

**FACTORS INFLUENCING RESIDENTIAL MONTHLY RENTAL  
INCOME TAX COMPLIANCE IN KENYA: A CASE OF LOLWE ESTATE,  
KISUMU COUNTY, KENYA**

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**2019**

## 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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Signature

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Date

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**HDB336-C016-4102/2016**

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

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I am so grateful to my supervisor, Dr. Michael Muma as a result of the positive encouragement and commitment. Furthermore, I thank my friends and class mates for cooperation and the support they gave me. To God, I say thank you for your sufficient grace.

## **DEDICATION**

I dedicate this project to my family, friends and class mates at KESRA.

## **ABSTRACT**

Tax compliance has emerged as critical issue in developed as well as developing economies around the world. The essence of this study was to identify factors influencing monthly rental income tax compliance by the property owners in Kisumu, Lolwe estate. Specifically, the study looked at how tax rate, availability of tax information; costs of compliance and tax awareness influence tax compliance. The Fiscal exchange and the Allingham-Sandmo (AS) Theories provided anchorage to the study. The design that was adopted was descriptive survey. The study targeted 200 property owners from Lolwe Estate. A census was used and thus the sample size was 200 respondents. Data was collected using questionnaires and the analysis was conducted with aid of descriptive and inferential statistics. The study found out that tax rates, availability of tax information, cost incurred in being compliant and tax awareness are critical factors influencing residential monthly rental income tax compliance. The study concludes that tax rates, availability of tax information, cost incurred in being compliant and tax awareness have a positive and significant influence on residential monthly rental income tax compliance. The study recommends that KRA should consider widening the tax base and reducing the tax rates so as to improve on residential monthly rental income tax compliance. KRA should ensure that information on taxes is readily available to tax payers. KRA should strive to improve on efficiency in systems so that tax payers do not incur a lot of costs while complying with residential monthly rental income tax compliance. There is need for awareness programs and efforts so that more tax payers are taught on the need to comply with residential monthly rental income tax compliance.

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## **ACRONYMS AND ABBREVIATIONS**

<b>GDP</b>	Gross Domestic Product
<b>KESRA</b>	Kenyan School of Revenue Administration
<b>KRA</b>	Kenya Revenue Authority
<b>SPSS</b>	Statistical Package for Social Sciences
<b>USD</b>	United States Dollar

## OPERATIONAL DEFINATION OF TERMS

**Availability of Tax Information** It is the process of ensuring that tax payers have relevant information as it regards their tax obligations (Awa & Ikpor, 2015).

**Costs Incurred in being Tax Compliant** It refer to the expense that an individual incurs so as to remain within the provisions of the laws of taxation (Sandford, 1989).

**Tax Awareness on Rental Income** Having knowledge on the laws and the principles governing the matter of taxes

**Tax Compliance** It is the ability of the tax payers to abide by all the rules and regulations governing tax matters (Alstadsæter & Jacob, 2013).

**Tax Rate** In a tax system, the tax rate is the ratio at which a business or person is taxed (Awunyo-Vitor, Osae & Donani, 2015).

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the study**

In its simplest form, tax compliance describes the extent which tax payers abide by the established regulations and laws governing tax matters in the country (Chepkurui, Namusonge, Biraori & Kipkoech, 2014). Tax compliance has emerged as an important concept in developed and developing economies as each of the country strive to increase the amount of revenues collected (Cummings, 2007). In the effort to generate more revenues to the government, most countries have put in place various measures of generating taxes including taxing of properties owned by the tax payers. Property can either be residential or commercial based on how it is used and it may cover things like land, buildings among others (Palil, 2010).

The growth of the real estate sector around the world has opened up more chances and avenues of generation of taxes to most economies. This has also brought about a surge in demand for houses by people in the country (Sani & Gbadegesin, 2015). Thus, efforts to understand rental income taxes are important so as to generate more revenues to the government that can be used for growing of the economies (Berhane & Yesuf, 2013). In an assessment of tax compliance, Sapiei and Kasipillai (2013) argued that taxation majorly aim at raising of income for the government to fund major projects while improving the living standards of people in the economy. Hence, it is pertinent that sound measures have been put in place by the government of creating more compliance behavior among the tax payers so that sufficient amount of revenues are collected (Ayuba, Saad & Ariffin, 2016).

A number of factors have contributed towards increased recognition of rental income taxes among different economies around the world. First, rental income taxes are charged on properties including land whose value keeps on increasing in a process called appreciation. Infact, land is among the assets whose value keeps on increasing with time unlike most assets that depreciate the value as time goes by. Some of the properties are also immovable assets with different market values.

### **1.1.1 Global Perspective of Monthly Rental Income Tax Compliance**

Most countries around the world are facing challenges in respect to administration and strengthening compliance with property income taxes. For example, estimates by the IMF report (2017) indicate that a total of \$242 billion is lost in Italy on account of noncompliance with property taxes every year on average (Griffiths, 2015). Other countries like Greece have decided to ensure that the tax payers are tax compliant. In Britain and Germany, an agreement was signed regarding how to recover some form of revenues from bank accounts of individuals held in Swiss banks. South America is classified as one of the economies around the world that has shadow and underground economies thus adversely the efforts to enhance tax compliance among the tax payer (Association, 2008).

### **1.1.2 Regional Perspective of Monthly Rental Income Tax Compliance**

In Nigeria, Oyedele (2017) looked at the role played by land taxes on the growth of the economy. It was shown that mansions are the greatest sources of rental income tax in Nigeria and an applicable rate is at 1%. In Ethiopia, Berhane and Yesuf (2013) was interested in establishing the issues surrounding the collection of rental income taxes. It was established that tax official in Ethiopia have not effectively played an important role in enhancing the collection of tax revenues. The study pointed that lack of tax knowledge among the tax payers in Ethiopia has been a major reason for increased noncompliance particularly among rental income earners. Most of the property owners do not have a clear understanding of the rules and regulations governing and guiding taxation.

Another study was carried out in Rwanda and Ethiopia by Goodfellow (2017) with a focus on taxation of properties and how this affects the growth of these economies. From the reviewed literature, it was shown that there exist no mechanisms of capturing the collected taxes in Ethiopia and Rwandan contexts. It was revealed that there exist conflicts relating to land reforms which have affected collection of property taxes. The issue of tax noncompliance particularly in most countries across East Africa is very high. For instance, a total of 856 USD was lasted in Uganda in the year 2011 on account of non-compliance and this figure stands at USD 1.9 and over USD 2 billion in Tanzania and Kenya respectively.

### **1.1.3 Monthly Rental Income Tax Compliance in Kenya**

It is a requirement by the Kenyan law that any generated income must be taxed so as to generate revenues required by the governance to finance the operations (Karanja, 2014). However, as a result of inadequate systems and mechanisms of enforcing the collection of taxes in the country, the level of tax revenues collected have remained to be so low. It is therefore important that efforts are put in place to invest in more systems and technologies of enhancing compliance especially among the property owners. This will ensure that there is no amount of taxes that are lost or uncollected (Makori et al., 2013). In as much Kenya has witnessed a significant growth in the collected revenues from taxes since 2003 to 2011 at 300%, the taxes collected from property owners have remained so low despite rapid growth of the real estate sector (Karanja, 2014).

A number of studies have been carried out on tax compliance behavior of the various tax payers with the aim of establishing the factors explaining why most tax payers are non-compliant (Gayer & Mourre, 2012). The high rates of taxes charged on income taxes have been among the identified factors as to why most tax payers do not comply with taxes (Mwangi, 2014). Generally, it has been widely acknowledged that the high rates of taxation is the key reason for increased noncompliance among the tax payers in developed and most developing and emerging economies around the world Kenya included. The marginal tax rates form the basis and motivation for people to fail to comply with taxes (Kołodziej, 2011). The various perceptions and attitudes of the tax payers have also been identified as critical factors as far as tax compliance is concerned (Mukabi, 2014).

The attitude of the tax payers may either be positive or negative and they influence whether they comply or do not comply with taxes. The actions undertaken by various tax payers are largely influenced and controlled by their attitudes. Hence, it is expected that tax payers having positive attitudes will readily comply with payment of taxes as opposed to those with negative attitudes (Kirchler et al., 2008; Nicoleta, 2011). The other important factors shaping compliance with taxes that has been identified by literature is the level of income. For instance, Nicoleta (2011) argues that unlike the employed individuals, most unemployed people are deemed to have low level of incomes and would therefore not comply with taxes readily.

The other factors that have been identified as shaping tax compliance behavior of tax payers include fines and penalties and the level of knowledge of the tax payers.

The motivation of use of tax and penalties is usually to increase the rate of tax compliance of the tax payers (Mukabi, 2014). Thus, efforts should be put in place by a tax agency of putting in place a proper system of detecting those tax payers who do not comply with tax matters. According to Kirchler et al. (2008), tax knowledge is an important factors influencing and determining and predicting the compliance behavior of the tax payers. Tax payers with poor knowledge of the existing tax laws and regulations may exhibit strong noncompliance behavior (Hofmann, Hoelzl & Kirchler, 2008).

In Kenya, taxes are charged on rental income at a flat rate of 10% and taxes must be filed online on the website of the KRA (KRA, 2015). Such taxes charged on rental income are such that the income does not go beyond Kshs. 10 million (The Finance Act, 2015). It is simple to determine the amount of rental income to pay as the computation is done on the basis of the gross rental income charged by landlords (KPMG, 2015). There are several benefits that are associated with rental income taxes including the fact that its computation is very simple and records are not required on the side of the landlords sob as to give an account of the expenses incurred (KPMG, 2015).

