

**FACTORS AFFECTING UPTAKE OF TAX CONSULTING SERVICES AMONG REAL
ESTATE TAXPAYERS IN MOMBASA CENTRAL BUSINESS DISTRICT**

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AND TECHNOLOGY**

2019

DECLARATION

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

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HDB335-C016-2387/2016

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

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DEDICATION

Dedicated to my parents and siblings.

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DEFINITION OF TERMS

Fines—This is a form of punishing the taxpayers by being required by law to pay money for violating the rules and applicable law. Alm (2011) supports the evidence that fines do affect tax compliance though the impact was virtually zero. Friedland and Frey (2011) in their study found out that compliance was strongly affected by the amount of fines than by audit probabilities.

Penalties - Punishments are negative discipline to the individuals who disrupt the guidelines and fines are discipline by paying cash for disregarding the standards and material law with the goal that it very well may be said that a punishment is negative discipline to the individuals who defy the norms by paying cash There are two kinds of tax penalties in taxation laws, the administrative sanctions and criminal sanctions. (Alm, 2011).

Real Estate Taxpayers - Real estate taxpayer is a person or organization such as a company subject to pay a tax on real estate properties either yearly or monthly depending on the tax jurisdiction. Taxpayers have Personal Identification Number, a reference number issued by a government to its citizens. Most adults are taxpayers. (Evans, 2013)

Tax Consultant - is anyone who prepares and advises to be remunerated, or who hire one or more persons to prepare for remuneration, any return, statement or other document with respect to tax under statutory laws. (Trivedi & Shehata, 2010)

Tax Consulting - Tax consulting is a service whereby tax professionals give advice to taxpayers and also help taxpayers in tax issues for a fee (Luscombe, 2010). The terms tax professionals include tax advisors, franchises, registered tax agents, self-employed accountants, and lawyers practicing in the area of taxation.

Tax Consulting Cost - these are costs incurred by taxpayers to secure the services of a tax consultant who will help them to comply with the requirements of the tax law and the revenue authorities' regulations of a country. These costs include the costs that will ensure that the taxpayer minimize the amount of taxes they will owe each year to the tax authority (Evans, 2013).

Taxpayer Education -This refers to the taxpayers' ability to understand and to either comply or not comply with taxation rules (Mustapha, 2014).

ACRONYMS AND ABBREVIATIONS

ATO	-	Australian Tax Office
CBD	-	Central Business District
EAC	-	East African Community
GIZ	-	Gesellschaft für Internationale Zusammenarbeit
IRS	-	Internal Revenue Services
KBA	-	Kenya Bankers Association
KESRA	-	Kenya School of Revenue Administration
KNBS	-	Kenya National Bureau of Statistics
KRA	-	Kenya Revenue Authority
LTU	-	Large Taxpayers Unit
MRI	-	Monthly Rental Income
NTA	-	National Taxpayers Association
OECD	-	Organization for Economic Cooperation and Development
PAYE	-	Pay as You Earn
PIN	-	Personal Identification Number
SMEs	-	Small and Medium Enterprises
TJNA	-	Tax Justice Network Africa
US	-	Unites States of America
USBLS	-	United States Bureau of Labor and Statistics
VAT	-	Value Added Tax
WB	-	World Bank

ABSTRACT

This study sought to establish the factors affecting uptake of tax consulting among real estate taxpayers in Mombasa Central Business District. Although there has been significant growth in tax collection by over 48% from year 2011 to 2015, the contribution by landlords represented by real estate agents has been very low despite all the efforts by government taxing all Kenyans to support the development of the economy by paying their fair share of taxes. Different aspects of tax advisors as a variable in compliance between revenue authorities and taxpayers were examined. The study aimed to investigate on the overall factors affecting tax consulting among real estate taxpayers. This comprised of cost of tax consulting services, taxpayer education and fines and penalties with a view to check on how it affects the overall compliance of real estate taxpayers. The study adopted three theories: economic theory, psychological theory and fiscal theory. The study adopted cross-sectional research design. Data was collected through administration of questionnaires to 300 respondents after which quantitative analysis was used to analyse the data collected. The study findings indicated that taxpayer's education has a significant effect on the uptake of tax consulting among the real estate firms in Mombasa. Taxpayers Education was found to have 0.430, this implies that a unit increase in taxpayers' education on compliance and taxation matters affects the uptake of consulting by 0.430. The study concluded that sanctions have improved the uptake of tax consulting among the real estate firms in Mombasa and this is shown by coefficient r explaining the relationship between Sanctions with the uptake of the tax consulting which was 0.648, this indicated a strong positive correlation between the variables. Cost of consulting negatively affects the uptake of tax consulting correlation analysis obtained a moderate Negative correlation between the cost of Tax consulting with the uptake of tax consulting, the coefficient of correlation r for cost of Tax Consulting was $r=-0.393$. The study recommends on the following; extensive taxpayer education to be carried out to equip the businesses with the basic and necessary knowledge on the requirements of tax compliance. Enforcement of the sanctions on the firms which are non-compliant will improve on compliance. There should be regulation on the fees charged by the tax consultancies so as to improve on the levels of tax compliance through uptake of tax consulting. Proper monitoring on the tax consulting firms will also aid in the standardization of charges that

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Governments use taxation as the key source of revenue to provide public services to its citizens. Magu (2013) argues that, taxation is the biggest way for collecting resources by any government to finance public expenditure for goods and services consumed by the public of a country.

Taxation in both developing and developed economies is the main source of government revenue. The Organization for Economic Co-operation and Development (OECD) in the year 2009 stated that through taxation nations can be financially independent and not rely on external funding (OECD, 2009). However, tax evasion and avoidance are one of the biggest obstacles to this method of financing government operations. According to Gesellschaft für Internationale Zusammenarbeit (GIZ) economies which are still developing are mostly affected by the challenge of tax evasions and avoidance. African countries tax compliance is less than 23% according to GIZ (2014) as compared to 35% of other developing countries who are not African. This leads most African countries to rely on unsustainable ways of funding like donor funding and bank loans because of these taxation gaps and budgetary shortfalls. Policies to reduce these taxation shortfalls and the dependence on donor funding need to be developed and implemented by these developing nations. Tax authorities around the world have been challenged by the complexity of motivations behind tax evasion (Macharia, 2012).

