods, pilot test and data processing and analysis.

#### **3.2 Research Design**

Research design is defined as a plan or strategy used to get the required results of a study (Kothari, 2014). Creswell (2009) also defines research design as an outline used in a study to know how data was collected and analyzed with an aim of getting specific answers to research. The study used descriptive research. Descriptive research was used because it will help the researcher get more information regarding variables being studied. Saunders, Lewis and Thornhill (2007) notes that descriptive design is used in a study to get accurate profile about an event, person or situation. Cooper and Schindler (2006) states the purpose of using a descriptive research in a study is to finding out where, what and how of an event. Therefore, this study was done to determine what has an effect on monthly residential rental income tax compliance among landlords in Masii Town in Machakos County.

#### **3.3 Target Population**

Population is a group of individual or elements possessing common characteristics (Kothari, 2004). Target population is the total group of elements having common characteristics that a researcher is able to notice and is interested in (Saunders, Lewis & Thornhill, 2012). The target population for this study was 255 property owners operating in Masii town in Machakos County as real estate investors in business (County Government of Machakos, 2020). The researcher chose to conduct the study in Masii due to the rapid growth of the town attributed to various economic activities like milk production and processing which has

attracted a huge population in the area who rent out accommodation and proximity to Machakos town which boast of a rapid growing population with various government and learning institutions which spills to neighbouring towns like Masii.

### **3.4 Sampling Frame**

Sampling frame is a list of elements or items that from a population from which a researcher wants to draw a sample from (Mugenda & Mugenda, 2008). Bailey (2008) stated that a sample frame is used to provide away to choose from the target population element or items that a researcher collected data from. Therefore, the sample frame for this study consisted of 155 landlords located in Masii Town in Machakos County who was selected randomly.

### **3.5 Sample and Sampling Technique**

A sample is a part of the entire population which is being studied (Ball, Gill & Spiegel, 2008). Orodho and Kombo (2002) view a sample as a small and representative number of elements or items in a population that is participating in a study. Kombo and Tromp (2009) defines a sample as the subset of a target population that is selected to represent the population in study. Gerstman (2003) argues that the use of a sample is very important. This is because a study that is not specific is a waste of time and money.

Sampling technique is the process of collecting thing, place, or people that a researcher wishes to study (Orodho & Kombo, 2002). The study used simple random sampling. According to Sekaran and Bougie (2009), simple random sampling is the collection of a sample consist of n number of sample elements in a population. The use of simple random sampling gives everybody and equal chance of participating in the study, it also helps a researcher eliminate bias and error. A sample size is a percentage of the total population from which data was collected from (Cooper & Shindler, 2006). Mugenda and Mugenda (2003) argues that a good sample size should have between 10-30% of the target population

whereas, a larger sample size should have at least 10% and not more than 30% of the entire population. The sample size was ascertained using slovins formula.

$n$  = sample size required

$N$  = Population size

$e$  = allowable error (%)

At 95% confidence level with  $\pm 10\%$

Therefore, the sample size for this study was;

$$n = N / (1 + Ne^2)$$

$$255 / \{1 + 255(0.05)^2\}$$

$$n = 155$$

### **3.6 Data Collection Instrument**

The study used a structured questionnaire to collect primary data. Cooper and Schindler (2014) defines primary data as raw information collected for target respondents. Questionnaires contains a number or a list of statements or questions that can be asked face to face using interview method or answered by a respondent at their own time (Newing, Puri & Cw, 2011). Questionnaires were chosen because they are easy to use and saves time because a researcher can collect a lot of information from a large population.

The questionnaire was in four parts. The first part have questions on demographic factors. The first part have questions on demographic factors. Second part have questions on effect technology on residential rental income tax compliance among landlords. The third part have questions on effect of taxpayer's knowledge on residential rental income tax compliance among landlords and section four have questions on effect of compliance cost on residential rental income tax compliance among landlords.

### **3.7 Data Collection Procedure**

The researcher got permission from the university before collecting data. In addition, an email was also written to Machakos County government to seek permission to collect data in Masii. Due to lack of enough time, the researcher used a research assistant to help collect data. Questionnaires was self-administered, drop and pick strategy was used because it gave respondents enough time to fill the questionnaire. Respondents was given a maximum of two days to fill the questionnaires after which the questionnaires was collected. In addition, respondents were assured that the information collected is confidential and was only used for academic purpose.

### **3.8 Pilot Test**

A pilot test using 10 questionnaires was done to determine the reliability of a questionnaire. Cooper & Schindler (2014) defines a pilot test as a method used during research to check the reliability of a research instrument using a small sample from the target population. It is usually done to identify errors in a questionnaire. The study chose to use 10 questionnaires because Sileyew (2019) argues that a good pilot test should have a sample of 10% of the total sample that has similar characteristics. Respondents who participated in the pilot test were not to participate for the final study.