#### **1.1.4 Property Owners in Lolwe Estate, Kisumu County**

Lolwe is one of the residential estates on Kisumu County in Kenya that is made of people with middle as well as low levels of income. Lolwe is considered as one of the top towns in Kenya where it is easier to register and start a business and it has a population of above 200,000 people (Mosoti & Murabu, 2014). The growth of Lolwe estate has largely been explained by other sectors like finance as well as the education sectors (Muchira, 2007). There are various forms of residential properties in Lolwe starting with public financed houses, mortgaged houses, apartments as well as the semi-permanent houses. Some of the properties in Lolwe estate are managed by residents in Kisumu town secretly (Mwangi, 2007). There exists variations in the amount of rent charged on rental properties because of some factors like proximity to roads that are tarmacked, business centers and the relative size of the houses (UN-HABITAT, 2006).

## **1.2 Statement of the Problem**

Tax compliance has remained a hotly contagious issue among various scholars and researches in developed and developing economies around the world. The income charged on rental incomes has been considered in economic terms in most third world nations and countries around the world (Tilahun & Yidersal, 2014). Just like the other systems of taxation, rental income taxes have been faced with a number of challenges and issues arising from the tax payers as well as the tax agencies (Berhane & Yesuf, 2013). By recognizing and considering rental income as an economic transaction, it has become hard and difficult to establish the exact number of tax payers involved in rental income (OECD, 2012).

A number of studies have been carried out on rental income taxes, for instance, Osebe (2013) examined the factors that influence tax compliance with a key focus on the Kenya's real estate sector. The study established that the costs incurred in compliance, the level of education and knowledge and the available opportunities of tax evasion perceived by the tax payers have an influence on compliance behavior of the tax payers. Mwangi (2014) focused on Kenyan SMEs to establish the factors that may influence compliance. In this study, the following factors were identified as having an influence on tax compliance behavior of the tax payers: the relatively high rates of taxation, low of information available on matters dealing with taxation hence poor knowledge and the costs that one incurs to comply with tax rules and regulations.

From the aforementioned studies, it is evident that some of them focused on SMEs and the factors that shape their compliance behavior and not on rental income property owners. Other studies dealt with property owners in Nairobi County and not in Kisumu. This created contextual and conceptual gap which the current study sought to fill by examining the factors influencing residential monthly rental income tax compliance Lolwe estate, Kisumu County, Kenya

### **1.3 Objectives of the Study**

The study was guided by general and specific objectives

#### **1.3.1 General Objective**

The general goal of this study was to determine the factors influencing residential monthly rental income tax compliance Lolwe estate, Kisumu County, Kenya.

#### **1.3.2 Specific Objectives**

The study was guided by the following specific objectives;

- (i) To assess the influence of tax rate on residential monthly rental income tax compliance Lolwe estate, Kisumu county, Kenya
- (ii) To determine the influences of the availability of tax information on residential monthly rental income tax compliance Lolwe estate, Kisumu county, Kenya
- (iii) To establish the influence of costs of compliance on residential monthly rental income tax compliance Lolwe estate, Kisumu county, Kenya
- (iv) To establish the influence of tax awareness on residential monthly rental income tax compliance Lolwe estate, Kisumu county, Kenya

### **1.4 Research Questions**

The study sought for answers to the following research questions:

- (i) What is the influence of tax rate on residential monthly rental income tax compliance Lolwe estate, Kisumu County, Kenya?
- (ii) How does availability of tax information influence residential monthly rental income tax compliance Lolwe estate, Kisumu County, Kenya?
- (iii) What is the influence of costs of compliance on residential monthly rental income tax compliance Lolwe estate, Kisumu County, Kenya?
- (iv) What are the influences of rental tax awareness on residential monthly rental income tax compliance Lolwe estate, Kisumu County, Kenya?

## **1.5 Significance of the Study**

The study would be beneficial to the following;

### **1.5.1 Management of the Kenya School of Revenue Administration**

Through the findings of the study, the Management of KESRA would be able to understand the key factors that influence rental tax compliance. This would go a long way to formulation of sound policies and regulation as it regards rental income collection and compliance in Kenya.

### **1.5.2 Researcher and Scholars**

The study would add to existing literature on factors that determine rental income compliance in Kenya. Thus, future scholars carrying out same studies would be able to borrow literature and information from this study.

### **1.5.3 Policy Makers**

Policy makers include individuals who formulate relevant decisions and policies that grow the economy. Thus, the study would inform formulation of effective policies as far as residential rental income collection concerned. Some of these policy makers include the Kenya Revenue Authority itself.

### **1.5.4 The County Government of Kisumu County**

The County government of Kisumu would rely on the findings of the study to follow up on property owners and enforce proper measures of collecting rental incomes. This would be an important step in generation of revenues to run the affairs of the county.

## **1.6 Scope of the Study**

The focus of this assessment was on the factors influencing monthly rental income tax compliance by the property owners. More specifically, the study assessed how tax rate, availability of tax information; costs of compliance and tax awareness and their influence on tax compliance. The study was carried out among property owners in Kisumu, Lolwe estate. The study was carried out in the month of September, 2019.

### **1.7 Limitations of the Study**

The study was limited to primary data which was gathered with the help of questionnaires. The limitation faced during collection of this primary data was that some of the respondents were not cooperative and free to share the required information due to fear the information being sought could be used to intimidate them. To avoid this limitation, the study had an introduction letter that stated the purpose of the study as being for academic. The study provided assurance to respondents by indicating that all information given was to be treated with utmost confidence.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The focus of this chapter is on review of relevant materials in line with rental income taxes. The chapter looks at the theories that shall provide support and anchorage to the study variables. The past empirical studies and the conceptual framework of the study are also detailed. The reviewed literature is summarized to clearly bring out the areas for further research.

#### **2.2 Theoretical Review**

Theoretical framework is a discussion of theories or schools of thought formulated to guide the current study. This is achieved through development of concepts which aim at explaining, predicting, and furthering the understanding of phenomena (Shaw, Park & Kim, 2013). They help connect the study being undertaken by a scholar with the existing knowledge so that they can formulate a hypothesis for their study (Wang & Wang, 2012). The study reviews various theoretical frameworks that would form the basis of the entire research. In this section, the study reviews the Allingham-Sandmo (AS) Theory and the Fiscal Exchange Theory. The study adopted a deductive approach whereby the findings of the study were informed by the existing theoretical frameworks.

##### **2.2.1 The Allingham-Sandmo (AS) Theory**

It is Allingham and Sandmo (1972) who came up with this AS theory and it is also referred as economic deterrence theory. The AS theory provides that various behavior shown by the tax payers are shaped and influenced factors that involve a balance between the costs as well as benefits from tax noncompliance decisions (Allingham & Sandmo, 1972). In its basic form, the AS theory considers the tax payers as people who have rationality such that they are able to carry out an assessment of the costs as well as the benefits of failing to comply with taxes. The costs are evaluated in terms of how severe the penalties and interest one will meet in the event of failing to comply with taxes and the consequences in the event of being caught while evading taxes (Walsh, 2012).

This AS theory is premised on the fact that people engage in operations and activities that ensure that there is maximization of the returns as well as rewards from those activities. Such activities should also aim at minimizing the costs incurred. If there are tough and high penalties and interest, tax payers will likely to comply with taxes although this may not be automatic (Mengere, 2014). At the same time, if there exists flaws and loopholes in the tax system that can be exploited by the tax payers, it would be easier for most of them to fail to comply with tax payment (Awa & Ikor, 2015). If there is higher probability of a tax evader of being caught by the action of non-complying with taxes, this would definitely increase the level of tax compliance. This theory argues that to increase compliance, an administration should use heavy penalties and audits and all these will have an influence on cost of compliance (Fjeldstad, Schulz-Herzenberg & Sjurson, 2012). This theory is relevant to the study since it explains tax compliance which is the dependent variable of the study.