Tax consulting is a service whereby tax professionals gives advice to taxpayers and also help taxpayers in tax issues for a fee (Luscombe, 2010). Tax professionals include tax advisors, franchises, registered tax agents, self-employed accountants, and lawyers practicing in the area of taxation. In Kenya taxpayers are supposed to do self-assessment on their taxes and this has led to most small and medium taxpayers to start engaging tax advisors on tax matters relating to their companies (Mustapha, 2014). Taxpayers like real estate owners hire tax consulting services for certain reasons. As postulated by Devos (2012) the reasons taxpayers hire tax consultants include to file accurate tax returns as a result of their lack of knowledge and understanding on various tax laws, a need to minimize tax they should pay, the fear of being penalized for mistakes or just not having the time to file their returns.

In international context many countries for instance the United Kingdom, Japan and Portugal, taxation is based increasingly on taxpayers' self-assessment. This has led to an increase in their tax collections over the years since adoption and rental income taxes have increased proportionately with growth in their real estate sectors. These developed nations have ramped up their tax compliance efforts. Even then this does not make taxpayers independent in tax issues and to the contrary, it has progressively led to increase in the hiring of tax advisors and consultants (Niemirowski & Wearing, 2008). The job prospects for tax consultants is projected to increase by 32% between 2010 - 2020 as per the United States Bureau of Labor and Statistics (USBLS, 2010). This study puts into consideration the fact that above countries tax consultants have been put in place by taxpayers to comply with most of their tax obligations required of them by the law. Therefore, then the effect of their tax advice, attitudes and decisions in the area of taxation will have its impact in compliance by taxpayers (McKerracher, 2010).

There is an indication by earlier studies that studying of the relationship between tax consulting firms and taxpayers have been on the rise over the last two decades. This has led resulting to a significant increase in knowledge on this subject. Different aspects of tax advisors as a variable in compliance between revenue authorities and taxpayers have been examined (Devos, 2012). These includes the reasons that drive a taxpayer to engage tax consulting firms. Among the reasons is what influences the aggressiveness of tax advisors' and encouraging cooperation by tax payers by the use of penalties (Trivedi and Shehata, 2010). In contrast, when compared with the large number of research that has been done on scenarios of tax advisors, less have looked into the point of the relationship between tax consulting services and its effect among real estate taxpayers.

KRA over the years has registered more tax agents whom they say that it will assist in the giving of high quality services needed by the taxpayers and also help the taxpayers comply with the tax laws. KRA has 366 tax agents as of 2015 and are intending on increasing them to 500 by 2018 (KRA, 2015). Taxpayers have many reasons on why they seek services of a tax consulting firms it includes their desire of lodging accurate tax returns, lack of knowledge on taxation matters, complexity of taxation laws, the need of minimizing the amount of taxes to be paid, fear to make mistakes and getting penalized or lack of time during filing of their tax returns to the Kenya Revenue Authority (KRA, 2015).

Therefore, tax compliance is currently a topical issue in developing countries. Kenyan government seeks ways to improve the efficiency of tax revenue collection by KRA to finance her budget. Small and Medium Enterprises are the majority business taxpayers in most developing countries and as such their compliance levels directly impact on tax revenue collection by the government (Evans, 2013). The government has come up with different tax laws to ensure collection of taxes these includes Income Tax Act, Value Added Tax Act, Excise Tax Act, East African Customs Management Act, Tax Procedure Act and Finance Bill 2016. All these acts are enforced by KRA as an agent to the Treasury (KRA, 2016).

Tax on Rental Income is a tax within Domestic Taxes Department which is collected by Income Tax Department within KRA (Luscombe, 2014). Kenya as an emerging economy needs to plug itself into the world of efficiency in tax collection. There is need for the country to put in place mechanisms that will boost the county's revenue and at the same time to be equipped with systems that will drive rental income earners in remitting taxes (Mustapha, 2011).

This study aimed to analyze the various lines of research and the explanatory models, at the international level and local level, about the factors affecting the uptake of tax consulting services by real estate taxpayers. It also intended to examine whether these explanatory models can be applied to the Kenyan context.

Out of the total population only 10% own homes according to the Kenya Bankers Association (KBA) reports. This shows that the remaining 90% of the population lives on rental properties where tax on rental income should be derived from by KRA and most of them are managed by real estate agents on behalf of real estate taxpayers (KBA, 2015).

However, most of rental income taxpayers have not been complying with the tax laws pertaining income tax from rental income because of inadequate mechanisms by government in identifying and bringing landlords to the tax net. Many rental income taxpayers have also been collecting their rent from tenants themselves or using agents who are not registered thereby making it hard for the revenue authority to trace their income for the purposes of taxation (Ayuba, 2016). Government's move in tightening rules and regulations of taxation on rental income in the middle of increasing costs of doing business in Kenya received a lot of mixed reactions from (Muita, 2011). This therefore underlines the requirement to establish the influence tax consulting services will have on real estate taxpayers in Mombasa County CBD.

1.2 Statement of the Problem

Although there has been significant growth in tax collection by over 44% from 2011 to 2015 (KNBS, 2015), the contribution by landlords has been very low despite all the efforts by government taxing all Kenyans to support the development of the economy by paying their fair share of taxes. Lack of tax policies which are appropriate and poor administration of taxes are mostly linked to the high tax avoidance and evasion reported in most developing states (GIZ, 2010). KRA (2012) uncovered that under 40 percent of the real estate owners and developers had conformed to impose prerequisites, and government went in to fortify the rental pay charge arrangements. Tax assessment on rental pay by the Kenya Revenue Authority has been in presence since execution of Income Tax Act of 1973.

In a World Bank (2017) report 16th edition of Kenya Economic Update, total revenue as a share of GDP fell to its lowest level in a decade, and tax revenue fell to 15.4 per cent of GDP in 2017/18, from 17.1 per cent of GDP in 2016/17. This is attributed to underperformance in both income tax and VAT. This has led the government to be aggressive in ensuring tax compliance is achieved in real estate by the introduction of Monthly Rental Income-MRI (KRA, 2015) which ensures that all landlords remit 10% of their gross monthly income to KRA.

The growth of property taxes has grown from Ksh 12.9 billion in 2011 to Ksh 20.1 billion in 2016 (ICPAK, 2016) but this is far much less as compared to the growth of gross domestic product rate of the country over the same period and the rate in which development of real estate have been over the years. This has led to KRA coming up with aggressive ways of tackling the lack of compliance in real estate sector and this therefore means that landlords need to ensure compliance to avoid penalties. This study looked into the factors affecting uptake of tax consulting among real estate taxpayers in Mombasa county CBD to ensure compliance.