#### **3.8.1 Reliability**

Reliability the processes of checking consistency, if there are any questions that have been repeated, and stability of a questionnaire (Jack & Clarke, 1998). Amin (2005) indicates that reliability is used in a study to measure the degree to which a research instrument is consistent. A research instrument is seen as being reliable if it produces results that are consistent when used repeatedly (Kothari, 2014). The study will use Cronbach Alpha to measure reliability. Cronbach Alpha is used to measure reliability and stability of a questionnaire. A Cronbach alpha of 0.7 is considered reliable.

### 3.8.2 Validity

Validity is the extent to which results which are gotten from data that has been analyzed represents the phenomenon being investigated (Taherdoost, 2016). Creswell (2014) defines validity as the process where a research instrument measures what is supposed to be measured. The study used a language that is not jargon to ensure that respondents will be able to understand the questions. Also the questionnaire was also divided into four parts to make sure that each part is valid.

### 3.9 Data Processing and Analysis

Data analysis is the process of grouping information collected from the field together, coding sorting and analyzing data in a way that can be easily understood (Kombo & Tromp, 2006). Information collected from the field was sorted and then coded according to study variables to check for questionnaires that were not filled completely or have other errors such as a page missing. Descriptive statistics such as frequency, mean and standard deviation was also used to interpret data that was analyzed. Inferential statistic such as Person correlation was used to determine the relationship between independent and depended variable. Correlation and multiple regression was also done. The study used multiple liner regression model below.

#### Regression Model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

**Y** = Monthly Rental Income Tax Compliance

**$\beta_0$**  = Constant

**$X_1$**  = Technology

**$X_2$**  = Knowledge

**$X_3$**  = Compliance Cost

**$\varepsilon$**  = Error term

$\beta_1, \beta_2, \beta_3$  = Regression coefficients of independent variables.

### 3.10 Measurement of Variables

Table 3.1 gives a summary of research objectives, variables of study and their

Variable	Indicator/Measurement	Source	Data collection instrument	Measurement scale	Types of Analysis
<b>Technology</b>	<ul style="list-style-type: none"> <li>• E-filing</li> <li>• E-payment</li> </ul>	(Dowe, 2008).	Questionnaire	5 point likert scale	Correlation Regression Analysis
<b>Tax Knowledge</b>	<ul style="list-style-type: none"> <li>• Knowledge on tax calculation</li> <li>• Knowledge on tax returns-filing, dates and non-compliance</li> </ul>	Kirchler (2008)	Questionnaire	5 point likert scale	Correlation Regression Analysis
<b>Compliance Costs</b>	<ul style="list-style-type: none"> <li>• Record Keeping costs</li> <li>• Cost of payment taxes due</li> <li>• Cost of internet to access Itax</li> </ul>	Sandford <i>et al.</i> , (1989)	Questionnaire	5 point likert scale	Correlation Regression Analysis
<b>Tax Compliance</b>	<ul style="list-style-type: none"> <li>• Timely payment of taxes due</li> <li>• Registration for Relevant taxes (MRI)</li> </ul>	(Lumumba <i>et al.</i> 2010)	Questionnaire	5 point likert scale	Correlation Regression Analysis

indicators. **Table 3.1: Measurement of Variables**

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION OF FINDINGS

#### 4.1 Introduction

The chapter presents the results by evaluating data reliability and presenting the summary statistics for research whose objective was determine factors that influence residential rental monthly income tax compliance among landlords in Masii Town in Machakos County.

#### 4.2 Pilot Study Results

The questionnaire tool was subjected to a pilot study to determine its reliability. The pilot study involved 10% of the sampled respondents hence, 10 respondents were randomly picked from Kangundo town Machakos County, Kenya. The pilot results are presented in Table 4.1;

**Table 4.1: Reliability Results**

<b>Objective</b>	<b>Alpha value</b>	<b>Number of items</b>	<b>conclusion</b>
Technology	0.851	4	reliable
Taxpayer knowledge	0.955	5	reliable
Compliance cost	0.982	4	reliable
Rental income tax compliance	0.823	3	reliable

The pilot results indicated that the reliability of technology was 0.851 using Cronbach's alpha test of reliability; the reliability of the taxpayer knowledge was 0.955; the reliability of the compliance cost was 0.982; the reliability of tax compliance was 0.823. The study results revealed that all the variables gave an alpha test value of greater than 0.70, therefore all the items were regarded reliable.

#### 4.3 Response rate

The researcher distributed 155 questionnaires to landlords in Masii Town in Machakos County, Kenya. Table 4.2 below shows the response rate.