### **2.2.2 Fiscal Exchange Theory**

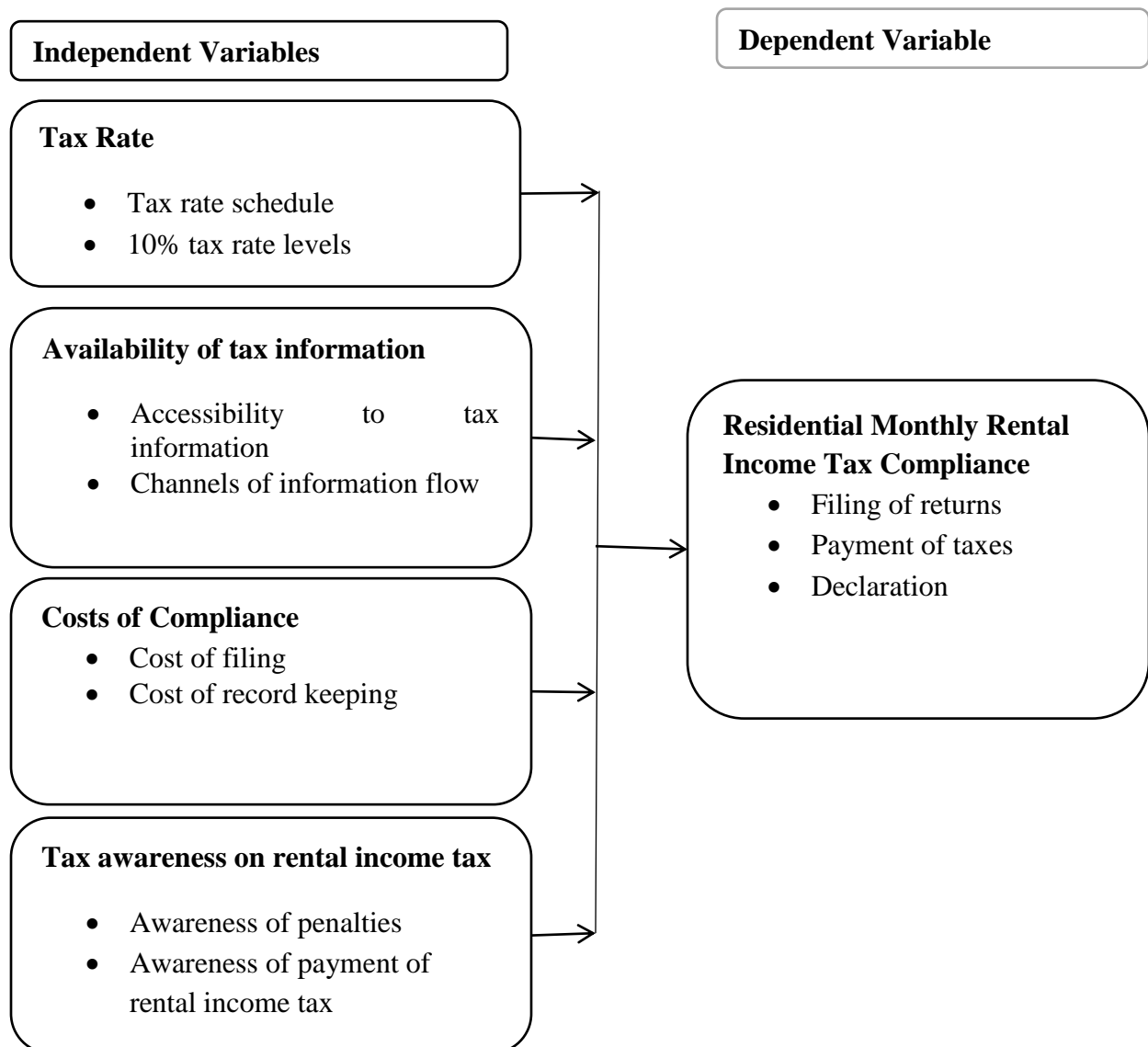
This theory emerged because of the weaknesses of AS theory. The theory is premised on the fact that there exists a relationship between the tax payers and the government and this relation is in form a contract (McKerchar & Evans, 2009). The theory argues that expenditure by the government is a significant factor stimulating tax compliance among the tax payers. The theory further argues that it is the responsibility of the government that individuals are made to comply with taxation through improving their living standards and building infrastructure using the revenues collected from taxes (Ali, Fjeldstad & Sjurson, 2013).

With time, the theory has undergone evolution to incorporate the need to have bargaining for optimal compliance between the tax payers and the relevant tax agencies in an economic system (Fjeldstad, et al., 2012). The theory argues that government expenditure plays an important role in enhancing tax compliance and particularly when people are of the view that all the goods they are receiving are from the government (Bello & Danjuma, 2014). Hence, there will be more tax compliance when individuals have greater satisfaction with the services they receive from the government. In such a case, people will understand and know that the amount of taxes they are paying is not being wasted but being used for their improving the living standards and strengthening the service delivery process.

This theory is relevant to the study as it explains how the owners of property would be willing to pay for more taxes whenever they have a feeling that the revenues collected by the government is being used properly in improving the standards of living. At the same time, if the landlords are of the view that the government is not doing enough with the taxes they collected, most property owners will not comply with taxes in an economic system.

### 2.2.3 Conceptual Framework

Figure 2.1 shows the interaction and link between the study variables



**Figure 2.1: Conceptual Framework**

## **2.3 Review of Study Variables**

The section considers information on the study variables

### **2.3.1 Tax Rate**

The amount of revenue to collect by the government is calculated on the basis of the tax rates. Richardson (2006) studied rate of taxes and how they influence and motivate people to comply with taxes and the findings indicated significant link between these variables. Hai and See (2011) noted that an increase in the rates of taxation is associated with increased chances and opportunities of noncompliance. Spicer & Becker (1980) argue that tax payers who have knowledge and information that the tax rates being charged are higher will definitely not comply with taxes. By default, the various perceptions held by the tax payers as to the higher rates of taxes may create noncompliance and thus low level of revenues being generated to fund the operations and activities of the government.

Different studies confirm that higher rates of taxes are negatively correlated with compliance by the tax payers (Ali, Cecil, & Knoblett, 2001; Christian & Gupta, 1993; Feinstein, 1991). However, other studies have established a contradictory link between tax rates and the level of compliance among the tax payers. A study conducted among African countries by Modugu, Eragbhe and Izedonmi (2012) indicated that the rates of taxes are not in any way negatively or positively associated with compliance. Thus, it is evident from the studies reviewed that there exists a mixed connection between the rates of taxes and the ability of the tax payers to comply.

### **2.3.2 Availability of Tax Information**

Tax information can be accessed through various channels of communication including the print media. Mukama, Karangwa and Hakizimana (2017) did a study on how communication avails information to tax payers for compliance. The study was done in Rwanda and it was established that communication to tax payers improves on the knowledge they have hence increasing their compliance. Communication with tax payers including passing a number of messages and tax payers will have different reactions towards the communicated messages. The study further established that it is important to frequently remind the tax payers so that information is available at their disposal on changes in tax systems.

A study was carried out by Rwanda Revenue Authority (RRA) (2016) to establish the influence of enhanced communication on tax compliance. The study established that enhanced communication makes information available to tax payers and thus possibility of increased compliance. The study established that technology-based communication, such as emails and SMSs, tend to have more impact compared to traditional forms such as letters.

### **2.3.3 Costs Incurred in Being Tax Compliant**

The costs incurred in the effort to comply include that time taken to file the returns and other expenses thereof. It is the government and the tax payers who create these costs so as to ensure that the rules and regulations governing compliance are well adhered to. Eichfelder and Schorn (2012) argue that compliance costs are incurred by the tax payers as they try to fulfill the established requirements of the law as far as taxation is concerned. Tran-Nam, Evans and Walpole (2000) note that compliance with taxes includes social as well as the costs of compliance as well as administrative costs that are largely incurred by the government. Operating costs is what constitutes an average of social as well as administrative costs.

### **2.3.4 Tax Awareness on Rental Income Tax**

Oladipupo and Obazee (2016) did a study to determine how the knowledge of the tax payers influences their ability to comply with taxes. It was shown that the level of knowledge that tax payer's possess in respect to tax matters has an influence on their compliance behavior. It is important that individuals owning small firms invest in advancing their skills and knowledge in matters of taxation. Tax knowledge is defined as the ability of the tax payers to fully understand the rules and regulations governing taxation. The knowledge of taxes is a key factor as far as determination of the tax due and other liabilities is concerned. In fact, tax knowledge is an important factor when it comes to a self-assessment system of taxation (Fauziate et al; 2016). According to Newman et al. (2015), majority of the SMEs in advancing and other emerging economies are not compliant with taxes. It is at the basic learning that introductory classes of taxation are introduced to students in most advancing economies. Thus, most people grow up without understanding and realizing the need and importance of paying taxes to the government.

Mckerchar and Hansford (2015) note that tax knowledge makes someone to have information and awareness on the need and importance of paying taxes which can be used for the growth of the economy. Nyamwanza et al (2014) note that tax awareness refers to a specific body of knowledge that is need in the effort to fulfill and attain the key tax obligations on an individual basis. Tax awareness also covers the level of obedience that various tax payers have in respect to the laws and regulations of taxation in an economy (Mulian & Shewan 2011).

### **2.3.5 Tax Compliance**

Musau (2015) noted that tax compliance has to do with ability of the tax payers to abide by all the rules and regulations guiding tax matters. It is filling of the tax returns and payment of the all the tax due in time and within the established regulations by a tax agency. Mukabi (2014) noted that the ability of the tax payers to comply with taxes is influenced by a number of factors including the levels of their incomes and the available opportunity for evasion that the tax payers may perceive. This is particularly true when the tax payers sense flaws and weakness in the tax system. Berhane and Yesuf (2013) in a study conducted in the context of Ethiopia indicated that majority of the people who own properties do not comply with the taxes. This is largely because of the fact that majority of the property owners do not have information on the available rules and regulations governing taxation of property income in the country. This assertion has an implication that the level of awareness and knowledge of taxes by the tax payers has a direct influence on their compliance behavior.

## **2.4 Empirical Review**

This section will review past studies on the variables of the study.

### **2.4.1 Tax Rates and Residential Monthly Rental Income Tax Compliance**

Gashi and Kukaj (2016) did a study on rates of taxes and their influence on ability of the tax payers to comply with taxes. The study used primary sources of information through administration of questionnaires. On average, a total of 248 research tools and instruments were issued to the study respondents.

It was shown that any efforts to raise the rates of taxation make the taxpayers not to comply with taxes in an economy. Mas'ud, Aliyu, Gambo, Al-Qudah and Al Sharari, (2014) used a case of South Africa to establish the influence of rates of taxation on the behavior of compliance of the tax payers. The essence of the study was to determine how tax rates correlated with the ability of the tax payers to comply with taxes in an economy in the context of Africa as a country. It was shown that the tax rates and compliance behavior of the tax payers are highly correlated with each other.

Ali, Cecil and Knoblett (2001) analyzed the influence of the rates of taxation on the ability of the tax payers to comply with taxes. The focus of the study was on tax payers who were self-employed. The variables of the study include the various rates of taxes, the levels of income and the sources of income for people who are self-employed. The study relied on primary information over a time frame from 1980 all through to 1995. It was shown that tax rates and the ability of the tax payers to comply are in one or the other related with other. Surprising, the higher the level of income does not necessarily brings about compliance among the tax payers in an economic system. Freire-Serén and Panadés (2013) looked at the role played by the rates of taxation as the ability of the tax payers to comply with taxes is concerned in an economic system of establishment. The type of design used in this study was descriptive and the information was collected largely with the help of questionnaires as the tools. It was shown that the tax rates and the ability of the tax payers to comply with the matters of taxes are significantly connected with one another in an economy.