The passing of the Finance Act (2018) puts the necessary framework for tax agents to be regulated by KRA and professional bodies like Institute of Certified Public Accountants of Kenya (ICPAK). Due to the massive growth of real estate development in Kenya over the past few years evidenced by increase in funding for development of real estate by various banks as reported by Kenya Bankers Association (KBA) (KBA Report, 2016). This study looked into the effects if any of these additional tax agents and increase in funding of real estate projects on ensuring compliance by real estate agents by use of tax consulting services.

This study's aim was to specifically investigate the factors affecting uptake of tax consulting among real estate taxpayers in Mombasa county Central Business District (CBD). Given that tax consulting firms act as help between KRA and majority of Kenyan taxpayers' which is inclusive of real estate agents and landlords who have tasked them with collecting and remitting their monthly rental collections, there is need for further research on this. In recognition of the importance of tax consultants KRA over the last few years has registered more tax agents with view of improving the quality of services to taxpayers and also help the taxpayers in compliance with the tax laws.

1.3 Objectives

1.3.1 General Objective

The main objective of this study was to investigate factors that affect the uptake of tax consulting by real estate taxpayers in Mombasa County Central Business District.

1.3.2 Specific objectives

- i. To determine the effect of taxpayer education on the uptake of tax consulting among real estate taxpayers in Mombasa Central Business District.
- ii. To determine the effect of fines and penalties on the uptake of tax consulting services by real estate taxpayers in Mombasa Central Business District.
- iii. To examine the effect of cost of tax consulting services on the uptake of tax consulting services by real estate taxpayers in Mombasa Central Business District.

1.4 Research Questions

- i. How does taxpayer education affect the uptake of tax consulting services by real estate taxpayers in Mombasa Central Business District?
- ii. How do sanctions affect uptake of tax consulting services by real estate taxpayers in Mombasa Central Business District?
- iii. How does cost of tax consulting affect the uptake of tax consulting services among real estate taxpayers in Mombasa Business District?

1.5 Justification of the study

The results of the research shed light to real estate taxpayers on how the services provided by tax consultancy firms to real estate taxpayers influences the ethics and compliance level of amongst Kenyan rental income taxpayers. The findings also help to weigh whether the costs associated with tax consulting services are worth for the taxpayers. This research also has the tendency to elicit further reasons as to real estate taxpayers' non-compliance/compliance.

The study benefits many factions inside the Kenya Revenue Authority. This research also enhances KRA's tendency to collect rental income revenue thus leading to public expenditure to members of the community. KRA will know of importance of tax agents in ensuring Monthly Rental Income (MRI) tax compliance by real estate taxpayers on behalf of their clients in enhancing the collection of revenue. The tax consulting firms and public also benefit as the study sought to explore the factors that affect uptake of tax consulting among real estate taxpayers. Scholars and researchers with a view to study work on the same or related topic on tax consulting also benefits from this study.

1.6 Scope of the study

The study's aim was to investigate on the overall factors affecting tax consulting among real estate taxpayers. This comprises of cost of tax consulting services, timely filing of tax returns and complexity of tax laws. The study was conducted in Mombasa County during the year 2018/2019. Samples were taken from real estate taxpayers from within Mombasa County Central Business District. These individuals were chosen as the prospects because of the diversity of real estate taxpayers in Mombasa Central Business District which can be used to replicate to other areas or towns. The study is based on both secondary and primary data and information available and also data collected as primary sources of data.

1.6 Limitations

The respondents filled the surveys at their own pace, and thus took a great deal of time. Therefore, the analysis was finished utilizing the prepared filled polls that were gathered in light of time limitations. This influenced response reaction rate not to be 100%. The study confronted both time and money related constraints. This was dealt with by having a good sample size to reduce costs and giving enough time to the applicants to fill questionnaires at their own pace.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with theoretical review, empirical review, conceptual framework, critique of the existing literature relevant to the study, summary and research gap. Theoretical review should be clearly linked to the study. Empirical review consists of the various studies that may have been conducted in the past in the same area. Conceptual framework is the illustration of the variables under study which was followed by literature under each variable presented in the conceptual framework. The Critique of the existing literature looked into literature of relevance to the study and bring in the concurrences and the disagreements that emanate from the literature presented. Summary dealt with key items in the literature and finally the Research Gap by bringing out the missing the links in the literature.

2.2 Theoretical Review

Theoretical review is important in any research study as it is the structure that support a theory of the research study. The theoretical framework makes introductions and description of the theory that gives explanations on the existence of the problem under study.

According to (Trivedi & Shehata, 2008) in their explanation of compliance behavior of taxpayers', there are two theories to explain the reasons why taxpayers choose not comply or comply with tax laws. Economic based theories whose emphasis is incentives, and psychology based theories whose emphasis is attitude. There is also Fiscal Psychology model theory.

2.2.1 Economic Theory

This theory is also known as the deterrence theory. Trivedi & Shehata (2008) define economic theory to suggest that taxpayer's makes decisions based on the monetary consequences of various compliant alternatives for instance whether to evade taxes or not, how probable it can be detected and actions by revenue authority thereof, and to look for alternatives which are going to maximize the expected profits after tax. The theory suggests that taxpayers maximize their amoral utility and therefore this theory emphasizes on penalties and increased audits to solve to

non-compliance. This therefore is the basis in which real estate taxpayers evaluate if he or she needs the services of a tax consultant on whichever maximizes their expected after tax returns.

Economic studies suggest that taxpayers' behaviours are clouded by economic motives for example probability of their detection and profit maximization (Trivedi & Shehata, 2008) and for taxpayers who operates in the informal economy is business income (Devos, 2012). Even though this model has been criticized as being the coerce aspect of compliance in expense of the aspect of consensus (Sandford, 2011). There is evidence in support of the relevance of economic strategies to address lack of compliance (McKerracher & Walpole, 2009). For instance, the fear of being caught evading tax or the possibility of it being detected, have been an effective strategy in induction of true behaviour in some situations. Various tax administrations have widely adopted the theoretical principles of this theory while developing enforcement strategies that essentially relies on fear of getting caught and penalties. Tax consultants and practitioners will therefore be of great importance for taxpayers who want to avoid being penalized for not complying with the tax laws.

2.2.2 Psychological and Social theories

Psychological and social theories of tax compliance assume that factors which are psychological includes ethical and moral concerns which are too important to taxpayers, hence taxpayers can comply even when risks of auditing by KRA is low. Psychological theories do not emphasize penalties and audits it instead focuses on changing the individual attitude towards the tax system.