**Table 4.2: Response Rate**

<b>Response</b>	<b>Number</b>	<b>Percentage</b>
Not respondent	23	15
Returned and filled questionnaire	132	85
<b>Total</b>	<b>155</b>	<b>100</b>

Out of 155 questionnaires distributed to the respondents, 132 questionnaires were fully filled and returned which represented 85% while 23(15%) did not respond. The response rate of 85% was considered adequate for data analysis. This could be supported by Kothari (2014) who stated that the response rate of 60% and above is good while over 70% was very good.

#### **4.4 Demographic Characteristics**

The study found it necessary to establish the demographic information of the respondents from the data collected through the questionnaires.

##### **4.4.1 Gender of the respondents**

The study categorized the respondents according to gender and the findings were indicative that most of the respondents were male representing 62.8% while female represented 37.1% of all the respondents.

**Table 4.3: Respondent Gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	83	62.8
Female	49	37.1
<b>Total</b>	<b>132</b>	<b>100</b>

#### 4.4.2 Age

The study also implored the respondents to state their age bracket. Results in table 4.4 reveal that majority (40.9%) were aged between 41-55years, 26% were aged between 36-40 years, 16.6% were aged between 30-35 years, Additionally,9.1% were age above 55 years while 6.8% were below 30 years.

**Table 4.4: Respondents' Age Group**

<b>Age Group</b>	<b>Frequency</b>	<b>Percentage</b>
Below 30years	9	6.8
30 – 35years	22	16.6
36 – 40years	35	26.5
41 -55 years	54	40.9
Above 55years	12	9.1
<b>Total</b>	<b>132</b>	

#### 4.4.3 Year of Operation

As shown on Table 4.5, 82.5% of the rentals had existed above 2 years, with 12.1% of rentals having existed between 1-2 years while 5.3% existed less than 1 years. The study results indicates that majority of rentals existed above 2 years.

**Table 4.5: Year of Operation**

<b>Years of operation</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 1 years	7	5.3
1-2 years	16	12.1
Above 2 years	109	82.5
<b>Total</b>	<b>132</b>	<b>100</b>

#### 4.4.4 Monthly Rental Income

The respondents were also asked about their Monthly Rental Income. This was to gauge how much they were making in terms of monthly rental income. Majority of those interviewed said that their monthly collections were above 64,000-84,000 at (45.5%), followed by above 84,000 at (31.8%), 24,000-64,000 at (22.7%).

**Table 4.6: Monthly Rental Income**

<b>MRI</b>	<b>Frequency</b>	<b>Percentage</b>
24,000 – 64,000	30	22.7
64,000 – 84,000	60	45.5
Above 84,000	42	31.8
<b>Total</b>	<b>132</b>	<b>100</b>

#### 4.5 Assumptions of Regression

Prior to performing the inferential analyses, statistical assumptions were tested to establish if the data met the normality, and collinearity assumptions, and it was on the basis of these results, that tests of associations and prediction were performed.

##### 4.5.1 Test of Normality

The Shapiro-Wilk test was employed to test for normality. This test establishes the extent of normality of the data by detecting existence of skewness or kurtosis or both. Shapiro-Wilk statistic ranges from zero to one with figures higher than 0.05 indicating that the data is normal (De Vos, Strydom, Fouche&Delpoort, 2011).

Normality was tested using the Shapiro-Wilk test and the results showed that all the variables were above 0.05 ( $p > 0.05$ ) hence confirming data normality. Normality assumes that the sampling distribution of the mean is normal. P-values for the Shapiro-Wilk tests were 0.28 for technology, 0.33 for taxpayer knowledge, 0.14 for compliance, and 0.38 for tax compliance. Since all the p-values were greater than the cutoff point of 0.05 at 95%

confidence level, this confirms that data was collected from a population which is normally distributed.

**Table 4.7: Tests of Normality**

	Shapiro-Wilk	
	Statistic	Sig
Technology	1.028	0.28
Taxpayer knowledge	1.320	0.33
Compliance cost	1.217	0.14
Tax compliance	1.069	0.38

a. Lilliefors Significance Correction

#### **4.5.2 Multicollinearity Test**

Multicollinearity is a phenomenon whereby high correlation exists between the independent variables. It occurs in a multiple regression model when high correlation exists between these predictor variables leading to unreliable estimates of regression coefficients. This leads to strange results when attempts are made to determine the extent to which individual independent variables contribute to the understanding of dependent variable (Creswell, 2014).

The consequences of Multicollinearity are increased standard error of estimates of the Betas, meaning decreased reliability and often confusing and misleading results. Multicollinearity test was conducted to assess whether high correlation existed between one or more variables in the study with one or more of the other independent variables. Variable Inflation Factor (VIF) measured correlation level between the predictor variables and estimated the inflated

variances due to linear dependence with other explanatory variables. It was tested by computing the Variance Inflation Factors (VIF) and its reciprocal, the tolerance.