Uisng a case of Nakuru County, Aondo (2018) analyzed the link between the level of knowledge that tax payers have and their ability to comply with taxation. The type of design used in this study was descriptive in nature and information for the study was gathered from SMEs with the aid of questionnaires. In total, 1,425 firms with operations in the town were targeted by the study. Sampling was conducted using stratified and random technical where 10% were identified and selected from the identified targeted population. It was shown that tax knowledge and the ability of the tax payers to comply with tax matters are positively correlated with one another in economic systems.

#### **2.4.2 Availability of Tax Information and Residential Monthly Rental Income Tax Compliance**

One of the premises of the standard models is that tax payers are aware of the aspects covering how to report their taxes. This however is just an assumption that does not hold in practice and reality (Andreoni & Errard, 2008). Studies have shown that the level and available base of information is an important factor that shape and influence the behavior of the tax payers in an economic system as far as their ability to comply with taxes is concerned. Availability of information goes hand in hand with tax payer education and knowledge. This is because tax payers who are educated are believed to have skills and information as it regards the complex tax systems and processes. Some tax payers do not comply with tax matters as the information at their disposal is so complicated to understand. It is against this complex information that majority of the tax payers find it hard even to file their tax returns.

A self-assessment was put in place in Kenya in the year 2017 and this system is geared towards giving the tax payers the responsibility as well as the authority to ensure that the amount of taxes declared and paid are correct and accurate. As such, the amount of taxes paid should be a true reflection of the income earned and the state of affairs in the business. Every tax payers is expected to file a self-assessments return by the end of every financial year. Once these returns have been filed, they are reviewed by the KRA. In the event that the tax payers have not accurately captured the correct figures and amount of taxes, KRAS has an authority to conduct an audit at the premises of the tax payers to establish the correct state and amount of taxes.

#### **2.4.3 Costs Incurred in Being Tax Compliant and Residential Monthly Rental Income Tax Compliance**

Costs of compliance describe the time as well as money spends by the tax payers to ensure that they are within the established laws and regulations of taxation in an economic system. For instance, individuals who have registered their firms for the purpose of VAT have an added responsibility of maintaining an up to date account and records of the taxes and the transactions. This is crucial in establishing an audit trail in the event that there is a dispute. This is also important when such tax payers may wish to claim for VAT refunds.

However, this can only be achieved when the firm has hired individuals who are skilled and competent to carry out the operations of maintaining the books of accounts.

There exists a wide range of costs that tax payers incur as they strive to comply with taxes. These costs include those incurred at the planning as well as at the administrative level. These costs may be financial and non-financial related. The costs include the time that tax payers may spend in filling tax returns that could have otherwise been spend on doing productive activities in the firm that would generate revenues to the firm as a whole. When these compliance costs have been incorporated in the fines and penalties, they may adversely hurt the operations of the firm.

Coolidge (2010) did a study on costs of compliance and their influence on the ability of the tax payers to comply with taxes in an economic system. The focus of the study was on a number of countries including South Africa, Peru, Ukraine and Yemen as a republic. This study adopted a survey design and the analysis showed that any efforts to increase the costs of compliance may make the tax payers not to comply with taxes in an economy. According to a study done by OECD (2004) on simplification of taxes and how this influences the ability of the tax payers to comply with taxes, it was shown that the costs of compliance with taxes increases as one is subjected to various tax heads. The costs of compliance with taxes also increase with the degree and level of complexity of the rules and regulations of taxation and the frequency which the returns of the taxes should be filed.

The government through the Kenya Revenue Authority has always worked to modernize the tax system and has always worked towards identifying the most efficient means of ensuring tax compliance. For a long period of time, taxation of the various privately owned businesses, including property owners, have not been optimized, given the various complexities involved in the process (Walsh, 2012). While a number of literatures have been published on the processes of the Kenyan taxation systems, there has never been much focus on the monthly rental taxes, especially nonfactors influencing compliance by the landlords. While housing would be considered as one of the major sectors of the county development, and where much revenue would be collected, there is need to look at the major factors influencing tax compliance and the best strategies that would be adopted to ensure optimum compliance.

#### **2.4.4 Tax Awareness on Rental Income Tax and Residential Monthly Rental Income Tax Compliance**

Suyanto and Trisnawati (2016) looked at the role played by awareness with taxes on the ability of the tax payers to comply. Sampling of the respondents was conducted using convenience method. A total of 95 questionnaires were issued to study respondents for them to fill in. It was shown that level of awareness of the tax payers has an influence on compliance behavior of the tax payers. Savitri (2016) looked at the influence of the awareness of the tax payers on the ability of the tax payers to comply. This study included a total of 100 tax payers who were sampled purposively. To gather information for the study questionnaires helped and played an important role. It was shown that the level of awareness of the tax payers is associated with compliance behavior.

Adimasu and Daare (2017) analyzed the link between awareness as well as the various perceptions of the tax payers and their influence on the ability of the tax payers to comply with tax matters. This study was conducted in the context of Ethiopia. The design used in the study was descriptive and a total of 377 respondents were targeted. Information for the study was collected and obtained from primary as well as the secondary information sources. It was shown that the level of awareness of the tax payers was a key factor influencing and explaining the ability of the tax payers to comply with taxes.

Alstadsæter and Jacob (2013) analyzed the link between the level of awareness and the possibility of evasion among the tax payers. This study was carried out in the context of Sweden. It was shown that the level of awareness of the tax payers has an influence on their compliance behavior. Omondi and Theuri (2019) used a case of Nakuru County to determine the influence of awareness on the ability of the tax payers to comply with tax matters. Specifically, the study was interested in determining the link existing between the costs of compliance, the level of knowledge and the ability of the tax payers to comply with tax payment. Two theories provided anchorage to the study: economic deterrence and the psychological theories. From a total of 1416 SMEs covered, only 302 were selected and included in the study. Collection of data was conducted with the aid of questionnaires. It was shown that level of awareness as influence of tax knowledge play a crucial role in shaping and influencing the ability of the tax payers to comply with taxes.

## **2.5 Critique of the Existing Literature Relevant to the Study**

The study has looked at three theories forming anchorage which are; Allingham-Sandmo (AS) Theory and the Fiscal Exchange Theory. The Allingham-Sandmo (AS) Theory is relevant in explaining how tax payers strike to establish a balance between tax cheating and the probability of being detected. The theory therefore assumes taxpayer maximizes expected utilities of noncompliance tax gamble. However, not every tax payers will strive to ensure that their expected utilities of noncompliance are maximized. In other words, there are tax payers who will simply comply with tax even if the tax rates have been increased. The relevance of the Fiscal Exchange Theory to the study come from the fact that the tax payers will always be motivated to pay for taxes because it would be used to finance government programs. However, this is not true as some of the revenues may be used for non-developmental programs as seen by increased cases of corruption. Tax payers may be willing to pay taxes but such amount of collected revenues may end up being used unproductively.

A number of studies have been reviewed focusing on the variables of the study. There is agreement in the literature reviewed that an increase in tax rates makes tax payers to fail to comply with taxes. Thus, a negative relationship is predicted between tax rates and tax compliance. The review of literature further confirms that availing information on taxes is associated with increased tax compliance among tax payers. For instance, Gashi and Kukaj (2016) in a study on tax rates and its influence on evasion as well as avoidance of taxes revealed that an increase in tax rate is related with increased chances of tax noncompliance. Similarly, Aondo (2018) established that taxpayer's knowledge; tax rates had positive and significant effect tax compliance amongst SMEs in Nakuru County Kenya

Furthermore, literature indicates that costs incurred in being compliant are negative correlated with tax compliance. Any increase in such costs would make the tax payers to be non-compliant. On the other hand, the reviewed literature has failed to demonstrate the link between tax awareness and compliance. Tax awareness may either increase or decrease compliance among tax payers. For instance, a study conducted by Suyanto and Trisnawati (2016) on influence of tax awareness on tax compliance indicated that tax awareness and the tax compliance have significant relationship.

## **2.6 Summary of Literature Review**

The chapter has reviewed theories that provide anchorage to the study. More specifically, the chapter has looked at two theories namely; the Allingham-Sandmo (AS) Theory and the Fiscal Exchange Theory. The Allingham-Sandmo theory is helpful to the study since it explains the concept of compliance which is the dependent variable of the study. Tax payers will fail to comply with taxes after weighing the probability of being caught and detected for cheating and the severity of the punishment in the event of being detected while failing to comply with taxes.

The conceptual framework is presented and a discussion on the variables of the study is also presented. From the conceptual framework, the study will have two variables; the independent variables and the dependent variable. The independent variables will include tax rate, availability of tax information, costs incurred in being compliant and tax awareness on rental income taxes. The dependent variables on the other hand will be tax compliance. Each of these variables has been operationalized in the conceptual framework with key indicators which will be used to come up with the questionnaire. However, it would be been proper to include another variable say a moderator or controlling or even intervening variable.

The chapter has also looked at past empirical studies that are informed and guided by the objectives. Some of these empirical studies include Gashi and Kukaj (2016) was interested in determining the link between the rates of taxation and the ability of the tax payers to comply. Mas'ud et al. 2014) focused on the rates of taxes and their influence on ability of the tax payers to comply. Ali, Cecil and Knoblett (2001) sought to find out how the rates of taxes and compliance behavior were interlinked. Freire-Serén and Panadés (2013) focused on determining the link between rates of taxes and compliance behavior. Aondo (2018) concentrated on the level of knowledge that tax payers may be having and its influence on the ability to comply. Suyanto and Trisnawati (2016) examined the influence of the level of awareness of the tax payers and its influence on the behavior of compliance. Savitri (2016) concentrated on determining how the level of awareness of the tax payers is related with the compliance behavior. Adimasu and Daare (2017) analyzed the link between awareness as well as the perceptions of the tax payers and their influence on the ability of the tax payers to comply with the matters and issues of taxation in an economy.