In this field research studies have pointed out that the element of being human is of great significance and decisions about compliance by a taxpayer. (Palil, 2011) concluded that people's social associations and interactions assist in bringing out their attitudes, perceptions plus norms which on the other hand influences their responses to actual and perceived sanctions by revenue authorities. Hiring of tax consultants among real estate taxpayers depends on their ethical and moral concerns, therefore the more moral and ethical a taxpayer is the higher the chances that he or she will comply and in order to do this they will have to hire a tax consultant.

2.2.3 Fiscal Psychology Model

This theory is of the suggestion that the government expenditure presence can motivate compliance by taxpayers and the government can increase taxpayers' compliance by providing

commodities that are preferred by citizens in a manner which is more transparent (Franzoni, 2008).

During 1990's and the beginning of 2000s different factors emerged in this model which were not there from fiscal psychology model. Alm, Jackson and McKee (2014) in their study employed the exchange equity variable, whereby the taxpayers look into the benefits received from the government for exchange for the taxes paid. The results were of great significance and it showed that during periods where there was uncertainty the rate of compliance increased, even with the public not being there.

Further studies on of taxpayers' tax morale, found that higher tax morale comes as a result of higher legitimacy for political institutions. These results were supported further in a study of 30 countries (None African) that high compliance was evident in nations characterized by low corruption and low government control which leads to high tax morale. There is also a recommendation by Luscombe (2010) to the Internal Revenue Service of United States of America that they have to endorse an approach of tax morale to compliance that recognizes the varying behaviors and attitudes of taxpayers. This will therefore have influence on whether a taxpayer will hire a tax consultant or not basis being whether there are political interests or not. In most cases the taxpayers will hire a tax consultant in both cases reason depends on the complexity of the tax systems of the country. Higher political goodwill has led to an increase in hiring of the tax practitioners.

Trivedi and Shahata (2008) made the conclusion that taxpayers' behaviour can follow economic theories and others can follow the psychological theories and there is also a possibility of the mixture of both. These theories serve more than academic interest as they contradict on where KRA should invest its limited resources. In contrast economic theory calls for increase in penalties and audits as the solution to problems in compliance while the policy prescriptions of psychological theory differ across various theories, but the same theories have lead generally to policy prescriptions which de-emphasizes penalties and audits and instead focuses on the change of individual's attitudes towards tax system by increasing its fairness as perceived and ensuring it is easy for any individual taxpayer to comply with tax laws through measures such as filing of tax returns online, increase in telephone assistance and short lines of taxpayers in revenue authority offices. Both theories support generally the measures which will lead to reduction of

opportunities for non-compliance, such as reporting by third-parties, this is whereby tax consulting among real estate taxpayers comes into context in this study.

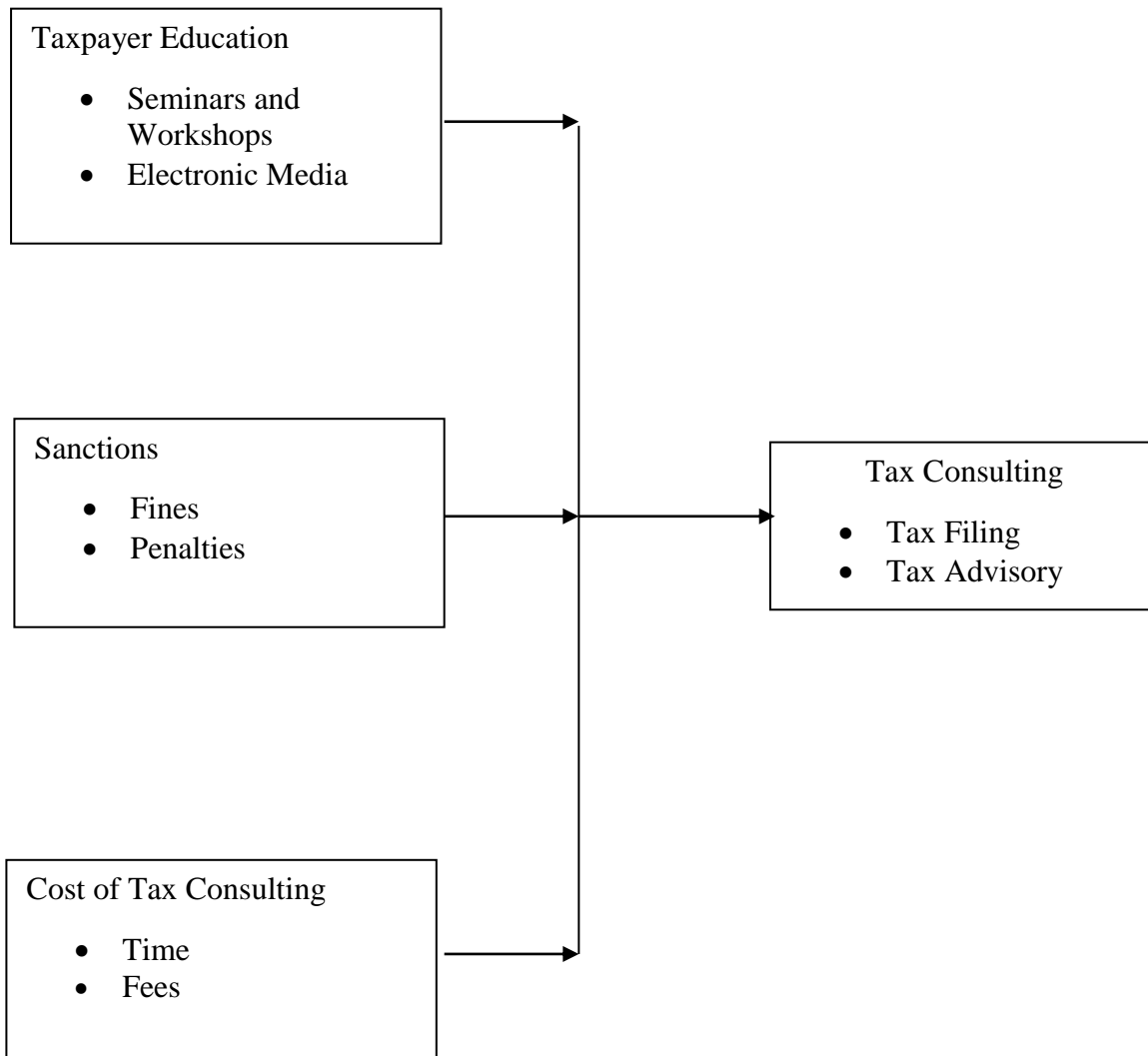
2.3 Conceptual Framework

Conceptual framework can be defined as an analytical tool with many variants and contexts and can be utilized in making conceptual distinctions and organizing ideas. An ideal conceptual framework captures real things and do it in a manner that it is easy for remembrance and application. (Luscombe, 2010) It also attempts to link together every aspect of the inquiry for instance problem definition, purpose, methodology, data collection and analysis and therefore they should be like maps that gives coherence to the research (Macharia, 2012).