In the current study tolerance ranged from 0.103 to 0.394 and therefore its reciprocal, the VIF was between one and two, which is below the maximum threshold value. A common rule of thumb is that VIFs of 10 or higher (conservatively over 5) points to severe multi-collinearity that affects the study. A tolerance threshold value of below 0.2 indicates that collinearity is present (Ary, Jacobs & Sorensen, 2015). The results revealed no problem with multicollinearity. The variables of the study indicated VIF values of 1.201 for technology, 3.010 for taxpayer knowledge and 6.612 for compliance cost which is less than 10. This indicated that the data set displayed no multicollinearity.

**Table 4.8: Multicollinearity Test**

(Constant)	Collinearity Statistics	
	Tolerance	VIF
Technology	0.181	1.201
Taxpayer knowledge	0.103	3.010
Compliance cost	0.394	6.612

Dependent Variable: Tax Compliance

#### **4.6 Descriptive Statistics**

This section presents the descriptive results on technology, taxpayer knowledge, and compliance cost on tax compliance

##### **4.6.1 Technology**

The study sought to establish the effect of technology on tax compliance. Results in Table 4.9 prove filling returns online on a monthly basis to be an easy process due to availability of internet access with a mean score of 4.86, respondent agreed that Use of I tax platform has

made filling returns easier with mean score of 4.65. I pay my taxes using online methods with a mean score of 3.71. Use of I tax has saved me time while filing my taxes with a mean score of 4.94

**Table 4.9: Technology**

<b>Statement</b>	<b>Mean</b>	<b>SD</b>
I find filling returns online on a monthly basis to be an easy process due to availability of internet access	4.86	0.74
Use of I tax platform has made filling returns easier	4.65	0.58
I pay my taxes using online methods	3.71	0.42
Use of I tax has saved me time while filing my taxes	4.94	0.99
<b>Average</b>	<b>4.54</b>	

#### **4.6.2 Taxpayer Knowledge**

The study sought to establish the effect of taxpayer knowledge on tax compliance. Results in Table 4.10 prove that I have knowledge of the rental tax calculation rate to apply has a mean score of 3.68, respondent agreed that I am aware of tax return deadlines with mean score of 4.07, I am aware that I need to file my taxes on a monthly basis with a mean score of 2.98. I have the necessary documentation to enable me fill my returns appropriately with a mean score of 4.53, while agreement was made on I am aware of the implications of non-compliance with a mean score of 4.45.

**Table 4.10: Taxpayer knowledge**

<b>Statement</b>	<b>Mean</b>	<b>SD</b>
I have knowledge of the rental tax calculation rate to apply	3.68	0.41
I am aware of tax return deadlines	4.07	0.58
I am aware that I need to file my taxes on a monthly basis	2.98	0.30
I have the necessary documentation to enable me file my returns appropriately.	4.53	0.39
I am aware of the implications of non-compliance	4.45	0.87
<b>Average</b>	<b>3.94</b>	

### 4.6.3 Compliance Cost

The study sought to establish the effect of compliance cost on tax compliance. Results in Table 4.11 prove that filing and paying tax on I-tax is cost effective with a mean score of 4.60, respondent agreed that I incur fairly high costs in accessing the internet to file my returns with mean score of 3.51, Further, I consider bookkeeping costs to be fairly high with a mean score of 3.64. While, agreement was made on I incur tax expert costs during the filing of my returns with a mean score of 4.10.

**Table 4.11: Compliance Cost**

<b>Statement</b>	<b>Mean</b>	<b>SD</b>
Filing and payment of tax on Itax is cost effective	4.60	0.64
I incur costs in accessing the internet to file my returns	3.51	0.45
I consider record keeping costs to be fairly high	3.64	0.52
I incur tax expert costs during the filing of my returns	4.10	0.63
<b>Average</b>	<b>3.96</b>	

#### 4.6.4 Tax Compliance

The study sought to establish the effect of Tax compliance. Results in Table 4.12 prove that I make timely monthly tax returns with a mean score of 4.47, respondent agreed that I make payments of the taxes due to avoid penalties and fines with mean score of 4.28, while agreement was made on I am registered for residential rental income tax on Itax to improve compliance with a mean score of 3.87.

**Table 4.12: Compliance**

<b>Statement</b>	<b>Mean</b>	<b>SD</b>
I make timely monthly tax returns	4.47	0.79
I make payments of the taxes due to avoid penalties and fines	4.28	0.88
I am registered for residential rental income tax on itax to improve compliance	3.87	0.65
<b>Average</b>	<b>4.2</b>	

#### 4.7 Inferential Statistics

An analytical model had been developed in order to establish the strength and direction in which each predictor influenced the regressor which was monthly residential rental income tax compliance among landlords in Masii Town in Machakos County.