## **2.7 Research Gaps**

Mas'ud et al. 2014) focused on the rates of taxes and their influence on ability of the tax payers to comply. Ali, Cecil and Knoblett (2001) sought to find out how the rates of taxes and compliance behavior were interlinked. Freire-Serén and Panadés (2013) focused on determining the link between rates of taxes and compliance behavior. Aondo (2018) concentrated on the level of knowledge that tax payers may be having and its influence on the ability to comply. Suyanto and Trisnawati (2016) examined the influence of the level of awareness of the tax payers and its influence on the behavior of compliance. Savitri (2016) concentrated on determining how the level of awareness of the tax payers is related with the compliance behavior. Adimasu and Daare (2017) analyzed the link between awareness as well as the perceptions of the tax payers and their influence on the ability of the tax payers to comply with the matters and issues of taxation in an economy. Most of these studies were however not done in Kenya but in other advanced economies hence creating a research gap.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

The methods that were used in the study are well outlined in this chapter. Specifically, the chapter looks at research design, target population, sample, sampling frame, sample as well as sampling technique. In addition, the chapter also details the data collection procedure, data collection instruments as well as pilot testing and data analysis and presentation of the findings.

#### 3.2 Research Design

Cooper and Schindler (2001) dispute that research design is the process through which the answers of who, what, where and sometimes how are discovered. Brown *et al.* (2003) states that research design offers the bond that clutch a research project jointly; it organizes the research and shows how all the major parts of the project including measures, samples and the methods of the assignment work jointly to address the research questions. The design that was used in the study was descriptive in nature. Through this design, one is able to offer a description of how things exist in their state. This design entails estimation of the study population as well as identifying the pattern and interrelationship between the variables.

#### 3.3 Target Population

According to Schindler (2000) population is the total of all the elements that have certain characteristics and are of interest to a researcher. Mugenda and Mugenda (1999) disputed that population is the total set of elements with common observable characteristics about which some inferences can be made. The study targeted the rental property owners in Lolwe estate in Kisumu town. The classification of the property owners based on their gender is shown in Table 3.1

**Table 3.1: Population**

<b>Gender</b>	<b>Population</b>
Male property owners	130
Female property owners	70
<b>Total</b>	<b>200</b>

**Source; Kisumu County (2019)**

### **3.4 Sampling Frame**

The main purpose of sampling is to select elements of the population that would assist the researcher to conclude on the entire population (Cooper & Schindler, 2008). A sample is a group of respondents comprising of a part of the population that is selected to signify the whole population. A good sample must be precise, representative and accurate of the entire population (Schindler, 2000). The sampling frame of this study comprised of a list of rental property owners in Lolwe estate in Kisumu town.

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

This section looks at the sampling technique and sample.

#### **3.5.1 Sampling Technique**

The study used a census and thus no sampling was conducted. A census was justified on ground that the population was easily accessible and it so small for sampling. Therefore, the sample size of the study was 200 respondents.

#### **3.5.2 Sample**

According to Cooper and Schindler (2008), a sample is a set of elements from which data is collected. A good sample size accurately represents the entire population and also provides information that is complete and detailed. The sample allows the researcher to make generalizations about the population. The cost and the dynamic of elements that make up the population may change over time; hence, making researchers rarely survey the entire population.

### **3.6 Data Collection Procedure**

A letter specifying the proposed study as being for academic reasons was sought from KESRA. This was followed by the permission and authority of the various agents and owners of the property in Lolwe Kisumu. The study also got research permit from the National Commission for Science Technology and Innovation (NACOSTI). The researcher then administered the questionnaires to the target respondents in person to improve the chances of getting back the questionnaires. There was high level of accountability as it regards the issued questionnaires to the study respondents.

### **3.7 Data Collection Instruments**

This study collected primary data through a questionnaire. The first section of the questionnaire gathered data on the respondents' background information while the other sections collected data on the study variables. In designing the questionnaires for the study, the questions were designed in such a manner as to attract vital answers, which helped the researcher in analyzing the situation at hand. The questionnaires were issued to the property owners through agents or managers (caretakers) requested to pass them to the property owners of the sampled residential rental houses and then picked after one week.

#### **3.7.1 Reliability of the Research instrument**

The instruments of the study are said to be reliable when they give consistent findings in every successive attempt. The split half technique was used to verify instruments reliability, whereby the extent to which all parts of the test contribute equally to what is being measured, were tested. This helped in measuring internal consistency, which was determined by the people's responses. The researcher used the delayed response technique, whereby the instruments were given to the respondent and after fortnight the researcher gave another one to the same respondent (Ely *et al.*, 2001). The researcher then compares the consistency in the responses. In case the same respondents give consistent response then the instrument was considered as being reliable.

#### **3.7.2 Validity of the Research Instruments**

The study instruments are said to be valid when they measure what they are specifically designed and put in place to measure. To determine validity of the instrument, the study engaged the supervisor in review of the items on the study instruments. At the end of this review, the items that were identified as being invalid were completely removed from the instruments. This was geared to ensuring that only valid items are left and used in the study.

### **3.8 Pilot Testing**

Cooper and Schindler (2011), state that a good measuring instrument needs to be pre-tested for efficiency. Pretesting is carried out by the researcher to spot the weak point in the design, the data collecting instruments and procedure applied in carrying out the study.

Mugenda and Mugenda (2003) further state that pre- testing tools assist the researcher to examine the competence of the instrument that was carried out in the research. According to (Cooper & Schindler, 2011), a pre-test should range from 1% to 10% depending on the sample size. For this reason, a pre-test was carried out by the researcher administering the questionnaire. Respondents who took part in pilot testing were not included in the final sample size of the study.

### 3.9 Data Analysis and Presentation

Once data has been sought from the field, cleaning was done to edit inconsistencies and incomplete responses of the quantitative data. This was followed by the coding process where responses were entered into SPSS. The analysis on the findings was carried out with aid of means, standard deviations and regression.

The following model was adopted;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where;

Y is the dependent variable (Tax Compliance)

$\beta_0$  is the regression coefficient

$\beta_1, \beta_2, \beta_3$  and  $\beta_4$  are the slopes of the regression equation,

$X_1$ =Tax Rate,

$X_2$ =Availability of tax information

$X_3$ =Costs incurred in being tax compliant

$X_4$ =Tax awareness on rental income tax

e = error term

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

This chapter is sent out to establish the findings of analysis on the data that was gathered from the field. The analysis of data was done by SPSS software using descriptive and inferential statistics. The findings are as indicated in subsequent sections.

##### **4.1.1 Response Rate**

The study distributed 200 questionnaires to property owners on Lolwe Estate in Kisumu County. From these questionnaires, 149 of them were completely filled up and returned to the researcher. This represented a response rate of 74.5%. Consider Table 4.1.

**Table 4.1: Response Rate**

	<b>Frequency</b>	<b>Percentage</b>
Response	149	74.5
Non Response	51	25.5
<b>Total</b>	<b>200</b>	<b>100</b>

The findings in Table 4.1 are consistent with Mugenda and Mugenda (2003) who argued that response rate of 70% and above is excellent for presentation and analysis of the findings.

##### **4.1.2 Pilot Results**

The instruments of the study were piloted so as to establish the validity and reliability of the instruments. For validity, the study engaged the supervisor who reviewed the questionnaire to ensure that valid items have been included. At the end of this review, all invalid items of the questionnaires were completely expunged from the questionnaires.

For reliability, the study used Cronbach Alpha that was computed on the basis of the instruments collected from the pilot study. The findings are as presented in Table 4.2.

**Table 4.2: Reliability Results**

Variable	No. of Items	Cronbach Alpha( $\alpha$ )	Remarks
Tax Rate	5	0.739	Reliable instrument
Availability of Tax Information	5	0.733	Reliable instrument
Costs Incurred in being Tax Compliant	5	0.801	Reliable instrument
Tax Awareness	6	0.705	Reliable instrument
Residential Monthly Rental Income Tax Compliance	3	0.795	Reliable instrument

As shown in Table 4.2, all the variables had Cronbach Alpha coefficients above 0.7; this shows that the instruments of the study were reliable.

#### 4.2 General Information

The study sought to gather the general information of the respondents and the studied that included their gender, length of organizational existence as well as the highest level of education. Table 4.3 gives a breakdown of the analysis of this general information.

**Table 4.3: General Information**

Category	Classification	Frequency	Percentage
Gender Distribution	Male	95	63.8
	Female	54	36.2
	<b>Total</b>	<b>149</b>	<b>100</b>
Length of Operation of the Firm	Less than 5 Year	99	66.4
	5-10 Years	39	26.2
	Above 10 Years	11	7.4
	<b>Total</b>	<b>149</b>	<b>100</b>
Levels of Education	Primary Certificate	4	2.7
	Secondary Certificate	29	19.5
	College Diploma	67	45.0
	Undergraduate	44	29.5
	Post Graduate	5	3.4
	<b>Total</b>	<b>149</b>	<b>100</b>

The findings in Table 4.3 indicate that 63.4% of the respondents were male while 36.2% were female. This means that there was gender diversity in the study as both male and female respondents were involved. On the number of years that the studied firms had been in operation, the findings indicated that majority of the firm's 66.4% had operated for less than 5 years, 26.2% for 5-10 years and 7.4% for above 10 years. This means that most of the firms had in operation for quite some time and thus suitable to be used as case study.