For purposes of the study a wide definition was used of the term tax professionals and it includes tax lawyers, tax accountants, tax preparers, tax agents and tax practitioners and therefore these terms were used interchangeably throughout the study (Devos, 2012).

The following is the relationship between the dependent and the independent variables

Figure 2:1 Conceptual Framework



Independent variables

Dependent variable

Fig.2.1 Conceptual Framework

2.4 Review of Variables

The following is the review of the various variables within the study.

2.4.1 Taxpayer Education

This refers to the taxpayers' ability to understand and to either comply or not comply with taxation rules. Research done in Australian taxpayers revealed that most educated taxpayers recorded high tax compliance than those with limited education.

In their study, Alabede, Zaimah, and Kamil (2011), found that most of the respondents (80%) believed that level of education does have influence on non-compliance attitude of the taxpayers. They found out that those respondents with the highest level of education had a high compliance level than those with the lowest education level. They noted that high educated taxpayers know well the reason and meaning of paying tax and are more responsible towards tax compliance than those with low education level.

Knowledge on taxation, the importance of paying taxes and the hardships a country faces as a result of non-compliance remain a key challenge to tax compliance in many countries. United States, United Kingdom (UK), Malaysia, New Zealand, Japan, Australia and Canada have all been implementing a continuous tax education system for taxpayers and children as future taxpayers (Palil, 2011). These countries have developed websites which are interactive, leaflet dissemination together with tax returns, call centers' opening, advertisements creation via radio and television for instance reminding taxpayers of deadline dates for filing of returns. Knowledge about taxation laws and regulations plays a huge role in determination of taxpayers' compliance (Eriksen & Fallan, 2013). However, tax education alone cannot guarantee continued tax compliance.

The importance of culture, especially representative governance has been on the rise in tax compliance literature. The type of knowledge acquired by the taxpayers' matters: the tax specific knowledge and general knowledge in terms of education have an effect in the willingness and ability to evade or comply. Tax specific knowledge will lead to increase in compliance with the assumption being to learn about taxes will also mean to learn about their function in the society (OECD, 2009). General knowledge will be used to evade just as it is used to comply. Hence tax

specific knowledge is necessary to enable the taxpayers to comply and increase their willingness to comply with the tax laws.

Most of the workers in the property/real estate sector have low tax education background. Therefore, they lack skills on online tax registration and filing returns such as returns. Even those with modern education lack computer skills that can enable them to use the online services for tax registration and returns (Karanja, 2014). Most entrepreneurs are not aware of tax regulations and taxation procedures due to lack of effective information dissemination strategies on government policies. The lack of access to accurate information on taxation issues prevents the sector from complying with tax regulations as compared to other sectors in the (Luscombe, 2010)

2.4.2 Sanctions

Penalties are negative punishment to those who break the rules and fines are punishment by paying money for violating the rules and applicable law so that it can be said that a penalty is negative punishment to those who break the rules by paying money (Alm et al, 2011). In tax laws There are two kinds of tax penalties in taxation laws, the administrative sanctions and criminal sanctions. Administrative sanctions can be imposed if the taxpayer makes abuses such as withholding taxes and not remitting or not collecting at all, the administrative sanction penalties interest are on the rise. Criminal sanctions are liable to a prison term.

This research focussed on the effect of fine and penalties in the uptake of tax consulting services. Considerable research done in the past on the link between taxpayers' attitudes towards penalties and their consequential attitude towards evasion/non-compliant behavior (Macharia, 2012). Penalties is a factor which tax authorities can control and therefore its study is of great significance. The study emphasised on the impacts the taxpayers felt when penalties were used as a deterrent measure and using of sanctions by tax authorities. The study allowed for some expected biasness given the type of taxpayers under investigation in the study, the study sheds light on the views evaders of taxes in regards to sanctions penalties and enforcement of tax laws.

To the contrary, studies of criminal behaviour generally concludes that sanctions imposed is of less importance than the probability of being apprehended (TranNam, 2013). The probability of punishment being imposed is influenced by how precise the information to be used. Therefore,

information which are vague about relatively low detection probability and punishment strengthen a low value of deterrence (Friedland, 2011). There is evidence suggesting that taxpayers consider the probability of being detected to be much higher than it is (Friedland, 2011). Overall the economic deterrence model suggests that taxpayers maximize their amoral utility and therefore this theory emphasizes on penalties and increased audits to solve non-compliance. This principle is of the support the rights of the courts in consideration of maximum sanctions for a tax offence so that it can lead to general deterrence (Jackson & Milliron, 2016).

Jackson & Jones (2014) in their study concluded that the magnitude of sanctions to a taxpayer are more sensitive to them than probability of detection even when it is low (4% or lower). This could have effects for countries that have adopted self-assessment system of filing taxes. A particular study was of the observation that there was a considerable relationship between how severe the criminal sanctions and compliance by self-employed taxpayers who have high incomes (Braithwaite & Woodbury, 2009). Within each of the groups this study covered, legal penalties were very effective for the better educated and of higher classes. However, this study did indicate, that the greater deterrent to tax evasion was guilt feeling. Devos (2012) supported the findings above in his similar work on fines and penalties. The positive effect of increased fine levels on taxpayer compliance has been found even where low penalty levels are imposed. The huge concern even then has been the perception of the taxpayers on actual levels of penalty being more than the penalties (Jackson & Jones, 2014).

Other research are of the suggestion that a taxation system with a combination of both sanctions and rewards is much effective than the one that focuses only on penalties. (Alm et al, 2011). As a result of these evidence, positive reinforcements to encourage compliance may have a huge role to play. However, other studies show the unwanted effects of rewards such as crowded offices, behaviour of all-or-nothing and the inconclusive effects of positive reinforcements to taxpayers (Braithwaite, 2008).