#### 4.8 Correlation Analysis

Pearson correlation coefficient (r) was used to assess strength of association between the study variables. Where (r) is more than 0.7, variables indicates strong correlation. The Table 4.13 presents the results of the correlation analysis. The results presented reveal that technology is positively and significantly associated with tax compliance as shown  $r=0.231$  and  $p=0.000<0.05$ ), The results also reveal that taxpayer knowledge is positively and

significantly associated with tax compliance as shown  $r= 0.362$  and  $p=0.003<0.05$ ), The results reveal that compliance cost is negatively and significantly associated with tax compliance as shown  $r= -0.289$  and  $p=0.000<0.05$

**Table 4.13: Correlation Analysis**

		TC	TEC	TPK	CC
Tax compliance	Pearson Correlation	1			
	Sig. (2-tailed)				
Technology	Pearson Correlation	.231**	1		
	Sig. (2-tailed)	.000			
Taxpayer knowledge	Pearson Correlation	.362**	.141**	1	
	Sig. (2-tailed)	.003	.000		
Compliance cost	Pearson Correlation	-.289**	.252**	.272**	1
	Sig. (2-tailed)	.000	.006	.000	

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

**Source: Research Data, (2021)**

#### 4.9 Regression Analysis

The broad objective of the study was to investigate the determinants that influence residential monthly rental income tax compliance among landlords in Masii Town in Machakos County. To achieve this objective, three objectives and questions was set and formulated respectively. The study used various inferential statistical tools and Multiple regression analyses.

#### 4.10 Model Summary

The results in Table 4.14 indicate that technology, taxpayer knowledge, and compliance cost had a strong positive correlation with Tax Compliance up to 78.7% or ( $R= 0.787$ ). The results further reveals that technology, taxpayer knowledge, and compliance cost caused a variation

of 61.9% or ( $R^2=0.619$  and adjusted  $R^2 =0.612$ ) on Tax Compliance. This implies that the remaining 38.1 % of the change was caused by other factors not included in the model.

**Table 4.14: Effect of Technology, taxpayer knowledge, and compliance cost on Residential Rental Income Tax Compliance**

<b>Model Summary</b>				
<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.787 <sup>a</sup>	.619	.612	.71257

a. Predictors: (Constant), technology, taxpayer knowledge, and compliance cost –mean

#### 4.10.1 Analysis of Variance

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.15 show an F statistics value of 26.481 with a significance level of 0.000 which was less than the conventional probability of 0.05 significant level. Hence establishing the model is statistically significant. The implication is that each independent variable contributes significantly to changes in the dependent variable.

**Table 4.15: ANOVAa**

<b>Model</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	5.113	1	5.113	26.481	0.000
<sup>1</sup> Residual	7.148	131	0.054		
<b>Total</b>	<b>12.261</b>	<b>132</b>			

a. Dependent Variable: Compliance

b. Predictors: (Constant), technology, taxpayer knowledge, and compliance cost –mean

#### 4.10.2 Model Summary

In order to test how well the model works in explaining the relationship technology, taxpayer knowledge, and compliance cost on tax compliance, regression analysis was conducted.

**Table 4.16: Overall Effect of Technology, taxpayer knowledge, and compliance cost on Residential Rental Income Tax Compliance**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.563	.230		2.447	.004
Technology	.316	.075	.424	4.213	.001
Taxpayer knowledge	.239	.024	.372	9.958	.002
Cost of compliance	-.383	.057	-.371	-6.719	.000

a. Dependent Variable: residential rental income tax compliance

**Source: Research Data, (2021)**

The regression analysis model derived from the methodology was specified as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

**Where** Y = residential rental income tax compliance

$\beta_0$  = Constant

$X_1$  = Technology

$X_2$  = Taxpayer knowledge

$X_3$  = cost of compliance

$\beta_1, \beta_2, \beta_3$  = regression coefficients of  $X_1, X_2, X_3$

$\varepsilon$  = error item.

$$Y = 0.563 + 0.316X_1 + 0.239 X_2 - 0.383X_3$$

The results from the coefficient table 4.15 reveal that the relationship between the technology, taxpayer knowledge, and compliance cost on residential rental income tax compliance were statistically significant with p-values 0.001, 0.002, and 0.000 respectively. A unit change in technology increases residential rental income tax compliance by 0.316. A unit change in taxpayer knowledge increases residential rental income tax compliance by 0.239. A unit change in cost of compliance decreases residential rental income tax compliance by -0.383.