On respective levels of education of the respondents, it was shown that most of the respondents 45.0. % had college diplomas, 29.5% had undergraduate degrees, 19.5% had certificates, 3.4% had post graduate degrees and 2.7% had primary certificate. Therefore, this shows that the respondents of the study were learnt and thus could read and interpret the research questions as sought by the study.

### 4.3 Descriptive Statistics

The study sought to determine the factors that influence residential monthly rental income tax compliance. This section provides the findings of the analysis of the variables based on descriptive statistics including means and standard deviations.

#### 4.3.1 Tax Rate

The first objective of the study was to determine the influence of tax rate on residential monthly rental income tax compliance. The findings of descriptive statistics are reported in Table 4.4.

**Table 4.4: Tax Rate**

Statement	Mean	Std. Dev
Our firm has a tax rate schedule	4.07	0.977
The tax rate schedule is used to determine the amount of tax payable by our firm	3.99	0.818
The tax rate schedule helps in accurate computation of the amount of tax due in the firm	4.01	0.375
The firm compute the amount of tax due based on tax rate level	3.60	0.768
A higher tax rate level would mean the firm would pay more tax	3.86	0.949

From the findings in Table 4.4, majority of the respondents agreed that tax rate affects their ability to comply with residential monthly rental income tax. This is because most of the values of means on the statements presented are all above 3.5 with values of standard deviation being less than 1. Some of the items of tax rate that respondents highly agreed on included the fact that there was a tax rate schedule (M=4.07) that helped in accurate computation of the amount of tax due in the firm (M=4.01). It was through this tax rate schedule that most firms were able to determine the amount of residential monthly rental income due (M=3.99).

The above findings are in line with Mas'ud, Aliyu, Gambo, Al-Qudah and Al Sharari, (2014) who used a case of South Africa to establish the influence of rates of taxation on the behavior of compliance of the tax payers and noted that the tax rates and compliance behavior of the tax payers are highly correlated with each other.

#### **4.3.2 Availability of Tax Information**

The findings on availability of tax information and how it influences residential monthly rental income tax compliance are shown in table 4.5.

**Table 4.5: Availability of Tax Information**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
The firm accesses tax information from tax centers	3.96	0.646
The firm accesses tax information through registered tax agents	3.50	0.963
Information on tax is accessed through Huduma Centers in our firm	3.66	0.474
The firm accesses information on taxes through KRA portal	4.16	0.369
The firm has reliable channels of getting information on taxes	3.33	0.948

The findings in Table 4.5 indicate that on average; most of the respondents agreed that there were many avenues and channels for accessing tax information. These channels included the information obtained from the KRA portal (M=4.16), tax centers (M=3.96) as well as Huduma Centers (M=3.66). Some other respondents said that they accessed tax information from registered tax agents (M=3.50). However, respondents were neutral on whether their firms themselves had reliable channels of getting information on taxes (M=3.33). Andreoni and Errard (2008) argue that the level and available base of information is an important factor that shape and influence the behavior of the tax payers in an economic system as far as their ability to comply with taxes is concerned.

#### **4.3.3 Costs of Compliance**

Table 4.6 gives the findings on cost that one incurs so as to be compliant and how this affects residential monthly rental income tax compliance.

**Table 4.6: Costs Incurred in Being Tax Compliant**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
The firm has hired competent professionals to a handle tax matters	4.13	0.748
The firm outsources tax professionals to comply with rental taxes	4.01	0.993
The firm incurs costs while hiring new staff to handle taxation matters	3.83	0.903
The firm has incurred costs to invest in technology in order to comply with taxes	4.17	0.685
The firm maintains all record of taxes in a computerized system that is costly to maintain	3.50	0.766

The findings in Table 4.6 indicate that generally, respondents incurred some costs to as to be compliant with residential monthly rental income tax.

Some of the costs cited by firms as way of complying with residential monthly rental income tax included investment in technologies (M=4.17), hiring of professionals for handling tax matters (M=4.13) and costs incurred so as to outsource tax professionals to comply with rental taxes (M=4.01) as well as the costs incurred while hiring new staff to handle taxation matters (M=3.83). The findings are in line with a study done by OECD (2004) that argued that the costs of compliance with taxes increases as one is subjected to various tax heads.

#### **4.3.4 Tax Awareness**

The findings on tax awareness as the variable of the study are shown in Table 4.7.

**Table 4.7: Tax Awareness**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
I am aware of the penalty for failing to pay rental income tax	3.66	1.255
I know that we file tax returns in time to avoid paying penalties	3.93	1.239
I know that payment of rental taxes start by online filling the tax return	4.34	0.750
I know that a pay slip is generated once the return has been filed online	3.67	0.748
I know that the pay slip need to be presented to the appointed KRA banks to pay the due tax	3.73	1.011
I know that rental tax can also paid through M-pesa platform	3.92	0.721

As indicated in Table 4.7, most of the respondents agreed on the various statements presented on tax awareness which is in line with Omondi and Theuri (2019) who indicated that that level of awareness as influence of tax knowledge play a crucial role in shaping and influencing the ability of the tax payers to comply with taxes. For instance, majority of the respondents were aware that payment of rental taxes start by online filling the tax return (M=4.34).

Respondents were aware that they filed file tax returns in time to avoid paying penalties (M=3.93). Furthermore, respondents had knowledge that rental tax could also paid through M-pesa platform (M=3.92) and that pay slip needed to be presented to the appointed KRA banks to pay the due tax (M=3.73). The above findings are consistent with Suyanto and Trisnawati (2016) who looked at the role played by awareness with taxes on the ability of the tax payers to comply and established that level of awareness of the tax payers has an influence on compliance behavior of the tax payers.

#### **4.3.5 Residential Monthly Rental Income Tax Compliance**

This was the dependent variable of the study and the findings are as presented in Table 4.8.

Table 4.8: Residential Monthly Rental Income Tax Compliance

<b>Statements</b>	<b>Mean</b>	<b>Std. Dev</b>
The firm file tax returns on a timely basis	3.66	0.688
All due taxes are paid on time in the firm	3.59	0.997
I declare all the rental income taxes	3.50	0.502

As shown in Table 4.8, majority of the studied firms and individuals were complaints with residential monthly rental income. This was supported by the fact that all returns were filed on time (M=3.66) and payment of the due tax was made on a time (M=3.59). Some of the respondents also declared rental incomes (M=3.50).

### **4.4 Inferential Statistics**

This section presents the findings of correlation and regression analysis

#### **4.4.1 Correlation Analysis**

The study conducted correlation analysis to establish relationship between the identified factors and residential monthly rental income compliance. The findings are presented in Table 4.9.

**Table 4.9: Correlation Results**

		Residential Monthly Income Tax Compliance	Tax Rate	Availability of Tax Information	Costs Incurred in Being Compliant	Tax Awareness
Residential Monthly Income Tax Compliance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	149				
Tax Rate	Pearson Correlation	.387	1			
	Sig. (2-tailed)	.000				
	N	149	149			
Availability of Tax Information	Pearson Correlation	.480	-.666	1		
	Sig. (2-tailed)	.000	.000			
	N	149	149	149		
Costs Incurred in Being Compliant	Pearson Correlation	.311	-.243	.737**	1	
	Sig. (2-tailed)	.000	.003	.000		
	N	149	149	149	149	
Tax Awareness	Pearson Correlation	.402	-.331	-.180	-.571	1
	Sig. (2-tailed)	.000	.000	.028	.000	
	N					
		149	149	149	149	149

From the findings in Table 4.9, tax rate has a positive relationship with residential monthly rental income compliance. Ali, Cecil and Knoblett (2001) showed that tax rates and the ability of the tax payers to comply are in one or the other related with other. Freire-Serén and Panadés (2013) noted that the tax rates and the ability of the tax payers to comply with the matters of taxes are significantly connected with one another in an economy. Availability of tax information also has positive and significant relationship with residential monthly rental income compliance. Cost incurred so as to be compliant was also found to have positive relationship with residential monthly rental income compliance. Tax awareness was established to have a positive relationship with residential monthly rental income compliance. The finding is in line with Adimasu and Daare (2017) who established that the level of awareness of the tax payers was a key factor influencing and explaining the ability of the tax payers to comply with taxes. Alstadsæter and Jacob (2013) noted the level of awareness of the tax payers has an influence on their compliance behavior.

#### 4.4.2 Regression Analysis

The study carried out regression analysis so as to establish the effect of the identified factors on residential monthly rental income compliance. The findings are as presented in subsequent sections.

##### 4.4.2.1 Model Summary

The Model Summary of the study is as shown in Table 4.10.

**Table 4.10: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.899 <sup>a</sup>	.808	.803	.84285

a. Predictors: (Constant), Tax Awareness, Availability of Tax Information, Tax Rate, Costs Incurred in Being Compliant

The findings in Table 4.10 indicates that the coefficient of determination R square is 0.808; this implies that 80.8% change in residential monthly rental income compliance is explained tax awareness, availability of tax information, tax rate, costs incurred in being compliant.

##### 4.4.2.2 Analysis of Variance

The study carried out an Analysis of Variance at 5% level of significance and the findings are as reported in Table 4.11.

**Table 4.11: Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	431.555	4	107.889	151.871	.000 <sup>b</sup>
Residual	102.297	144	.710		
<b>Total</b>	<b>533.852</b>	<b>148</b>			

a. Dependent Variable: Residential Monthly Income Tax Compliance

b. Predictors: (Constant), Tax Awareness, Availability of Tax Information, Tax Rate, Costs Incurred in Being Compliant

An Analysis of Variance (ANOVA) was carried out at 5% level of significance. The findings indicated that the value of F calculated is 151.871; this signifies that the overall regression model of the study was significant.