2.4.3 Cost of Tax Consulting

The complying cost of tax legislation has led to huge interest among policy makers of government, academics and businesses in the recent past. It was pioneered by Sandmo (1970) contemporary research in this area and he looked into the cost of complying with various taxes by the United Kingdom taxpayers in 1970s to 1980s.

Costs of tax compliance are those incurred by taxpayers so as to meet the requirements of the tax laws and regulations by revenue authorities. A lot of research published adheres to conventions which were established by Sandford (2010) which differentiate between gross and net compliance costs. Gross compliance costs deduct benefits of tax compliance which include managerial, tax deductibility benefits and cash flow and is the net compliance costs. Business Taxpayers who do business are entitled to deduction for some of the costs of complying they expend which are referred to as tax deductibility benefits. This is where tax consulting service costs becomes beneficial to the taxpayers because they ensure that the tax deductibility benefits arising from compliance like exemptions (Evans, 2013).

Cash flow benefits arises as a result of the time difference when tax is collected by the taxpayer and when it is handed over to the revenue authority (Tran-Nam, 2013). Taxpayers especially small and medium taxpayers derive managerial benefits, where it is a requirement to keep proper record keeping for tax compliance leads to availability of accounting information to be used for decision making by the management (McKerchar and Walpole, 2008).

The VAT introduction in a lot of countries in the recent past has led to increased interest in the identifying and quantifying the effects of the new system on the compliance costs of taxes (Evans, 2013). The simplification of tax laws and regulations have been an issue at the forefront by various countries revenue authorities all over the world. This is after acknowledging the fact that how high or low tax compliance costs are affects a country's taxation attractiveness

Tax consulting helps taxpayers in lodging accurate tax returns, lack of knowledge on taxation matters, complexity of taxation laws, the need of minimizing the amount of taxes to be paid, fear to make mistakes and getting penalized or lack of time during filing of their tax returns to the revenue authority (Trivedi & Shehata, 2010). Malpractice insurance settlements in the past have been quietly used in settling potential liability exposures of tax consultants. However, increasing focus by the public on professional integrity and frequent coverage by the media, the large firms whose practices of taxation laws are more leaned to risks of reputation most of them have quality-review processes and internal risk-management to reduce and also for exposure management. Smaller and non-institutional tax consultancy firms may see the above to be a less important factor.

In the past, tax advisers are compensated for their professional services on fixed-fee basis or on hourly basis. This changed in the 1990s in some countries when structure of contingent fees emerged (Darmayasa, 2015). This kind of fee structures were most of the times linked directly to the amount of the claimed tax benefit by using the tax consultant's services. In some countries, use of contingent fee structures by tax consultants is still there. The ability of adoption of contingent fee structure is restricted in other countries like the United Kingdom and the United States of America.

Earlier research by Franzoni (2008) was of the conclusion that companies will create a kind of dislike against authorities whose tax systems are complex and impose high levies. This will lead to encouraging systems of tax avoidance because of the high financial gains and the lower rates of condemnation (Franzoni, 2008). In addition, because of how complex the system is, the taxpayers usually need to rely on external tax consultants who by means complex tax avoidance engineering will reduce the amount of tax payments (Franzoni, 2008).

2.5 Empirical Review

Considerable empirical studies have been done on the field of tax consulting utilization by taxpayers. Despite this not one of them have studied factors affecting tax consulting among real estate taxpayers. Others have looked into the role of tax practitioners (Tax Consulting) in cutting costs of compliance for instance taxpayer uncertainty (Luscombe, 2010) whereas others have focused on definition of the role of tax consulting (Tomasic & Pentony, 2011). Others have studied how effective tax consultants' advice provided in both at the compliance stage of tax transactions and stage of planning. This is inclusive of: the importance of tax consultants in exploiting tax laws loopholes to reduce tax to be paid; factors that affects the making up of mind by taxpayer to look for a tax consultant (Prawitt, Smith & Wood, 2009).

Earlier studies have shown that tax consultants role in a tax jurisdiction is a huge one. Luscombe (2010) is in agreement with this sentiment and pointed out in his study that that in the United States, tax consultants would provide services beyond tax compliance like tax advisory services. Luscombe (2010) points out in his study that as the enforcers of the tax law on behalf of their clients, tax experts must not be under pressure to do things which are against their better judgement. Tax consultants would welcome new regulations that will help them in taking a position in tax issues they were not comfortable with uncomfortable but also had trouble to tell

their client of the tax dangers that might arise as a result of the undertaking of the transaction. On the same note, tax consultants should have an ability to think creatively and help taxpayers they represent solve the problems they are facing in their business. This will be by looking at all the tax positions that will be of great relief to the tax payer and utilize them to the advantage of the taxpayer and in helping them comply with the tax regulations and laws.

Tomasic and Pentony (2011) in their study went ahead and defined the role of tax consultants. In the research study they found out that the roles of tax consultants can be put into its six main parts. First is as tax advisers who are independent for their clients. Second is as employees of ATO who are not paid by them, third, as a link between the Australian Tax Office and their client. The fourth is as tax advisors on every business transaction that their clients do, fifth as guardians of their professional practice and finally as influencers on the system of taxation. Of essence the conclusion was that tax consultants plays a significant role in increasing the compliance level of taxpayers. Despite all these the study was inconclusive as to whether this included the morality of the tax consultants, with the end result that rather than adopting a confrontational approach with the Australian Tax Office tax consultants were happier to engage in negotiated settlements (Tomasic & Pentony, 2011).

An empirical study conducted Prawitt, Smith and Wood (2009) studied the issue of tax consultant's advice provided at the stage of planning and stage of compliance of taxable business dealings. Three findings were made. First, when tax laws were ambiguous tax consultants manipulate them to benefit the taxpayer. Secondly, tax consultants are more concerned to the aggressiveness level in recommending positions preferred by client's positions during planning stage as compared to the compliance stage. Thirdly, tax consultants take advantage of precision of tax law in order to support aggressive taxpayers preferred positions in the context of tax planning. If policy makers write tax laws that are ambiguous tax consultants may be successful at tax planning and led to undesirable effect of increasing aggressive reporting positions regarding tax compliance (Prawitt et al, 2009).