#### **4.11 Discussion of the Findings**

This chapter presents discussion of the results of various tests carried out on the study. The results of each of the questions in this study will be discussed.

##### **4.11.1 Effect of Technology on of Residential Rental Income Tax Compliance**

The objective to determine the effect of technology on residential rental income tax compliance among landlords in Masii Town in Machakos County. The findings of this study was statistically significant at a p value of 0.001 which is less than 0.05 the convectional probability significance level. The findings concurred with Jankeeparsad and Nienaber (2016) who maintained that the use of technology also helps citizens request for government services after paying taxes. In developed countries, the use of technology affects the way tax systems are created, designed and administered. Technology is used to increase tax administration efficiency, increase taxpayer services and boost tax compliance

##### **4.11.2 Effect of Taxpayer knowledge on of Residential Rental Income Tax Compliance**

To establish the effect of tax payers knowledge on residential rental income tax compliance among landlords in Masii Town in Machakos County-The findings of this study was statistically significant at a p value of 0.002 which is less than 0.05 the convectional probability significance level. A study by Nugroho and Zulaikha (2012) was in agreement

that having knowledge and understanding tax regulation helps taxpayers know the importance of declaring their tax, dates of making payment, where and how to make tax payment

#### **4.11.3 Effect of Compliance Cost of Residential Rental Income Tax Compliance**

To determine the effect of compliance cost on residential rental income tax compliance among landlords in Masii Town in Machakos County-The findings of this study was statistically significant at a p value of 0.000 which is less than 0.05 the convectional probability significance level. A study by Eragbhe and Modugu (2015) agreed that compliance cost consist of internal compliance cost, external compliance cost and incidental costs such as psychological cost. Usually, taxpayers incur cost such as; getting and organizing information, record keeping, employing tax experts, buying stationaries and materials that will be used during filing and time spent calculating and filing taxes

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The chapter presents a discussion for the summary based on the earlier established research questions. It further discusses major study findings, conclusions and eventually provides directions in the form of recommendations.

#### **5.2 Summary of Findings**

The overall objective was to determine factors that influence residential rental income tax compliance among landlords in Masii Town in Machakos County. With regards to that this study had sought to determine the effect of technology on residential rental income tax compliance among landlords in Masii Town in Machakos County. To establish the effect of tax payers knowledge on residential rental income tax compliance among landlords in Masii Town in Machakos County. To determine the effect of compliance cost on residential rental income tax compliance among landlords in Masii Town in Machakos County.

##### **5.2.1 Effect of Technology on Residential Rental Income Tax Compliance**

The objective was to determine the effect of technology on residential rental income tax compliance among landlords in Masii Town in Machakos County. Correlation analysis showed that technology and residential rental income tax compliance are positively as well as significantly related. In respect to the Regression analysis there was also the significance was positive as far as the relationship between technology and residential rental income tax compliance was concerned evidence of  $p=0.001$ ,  $\rho<0.05$ . Technology was found to be satisfactory in explaining of residential rental income tax compliance by landlords in Masii Town in Machakos County.

### **5.2.2 Effect of Tax Knowledge on Residential Rental Income Tax Compliance**

The objective was to establish the effect of tax payer's knowledge on residential rental income tax compliance among landlords in Masii Town in Machakos County. Correlation analysis showed that taxpayer knowledge and residential rental income tax compliance are positively as well as significantly related. In respect to the Regression analysis there was also the significance was positive as far as the relationship between taxpayer knowledge and residential rental income tax compliance was concerned evidence of  $p=0.002$ ,  $\rho<0.05$ . Taxpayer knowledge were found to be satisfactory in explaining of residential rental income tax compliance by landlords in Masii Town in Machakos County.

### **5.2.3 Effect of Compliance Cost on of Residential Rental Income Tax Compliance**

The objective was to determine the effect of compliance cost on residential rental income tax compliance among landlords in Masii Town in Machakos County. Correlation analysis showed that compliance cost and residential rental income tax compliance are negatively but significantly related. In respect to the Regression analysis it was positive as far as the relationship between compliance cost and residential rental income tax compliance was concerned evidence of  $p=0.000$ ,  $\rho<0.05$ . Compliance cost were found to be satisfactory in explaining of residential rental income tax compliance by landlords in Masii Town in Machakos County.

## **5.3 Conclusions**

The study aimed at investigating the effect of technology on residential rental income tax compliance among landlords in Masii Town in Machakos County. Based on the findings, the study made the following conclusion that the use of I tax has saved respondents time while filing taxes and taxpayers find filling returns online on a monthly basis to be an easy process due to availability of internet access.

On taxpayer knowledge, the study concludes that having the necessary documentation enables a taxpayer to fill returns appropriately and respondents are aware of the implications of non-compliance. In regards to compliance cost, the study findings disclosed that filling tax on Itax is cost effective and taxpayer incur tax expert costs during the filing of returns.