##### 4.4.2.3 Regression Coefficients

The findings on regression significant and the significance are shown in Table 4.12.

**Table 4.12: Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
(Constant)	4.814	1.322		3.641	.000
Tax Rate	.245	.086	.833	2.849	.023
Availability of Tax Information	.405	.100	.327	4.060	.011
Costs Incurred in Being Compliant	.664	.036	1.339	18.482	.017
Tax Awareness	.592	.153	1.023	3.869	.000

a. Dependent Variable: Residential Monthly Income Tax Compliance

Table 4.12 shows the beta coefficients and the p-values. From the findings, the following equation is formulated:

$$Y = 4.814 + .245 X_1 + .405 X_2 + .664 X_3 + .592 X_4$$

Y = Residential Monthly Income Tax Compliance

$X_1$  = Tax Rate,

$X_2$  = Availability of tax information

$X_3$  = Costs incurred in being tax compliant

$X_4$  = Tax awareness

e = error term

Thus, at 5% level of significance, the study established that tax rate ( $p < 0.05$ ) has significant effect on residential monthly income tax compliance. The finding is in line with Ali, Cecil and Knoblett (2001) who analyzed the influence of the rates of taxation on the ability of the tax payers to comply with taxes and noted that tax rates and the ability of the tax payers to comply are in one or the other related with other. Freire-Serén and Panadés (2013) looked at the role played by the rates of taxation as the ability of the tax payers to comply with taxes is concerned in an economic system of establishment. It was shown that the tax rates and the ability of the tax payers to comply with the matters of taxes are significantly connected with one another in an economy.

Availability of tax information ( $p < 0.05$ ) has significant effect on residential monthly income tax compliance. Costs incurred in being tax compliant ( $p < 0.05$ ) has significant effect on residential monthly income tax compliance. The findings agree with Coolidge (2010) who did a study on costs of compliance and their influence on the ability of the tax payers to comply with taxes in an economic system and showed that any efforts to increase the costs of compliance may make the tax payers not to comply with taxes in an economy. Tax awareness ( $p < 0.05$ ) has significant effect on residential monthly income tax compliance. This finding is consistent with Aondo (2018) who analyzed the link between the level of knowledge that tax payers have and their ability to comply with taxation and established that tax knowledge and the ability of the tax payers to comply with tax matters are positively correlated with one another in economic systems. Similarly, Savitri (2016) looked at the influence of the awareness of the tax payers on the ability of the tax payers to comply and established that the level of awareness of the tax payers is associated with compliance behavior.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents a summary of the analysis of the findings based on the primary data that was collected from the field. The conclusions are also provided as informed and influenced by the key findings. The recommendations are made for policy and practices and areas that further studies can be carried out are shown.

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

This section will summarize the findings of the study based on specific objectives.

##### **5.2.1 Tax Rate and Residential Monthly Rental Income Tax Compliance**

The first objective of the study was to assess the effect of tax rate on residential monthly rental income tax compliance Lolwe estate, Kisumu County, Kenya. From the findings of descriptive analysis, majority of the respondents agreed that tax rate affects their ability to comply with residential monthly rental income tax. Some of the items of tax rate that respondents highly agreed on included the fact that there was a tax rate schedule that helped in accurate computation of the amount of tax due in the firm. It was through this tax rate schedule that most firms were able to determine the amount of residential monthly rental income due.

The findings of correlation analysis showed that tax rate has a positive relationship with residential monthly rental income tax compliance. Regression results indicated that tax rate has significant effect on residential monthly rental income tax compliance.

##### **5.2.2 Availability of Tax Information and Residential Monthly Rental Income Tax Compliance**

The second objective was interested at determining the influences of the availability of tax information on residential monthly rental income tax compliance Lolwe estate, Kisumu County, Kenya. From the findings of descriptive statistics, most of the respondents agreed that there were many avenues and channels for accessing tax information. These channels included the information obtained from the KRA portal, tax centers as well as Huduma Centers.

Some other respondents said that they accessed tax information from registered tax agents. Correlational results indicated that availability of tax information has a positive relationship with residential monthly rental income tax compliance. From regression analysis, availability of tax information has a significant effect on residential monthly rental income tax compliance.

### **5.2.3 Costs of Compliance and Residential Monthly Rental Income Tax Compliance**

The study also sought to establish the influence of costs incurred in being tax compliant on residential monthly rental income tax compliance Lolwe estate, Kisumu County, Kenya. It was shown that generally, respondents incurred some costs to as to be compliant with residential monthly rental income tax. Some of the costs cited by firms as way of complying with residential monthly rental income tax included investment in technologies, hiring of professionals for handling tax matters and costs incurred so as to outsource tax professionals to comply with rental taxes as well as the costs incurred while hiring new staff to handle taxation matters. The findings of correlation analysis suggested that costs incurred in being tax compliant have positive relationship with residential monthly rental income tax compliance. Regression analysis showed that costs incurred in being tax compliant have significant effect on residential monthly rental income tax compliance

### **5.2.4 Tax Awareness and Residential Monthly Rental Income Tax Compliance**

The last objective sought to establish the influence of tax awareness on residential monthly rental income tax compliance Lolwe estate, Kisumu County, Kenya. Majority of the respondents agreed on the various statements presented on tax awareness. For instance, majority of the respondents were aware that payment of rental taxes start by online filling the tax return. Respondents were aware that they filed file tax returns in time to avoid paying penalties. Furthermore, respondents had knowledge that rental tax could also paid through M-pesa platform and that pay slip needed to be presented to the appointed KRA banks to pay the due tax. The findings of correlation analysis indicated that tax awareness has positive relationship with residential monthly rental income tax compliance. From regression results, tax awareness has significant effect on residential monthly rental income tax compliance.

## **5.3 Conclusion**

### **5.3.1 Tax Rate and Residential Monthly Rental Income Tax Compliance**

Tax rate has a postive relationship with residential monthly rental income tax compliance. Tax rate has significant effect on residential monthly rental income tax compliance. Therefore, tax rate is one of the factors affecting residential monthly rental income tax compliance.

### **5.3.2 Availability of Tax Information and Residential Monthly Rental Income Tax Compliance**

Availability of tax information has a postive relationship with residential monthly rental income tax compliance. Availability of tax information has a significant effect on residential monthly rental income tax compliance. Hence, availability of tax information is one of the factors influencing residential monthly rental income tax compliance.

### **5.3.3 Costs of Compliance and Residential Monthly Rental Income Tax Compliance**

Costs incurred in being tax compliant have postive relationship with residential monthly rental income tax compliance. Costs incurred in being tax compliant have significant effect on residential monthly rental income tax compliance. Hence, it is concluded that costs incurred in being complaints is among the factors with an influence on residential monthly rental income tax compliance.

### **5.3.4 Tax Awareness and Residential Monthly Rental Income Tax Compliance**

Tax awareness has postive relationship with residential monthly rental income tax compliance. Tax awareness has significant effect on residential monthly rental income tax compliance. Therefore, tax awareness is a critical factor influencing residential monthly rental income tax compliance.

## **5.4 Recommendations of the Study**

The study established that tax rate is one of the factors influencing residential monthly rental income tax compliance.

Thus, this study recommends that KRA should consider widening the tax base and reducing the tax rates so as to improve on residential monthly rental income tax compliance.

Since availability of tax information was another factor influence residential monthly rental income tax compliance, this study recommends that KRA should ensure that information on taxes is readily available to tax payers.

KRA should strive to improve on efficiency in systems so that tax payers do not incur a lot of costs while complying with residential monthly rental income tax compliance.

There is need for awareness programs and efforts so that more tax payers are taught on the need to comply with residential monthly rental income tax compliance.

### **5.5 Areas for Further Studies**

The present study was carried out in Kisumu County, specifically in Lolwe Estate. It is therefore recommended that future studies need to be conducted among other counties in Kenya for instance Nairobi as well as Mombasa County. From the findings, the value of R square was 0.808; which shows that 80.8% change in residential monthly rental income tax compliance is explained by tax awareness, availability of tax information, tax rate, costs incurred in being compliant as the identified factors. Thus, apart from these factors, there are other variables with an influence on residential monthly rental income tax compliance that future studies should focus on. The study recommends further studies to be carried out on other categories of taxes for instance VAT and corporate taxes as well as PAYE.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

1. What is your Gender?

Male ☐ Female ☐

2. How long has your firm been in existence?

Less than 5 Year ☐ 5-10 Years ☐ Above 10 Years ☐

3. What is your highest level of education?

Primary Certificate ☐

Secondary Certificate ☐

College Diploma ☐

Undergraduate ☐

Post Graduate ☐

### SECTION B: TAX RATE AND TAX COMPLIANCE AMONG RENTAL PROPERTY OWNERS

4. Below are several statements on tax rate and tax compliance among rental property owners.

Use a scale of 1-5 where; 1= No Extent, 2= Little Extent, 3=Moderately Extent, 4= Great Extent, 5= Very Great Extent.

Statement	1	2	3	4	5
Our firm has a tax rate schedule					
The tax rate schedule is used to determine the amount of tax payable by our firm					
The tax rate schedule helps in accurate computation of the amount of tax due in the firm					
The firm compute the amount of tax due based on tax rate level					
A higher tax rate level would mean the firm would pay more tax					

## SECTION C: AVAILABILITY OF TAX INFORMATION AND TAX COMPLIANCE AMONG RENTAL PROPERTY OWNERS

5. Below are several statements on availability of tax information and tax compliance among rental property owners.

Use a scale of 1-5 where; 1= No Extent, 2= Little Extent, 3=Moderately Extent, 4= Great Extent, 5= Very Great Extent.