2.6 Critique of Existing Literature

From the above literature review tax authorities have recognition of the complexity of requirements of tax laws and the requirement of specialized knowledge of the field so as to eradicate failure which is not intentional and declaration of taxable income with accuracy. There

has been an argument that tax consultants play a significant role in tax compliance by interpreting requirements of tax laws to taxpayers (Prawitt et al, 2009). The underlying presumption with the hiring of tax consultants is that by the use of tax practitioners' expertise in interpreting tax laws that are complex, tax experts promotes voluntary compliance of these laws. This study's main motivation was on one side the utilization of tax consultants and on the other empirical findings which are contradicting on the causal relationship between taxpayer compliance and use of tax consultants. The study however lacks of empirical analysis in the context of a developing country.

The study by Tomasic and Pentony, (2011) defined the role of tax professionals and were of the conclusion that tax consultants do play a big role in the taxpayer compliance level. Even this study was not conclusive on if this includes moral obligations on behalf of tax consultants, with the outcome adopting an approach which is confrontational with the Australian Tax Office, consultants were much happier in engaging in negotiated settlements, Tomasic and Pentony (2011).

Luscombe (2010) supports this point of view and in his study pointed out that that in the United States, tax consultants are expected in services provision after tax compliance services. Luscombe (2010) noted in his study that as enforcers of the tax law on behalf of their clients, they shouldn't feel pressurized to take positions that are against their better judgement. However, this study has not dealt conclusively on the factors that affect use of tax professionals' services by taxpayers.

Studies that have been done by various scholars thus far on this topic have its origin from nations which are developed economically; the majority of the nations are in Australia and North America. The tax consultants' likelihood of difference in culture and not even the consideration of developing and developed nations provided in itself enough reason for a similar study in the contextual of a country which is developing like Kenya.

2.7 Research Gaps

Studies that have been done by various scholars thus far on this topic have its origin from nations which are developed economically, the majority of the nations are in Australia and North America. The tax consultants' likelihood of difference in culture and not even the consideration

of developing and developed nations, provided in itself enough reason for a similar study in the contextual of a country which is developing like Kenya.

There is no doubt that tax consultants act as intermediaries between revenue authority and taxpayers and this is important to be looked into in the context of real estate taxpayers. This is because of recent changes in taxation laws in real estate income tax collection by the domestic taxes department. The changes have resulted in complexity of compliance by taxpayers and this has led to a research gap on whether this has affected uptake of tax consulting firms. The laws above require that real estate agents to withhold taxes on behalf of their clients and remit to KRA which ensures also that they should comply.

2.8 Summary

From the above literature review of the study it is apparent that the role of tax consulting/ tax advisors'/tax practitioners is well coined. The study by Luscombe, (2004), Prawitt, (2009), and Tomasic and Pentony, (2011) are important to this study as they show the importance of tax practitioners in the tax environment. They were the basis in which the study will examine the factors that real estate taxpayers put into consideration when they are looking for the services of tax consultants.

The study adopted the use of Fiscal Psychology theory, Psycho-social theory and Economic theory which were of great significance as it presents robust theories to conduct the study satisfactorily.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with Research design, Population, Sampling frame, Sample and Sampling techniques, Instruments of Data collection, Data collection procedures, Pilot testing and Data analysis that the researcher used in data collection for the research undertaking.

3.2 Research Design

Research design can be defined as a strategy, plan and structure put together so as to get answers to questions of the research and variables control. The nature of this study is cross-sectional research study. The cross-sectional research design was useful in this research project as it provided data about the population being studied. In this study, the whole subset of the total population thereof was selected, and from these individuals, data were collected to aid in answering questions of interest of the research. The reason it is called cross-sectional design is because the data collected about the individuals of interest is representative of what is going on at only one point in time (Devos, 2012). Also, the researcher examined and extracted information from documents that contain participants' data. The information gathered about the study was from a number of real estate taxpayers with different exhibitions and variables. Gender, age, education, time the business has been operating, and income are all examples of variables. The findings of a research project will aid in removal of assumptions and replacing them with real data on variables which are specific and studied in a specific period of time and that is the reasons why cross-sectional research design was adopted for this study. The method ensured that data was collected with precision on which defines its reliability, accuracy which defines validity with minimal error.

3.3 Population

Target population are all individuals or objects the researcher is interested in and to which the study results are applied, (Ary, Jacobs, Irvine & Walker, 2014). In their report of 2016/2017, Mombasa County Government listed the number of real estate buildings in Mombasa CBD as 1212. These were appropriate for this study as these were used to take the sample for the study. It

is from this that the researcher collected the primary data according to the research design in place.

Table 3:1 Target Population

Registered Real Estate Owners

Category	Target Population	Percentage (%)
Real Estate Owners	1,212	100
Mombasa CBD		
Total	1,212	100

Source: Mombasa County Government (2017)

3.4 Sampling Frame

Once the population was determined, the researcher obtained and constructed a list of all individuals in the population (Ary et al, 2014). This list is called the sampling frame. In this study, the sampling frame was informed by the selectivity criteria set out by (Morgan, 2011) that any empirical study with a goal of making inferences about a population under study sample is the sample is the most important feature. The need to have statistical power in the study depended on the expenses of the data collection which was the determinant factor throughout the undertaking of this research. Measurable power is the likelihood that a factual test will show a critical contrast when there genuinely is one. (Morgan, 2011)

3.5 Sample and Sampling Technique

From the above population of one thousand two hundred and twelve (1212), a sample of 30% of the population study was chosen. This produced a sample of 300 respondents which the study will acquire information. Out of the 1212 real estate investors in Mombasa Central Business District, the sample size was figured out. The study relied on Slovin's formula to compute the sample size.

$$n = \frac{N}{1 + N(e)^2}$$

Where **n** is the sample size,

N is the population size, **e** is the level of precision. 95% level of confidence will be used which gives $p = 0.05$ chance of deviation from the actual.

$$n = \frac{1212}{1 + 1212(0.05)^2}$$

$$n = 300$$

this will be 24.8% on the sample size, according to Mugenda & Mugenda (2008) a sample size of 10% is adequate representation for the target population to conduct the study.

Because it may be a practical challenge for a research to involve a general survey in an entire population, a sample is selected that will provide results similar to that which would have been obtained from the entire population (Ary et al, 2014). It is, therefore of great significance to adopt a sampling procedure that would result to a representative sample. Sample size is important primarily because of its effect on statistical power. Statistical power is the probability that a statistical test will indicate a significant difference when there truly is one. (Morgan, 2011)

Table 3:1 Sample Size

Category	Target Population	24.8% Sample size
Real Estate Taxpayers	1212	300
Total	1212	300

Sample Size, (2016)

3.6 Data Collection Instruments

This study will use questionnaires to collect data from real estate taxpayers in Mombasa County. A questionnaire is ideal for this study because it is easy to administer and analyse. Besides, the targeted respondents are real estate taxpayers and highly likely to give accurate information.