#### **5.4 Recommendation**

Based on the objectives of the study, the findings revealed a statistically significant relationship between technology, taxpayer knowledge, and compliance cost on residential rental monthly income tax compliance. Therefore, the study recommends that KRA, the government and tax practitioners should formulate policies that emphasize leverage on technology to enhance collection of tax revenue. Furthermore, cost reduction mechanisms must also be adopted to enable taxpayers to comply at minimum costs.

#### **5.5 Limitations of the Study**

The study was limited by the availability of the residential landlords in in Masii Town in Machakos County who were too busy during working hours to reply to the study research questionnaires and Due to the prevailing Covid-19 pandemic, issue and collection of questionnaire were a challenge. To mitigate the issue of non-response, questionnaires were shared electronically while follow-up was done by phone calls and emails.

#### **5.6 Suggestions for Further Research**

The current study focused to determine factors that influence residential rental income tax compliance among landlords in Masii Town in Machakos County. From regression results, the study established that technology, taxpayer knowledge, and compliance cost jointly explain 61.9% change in residential rental income tax compliance the remaining 38.1% this implies the change was caused by other factors not included in the model. Thus, apart from the above mentioned factors, there are other variables which the current study did not focus

on, therefore, future studies should be carried out to examine the effect of stakeholder sensitization on residential rental income tax compliance.

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## APPENDICES

### Appendix I: Questionnaire

Kindly take some time to fill this questionnaire

#### SECTION A: DEMOGRAPHIC INFORMATION

1. What is your Gender?

a) Male

b) Female

2. What is your age?

a) Below 30 Years

b) 30-35 Years

c) 36-40 Years

d) 41-55 Years

e) Above 55 Years

3. How long have you been a landlord in Masii town?

a) Less than 1 Year

b) 1-2 Years

c) Above 2 Year

4. What is much is your monthly rent income?

a) 24,000-64, 000

b) 64,000- 84, 000

c) Over 84, 000

**SECTION B: TECHNOLOGY**

Below are several statements on the extent effect of technology on residential rental income tax compliance. Please indicate the level to which you agree with each of the statement. Use a scale of 1-5 where; 1= strongly disagree, 2= Disagree, 3=Uncertain, 4= Agree, 5= strongly agree

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	I find filing returns online on a monthly basis to be an easy process due to availability of internet access					
2	Use of I tax platform has made filling returns easier					
3	I pay my taxes using online methods					
4	Use of I tax has saved me time while filing my taxes					

**SECTION C: TAX PAYER’S KNOWLEDGE**

Below are several statements on the effect of tax payer’s knowledge on residential rental income tax . Please indicate the level to which you agree with each of the statement. Use a scale of 1-5 where; 1= strongly disagree, 2= Disagree, 3=Uncertain, 4= Agree, 5= Strongly agree

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	I have knowledge of the rental tax calculation rate to apply					
2	I am aware of tax return deadlines					
3	I am aware that I need to file my taxes on a monthly basis					
4	I have the necessary documentation to enable me fill my returns appropriately.					

5	I am aware of the implications of non-compliance					
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**SECTION D: COMPLIANCE COST**

Below are several statements on the effect of compliance cost on residential rental income tax. Please indicate the level to which you agree with each of the statement. Use a scale of 1-5 where; 1= strongly disagree, 2= Disagree, 3=Uncertain, 4= Agree, 5= Strongly agree

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Filling and payment tax on Itax is cost effective					
2	I incur costs in accessing the internet to file my returns					
3	I consider record keeping costs high					
4	I incur tax expert costs during the filing of my returns					

**SECTION E: TAX COMPLIANCE**

Below are several statements on tax compliance. Please indicate the level to which you agree with each of the statement. Use a scale of 1-5 where; 1= strongly disagree, 2= Disagree, 3=Uncertain, 4= Agree, 5= Strongly agree

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	I make timely monthly tax returns					
2	I make payments of the taxes due to avoid penalties and fines					
3	I am registered for residential rental income tax on itax to improve compliance					

## Appendix II: Research Budget

Budget Line Items	Cost in (Ksh.)
Proposal Development <ul style="list-style-type: none"> <li>▪ Materials</li> <li>▪ Printing</li> <li>▪ Photocopying</li> </ul>	5,000 3,000 2,000
Data Collection (Fieldwork) <ul style="list-style-type: none"> <li>▪ Photocopying</li> <li>▪ Travelling</li> </ul>	5,500 5,000
Data Analysis & Interpretation <ul style="list-style-type: none"> <li>▪ Data Analysis</li> </ul>	15,000
Report Writing & Dissemination <ul style="list-style-type: none"> <li>▪ Report Writing</li> <li>▪ Binding &amp; Dissemination</li> </ul>	4,000 3,000
<b>TOTAL COST</b>	<b>42,500</b>