Statement	1	2	3	4	5
The firm accesses tax information from tax centers					
The firm accesses tax information through registered tax agents					
Information on tax is accessed through Huduma Centers in our firm					
The firm accesses information on taxes through KRA portal					
The firm has reliable channels of getting information on taxes					

## SECTION D: COSTS INCURRED IN BEING TAX COMPLIANT AND TAX COMPLIANCE AMONG RENTAL PROPERTY OWNERS

6. Below are several statements on costs incurred in being tax compliant and tax compliance among rental property owners.

Use a scale of 1-5 where; 1= No Extent, 2= Little Extent, 3=Moderately Extent, 4= Great Extent, 5= Very Great Extent.

Statement	1	2	3	4	5
The firm has hired competent professionals to a handle tax matters					
The firm outsources tax professionals to comply with rental taxes					
The firm incurs costs while hiring new staff to handle taxation matters					
The firm has incurred costs to invest in technology in order to comply with taxes					
The firm maintains all record of taxes in a computerized system that is costly to maintain					

## SECTION D: TAX AWARENESS AND RENTAL INCOME TAX ON TAX COMPLIANCE AMONG RENTAL PROPERTY OWNERS

7. Below are several statements on tax awareness and rental income tax on tax compliance among rental property owners. Kindly indicate the way your business has performed on each of these fronts.

Use a scale of 1-5 where; 1= No Extent, 2= Little Extent, 3=Moderately Extent, 4= Great Extent, 5= Very Great Extent.

Statement	1	2	3	4	5
I am aware of the penalty for failing to pay rental income tax					
I know that we file tax returns in time to avoid paying penalties					
I know that payment of rental taxes start by online filling the tax return					
I know that a pay slip is generated once the return has been filed online					
I know that the pay slip need to be presented to the appointed KRA banks to pay the due tax					
I know that rental tax can also paid through M-pesa platform					

#### **SECTION D: RESIDENTIAL MONTHLY RENTAL INCOME TAX COMPLIANCE**

8. Below are several statements on tax compliance among rental property owners. Kindly indicate the way your business has performed on each of these fronts.

Use a scale of 1-5 where; 1= No Extent, 2= Little Extent, 3=Moderately Extent, 4= Great Extent, 5= Very Great Extent.

Statements	1	2	3	4	5
The firm file tax returns on a timely basis					
All due taxes are paid on time in the firm					
I declare all the rental income taxes					

**THANK YOU**

## **APPENDIX II: LIST OF PROPERTY OWNERS**

1. West Kenya Real Estate
2. Nyarusinga Commercial Agencies
3. Bedvin Investments
4. Lake Estate Agency Ltd
5. Denis Kabila
6. Kakamega Realtors
7. Stego Classic Modern Services
8. Tysons Limited
9. Finnlemm Development Company Limited
10. Explananda Consult
11. Western Arrow Company Ltd
12. Dominion Realtors
13. Bellacole Properties
14. Cliffhause Consult
15. Lake Estate Agency Ltd.
16. Translake Esate
17. Opande Africa Investments
18. Acorn Management Services Ltd
19. Adwaa Alkhalil Development Company Ltd
20. African Developers Groups for Construction and Investments
21. AHCOF Investments (Kenya) Ltd
22. Amazon Projects Ltd
23. Amboseli Court Ltd
24. AMS Properties Ltd
25. Bahati Ridge Development Ltd
26. Blueline Properties Ltd
27. Camelot Consultants Ltd
28. Century City Property Ltd
29. Cheriez Properties Ltd
30. Chigwell Holdings Ltd

31. CitiEstate Investments Ltd
32. Cytonn Real Estate
33. Coral Property International Ltd
34. Daykio Plantations Ltd
35. Dewbury Ltd
36. Dunhill Consulting Ltd
37. Elegant Properties Ltd
38. Elm Ridge Ltd
39. Endless Africa Ltd
40. Enkavilla Properties Ltd
41. Fairdeal Development & Infrastructure Ltd
42. Fedha (Management) Ltd
43. Golden Compass Ltd
44. Heri Homes Properties Ltd
45. HF Development and Investments Ltd
46. Home Afrika Ltd
47. iJenga Ventures Ltd
48. Immensity Holdings Ltd
49. INFPAC Ltd
50. Jabez Properties
51. Kamhomes Investments Ltd
52. Karibu Homes
53. Karume Holdings Ltd
54. Kings Developers Ltd
55. Kzanaka Ltd
56. Laser Property Services Ltd
57. Leo Capital Holdings Ltd
58. Lordship Africa
59. Manrik Holdings Ltd
60. Meera Construction Ltd
61. Mlima Construction Company Ltd

62. MML Turner & Townsend
63. Mugumo Developments Ltd
64. Natureville Homes
65. Norcent Projects Ltd
66. Oakpark Properties Ltd
67. Optiven Ltd
68. PDM (Kenya) Ltd
69. Pioneer Holdings (Africa) Ltd
70. Prissy Apartments Ltd
71. Realux Holdings Ltd
72. Rozana Properties Ltd
73. Sayani Investments Ltd
74. Sherry Blue Properties Ltd
75. Shreeji Development Ltd
76. Sigimo Entreprises Ltd
77. SJR Properties Ltd
78. SLOK Construction Ltd
79. Sohail Developments Ltd
80. Soma Properties
81. Superior Homes Kenya Ltd
82. 14Trees Kenya Ltd
83. Tatu City Ltd
84. Tecnofin Kenya Ltd
85. The Combined Warehouses Ltd
86. The Epic Properties Ltd
87. The GoDown Arts Centre
88. Tilisi Developments Ltd
89. Trident Estates Ltd
90. TSG Realty Ltd
91. Two Rivers Development Ltd
92. Unity Homes Ltd

93. Username Investments Ltd
94. VAAL Real Estate
95. Vishwa Developers Ltd
96. Wood Products Kenya Ltd
97. Axis Real Estate Ltd
98. Broll Kenya Ltd
99. Hass Consult Ltd
100. Knight Frank Kenya Ltd
101. MW&C Company Advocates LLP
102. Pam Golding Properties Ltd
103. Tysons Ltd
104. Shabaha Solutions Ltd
105. Anjarwalla & Khanna Advocates
106. Balala & Abed Advocates
107. Bowmans (Coulson Harney LLP)
108. Kanaga and Associates Ltd
109. Karanja Njenga and Company Advocates
110. Khayesi Njambi & Khayesi Advocates
111. KN Law LLP
112. Know Advocates LLP
113. Mboya Wangong'u & Waiyaki Advocates
114. Menezes and Partners Advocates
115. Mereka & Co. Advocates
116. MMC Africa Law
117. Murimi and Company Advocates
118. O&M Law LLP
119. Boogertman and Partners Architects Ltd
120. K&M Archplans Ltd
121. Morphosis Ltd
122. Paragon Architects
123. Buy Rent Kenya Ltd

124. DLR Group Africa Ltd
125. Tandem and Stark Ltd
126. Global Property Advice
127. REITS Association of Kenya (RAK)
128. Town and County Planners Association of Kenya (TCPAK)
129. Emerge Developments Ltd
130. Bamburi Cement Ltd
131. Rhombus Concrete Ltd
132. Savannah Cement Ltd
133. Secureman Services Ltd
134. Dahua Technology Kenya Ltd
135. Newline Ltd
136. Newmatic Africa Ltd
137. Saj Ceramics Ltd
138. G&G Mabati Mills Ltd
139. Mabati Rolling Mills Ltd
140. Ali Fabrication Solutions Ltd
141. Kumkang Kind East Africa Ltd
142. Cemex Holdings Ltd
143. Boleyn Magic Wall Panel Ltd
144. Classic Mouldings Ltd
145. Koto Housing Kenya Ltd
146. Sarma Enterprises Ltd
147. Questworks
148. Davis and Shirliff Ltd
149. Technical Engineering Services Ltd
150. iBUILD Kenya Ltd
151. Cummins C&G Ltd
152. Kansai Plascon Kenya Ltd
153. Fusion Capital Ltd
154. Invhestia Africa Ltd

155. Popote Payments Ltd
156. Spearhead Africa Ltd
157. STANLIB Fahari I-REIT
158. Vedman Capital Ltd
159. Hayer One Ltd
160. Gakuyo Real Estate
161. Azizi Realtors
162. Llyod Masika
163. Villa Care Ltd
164. Suraya Property Group
165. Hass Consult Ltd
166. Optiven enterprise ltd Kenya
167. Dinara Developers
168. Myspace Properties Kenya
169. Unique Investor property
170. Standard Villas Ltd,
171. The Tool Managers,
172. Cornices & Interiors,
173. Gatuge Agencies
174. span structure ltd
175. All Terrain Agencies
176. Mancann Properties
177. damaga investment
178. Homefield Property Managers
179. Vesh investments
180. Country Maps Agencies
181. Multi-Purpose Investment
182. Jivunio Management Services
183. Stekham Agencies
184. Hightech Novelty Estate Agents
185. Flat Homes Agencies

186. Blessed Investments
187. Leoma Properties
188. Grayrob Agencies
189. Dycos Property Marketer
190. Triple K Property Management
191. Wama Homes Holdings
192. Superior Homes Kenya Ltd
193. Spring Valley Court Ltd
194. Oakpark Apartments Ltd
195. Mzima Development Ltd
196. Exclusive Classic Properties Ltd
197. Derby Holdings Ltd
198. Amber Investments Ltd
199. ADM (Archer Dramond Morgan Ltd
200. Affordable Homes Africa Ltd

**Source; HassConsult(2019) & KPDA (2019)**