### Appendix III: Work Schedule

Activities	Aug 2021	Sep 2021	Oct-Dec 2021	Jan-July 2022
Proposal writing				
Defense				
Post proposal defence				
Data collection (field work)				
Data analysis and Report writing				
Submission of final research				

**Appendix IV: List of landlords in Masii Town**

Agnes . M . Mukulu	Emmy jerotich Choge	Janet Nthambi
Agnes Maina	Esther Mwikali Mbiti	Japheth Nyangwanga
Agnes Munaye Mutua	Esther Wanjiku Kangóti	Jeremiah Kaunda
Agnes Syokau Muthoka	Eunice Mauti	Job Ngige Kangethe
Alex Musyoka	Eunice Wairimu Njihia	Joel Chongo Nzai
Alice Mbaru Murithi	Evans Machogu Omweri	John Kamuiru
Alice Wambui Mungai	Evelyn Mwikali Morris	John Thairu Muchema
Alice Wambui Nduati	Faith Kagwiria	Joseph Kangethe
Angelina Mwikali	Fatmah Ramadhan	Joseph Nguchu Mungali
Ann Ndiwa	Felister M. Muthama	Joseph Ngugi
Ann Wairimu Kariuki	Fidelis Mwanja John	Josephine K Ndetei
Ann. W. Kamuyu	Florah Wambui	Josephine Kamene
Anne Kilonzo	Florence Mbwika	Josephine Wayua
Anne Nzula Mutua	Florence Mueni Kiteme	Josephine. N . Muia
Arthur Chege Machaga	Florence N. Bwoma	Joshua .K . Ndarera
Assumpta M Duncan	Francis Mulu	Josphat Misoka
Assumpta Mbeki	Francisca Mutisya	Joyce Kimeu
Beatrice Njeri	Franciscah N Mukiti	Joyce Nthiwa
Benard Muema Ivongo	Frashia Nyambura Kalondu	Judith Kamene
Benard Omweri	Fredrick Bundi	Judy Mueni Kalelo
Benedict Mudoya	Fredrick M Mbwele	Judy Ranga
Benson Kingori Karo	Gabriel Thuita	Juliet Alivitsa
Bernard Kimani	Geoffrey Kamau	Juliet Mwikali
Beth Wambui Waburi	George Kinyanjui	Julius .B. Mengo
Brown S Kanyasi	George Mwangi	Kelvin Lemita
Caroline Mbula Nthenya	Gladys Ndunge	Kimwele Sitima
Caroline Ndeto	Grace Wambui Kilonda	Larry Esenerwa
Carolyne Ngina	Grace Wanjiku	Lawrence Mumo
Carolyne Nyambura	Hannah N Karani	Leah M Wuantai
Catherine Munyiva	Hannah Njoki Ngugi	Lilian Wambua
Catherine W Ikere	Helinah W.Muragu	Linnet Asagi
Catherine Wangari K	Hellen Gezare	Lucia mwende Musembi
Catherine Wangari K	Henry Ochieng	Lucy Ndinda Mbithi

	Wasonga	
Catherine Wangari K	Irene Mueni John	Lydia Wambui
Charles Kanyua	IRENE MUGURE	Lydia Njeri Kiai
Christopher Sianje	Irene Mukasa	Margaret Muli
Comex Scott	Jackline Anyango	Mary Nthambi
Damaris Mwangi	Jackline Rumiri	Mbithe Wambua
Daniel Muema Mbithi	Jacob Mbithi	Mercy Gitahi
David Kaviti	Jacqueline Mwendu	Michael Mwololo
David Macharia	James Kavita Mwanja	Milka Mueni Kasivu
Dina Anyango Oburu	James Kimani	Monica Kelly
Dinah Naudo Wafula	James Njoroge Ngethe	Musyoka Makau
Dolphin Awino Anyango	Jane Onyote	Mutua Kivava Mueke
Dorcas Mbesa Muthama	Jane W Kariuki	Muusi Ngumbi
Douglas Mwau	Jane Wakonyo Macharia	Naomy Nduku Mourice
Duncan Wambua	Jane Wanjiku	Nduku Mutisya
Edwin Mareba Mauti	Janet Ndelina Ndeto	Nellie Hinga
Elizabeth Nafula Kwetu	Janet Nduge Munovi	Nelly Mulera
Elizabeth Syokau	Peter Mulandi	Nicholas Kioko Muthama
Elizabeth Wanza	Philomena Wausi	Nthenya Mukeka
	Phylis ndanu	Peris Basil