Accuracy of the response further reduces error in the research. This was an ideal data collection instrument for this study.

Questionnaires gives a generally cheap, speedy and proficient way of obtaining huge amounts of data from a vast number of individuals in a population which is being studied because the researcher need not to be there when the questionnaires are being administered (Ary et al, 2014). This study adopted this method for both being cheap and being fast and efficient when it comes to collection of data and also being friendly with the resources of the researcher.

3.7 Data collection procedure

Primary data were used in this study. According to Cooper and Schindler (2014), a survey is a primary data collection technique that involves questioning people and recording their responses for analysis. Primary data were collected by use of questionnaires.

Questionnaires were administered at the offices of real estate taxpayers and offices of their agents. This involved taxpayer education, effects of sanctions on real estate taxpayers and cost of tax consulting. The questions were based on the study's objectives. It was modified to suit the target sample.

3.8 Pilot Testing

Kothari (2014) defines pilot testing as a field observation undertaken by a researcher as a preliminary survey. Pilot studies are studies conducted in advance before the planned research. They are normally executed as planned for the intended study, but on a littler scale. Amendments were made after the feedback from the cognitive and pilot testing were received to the wording of some questions as needed which resulted in a user friendly questionnaire that was simple to understand and very coherent. Attention was also paid to the questionnaire responses to check whether that responses collected in the field met the research objectives. After the revisions the questionnaire received the final approval from the supervisor.

Despite the fact that a pilot test cannot expel every single issue or methodical blunders, the likelihood of making a Type I or Type II mistake is lessened. Validity of the instrument was tested by comparing the questionnaire against similar surveys conducted in studies in related topics in Kenya. A pilot study was conducted for 10% of the questionnaires to determine whether the potential respondents understand and can interpret it.

3.8.1 Reliability

Reliability is the degree to which to an examination measure gives a steady assessment of an idea (Abbott &McKinney, 2013).In order to ascertain the reliability of the questionnaires, the researcher conducted a pilot study on the questionnaires by administering it to some real estate agents from whom data was not collected from during the actual time of undertaking of the pilot test.

3.8.2 Validity

Validity is the degree to which a researcher measure actually captures the importance of the idea it is expected to quantify (Abbott and McKinney, 2013). Validity can be measured by the extent the data obtained precisely mirrors the theoretical or conceptual ideas; that is if the measurements gotten are consistent with the expectations. The legitimacy of this was dictated by soliciting an arrangement from questions. This investigation utilized content validity. To guarantee content validity, the poll was subjected to careful examination by four randomly selected real estate agents.

3.9 Data Analysis and Presentation

Evans (2013) states that data analysis involves a good interpretation of information collected. The study generated quantitative data; hence, descriptive statistics was used to analyze the data obtained. There is also use of correlation analysis to determine the significance of effect of independent variable to dependent variable. The analysis was systematically presented in narrative form and where possible, charts and graphs were used. The information assembled through the questionnaire were examined utilizing the Statistical Package for Social Science (SPSS) version 24. The consequences of some of this examination were send out into Microsoft Word and Microsoft Excel for visual presentation and reporting. The relationship of the variable was expressed as a linear regression model:

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + \epsilon$$

Where; **Y** = Tax Consulting

B₀ = Constant

ε = error

B₁ = Coefficient of variable 1 **X₁** = Taxpayer Education

B₂ = Coefficient of variable 2 **X₂** = Fines and Penalties

B₃ = Coefficient of variable 3 **X₃** = Cost of Tax Consulting

B₀- **Y** intercepts the constant. The level of risk when **X₁, X₂, X₃=0**

B₁,B₂,B₃ -Coefficients determining the levels of **X₁, X₂ and X₃**on how they affect**Y**

ϵ - Other factors outside the model which the researcher did not look into but can affect efficiency(**Y**).

CHAPTER FOUR

RESEARCH FINDINGS AND ANALYSIS

4.0 Introduction

The chapter presents the response rate, pilot results, demographic analysis, variable descriptive analysis and correlation and regression analysis.

4.1 Questionnaire Response Rate

The researcher was able to obtain 176 duly filled questionnaires from a sample of 300 respondents, this represented a response rate of 63.38% which is adequate for the study. Mugenda and Mugenda (2009) note a reaction rate of half or more is sufficient. This is additionally in accordance with Babbie (2014) discoveries that arrival rates of half are satisfactory to examine and publish, 60% is good, and 70% is great.

Response Rate

Table 4:1

	Response rate	Percentage %
Respondents	176	63.38%
Non-respondents	124	36.62%
Total	300	100.00%

4.2 Pilot Results

During piloting, the researcher sought to measure the data collection instrument reliability, with the use of SPSS Cronbach alpha, the researcher was able to determine the instruments internal consistency as shown in the table below.

Table 4.2

Reliability Results

Scale	Cronbach's Alpha	Items Tested	Comments
Tax payer Education	0.827	4	Accepted
Sanctions	0.723	4	Accepted
Cost of Tax Consulting	0.717	4	Accepted
Uptake of Tax Consulting	0.745	4	Accepted

From the analysis of the reliability index using SPSS, the instrument scored well on Taxpayer Education whereby an index of 0.827 was obtained, for Sanctions an index of 0.723 was sufficient while Cost of Tax Consultation the instruments scored an index of 0.717. On Uptake of Tax Consulting Services, a Cronbach alpha of 0.745. All these results indicated that the collection instrument-the research questionnaire was reliable to collect the research data. This infers the questionnaire utilized as a part of the examination had acceptable level of dependability that each factor identifies with the distinguished factor and that the coefficient alpha estimation of the recognized factor will increase if any of the variables is overlooked (Mohsen, 2011).

4.3. Demographic Analysis

The researcher sought to understand the demographic information of the respondents that form the basic information relevant to this study, this included the working experience, education of the respondents and whether the respondents have tax consultants.

Table 4.3

4.3.1 Years in Business in Mombasa Central Business District

	Frequency	Percentage %
10 and below	49	27.8%
11-21 years	87	49.4%
22 and above	40	22.7%
Total	176	100.0%

The researcher sought to determine the duration of which the respondents have been in business in Mombasa Central Business District. This would shed light on their experience on matters related to the rental income taxation and how they have been complying with the requirements. For the new ventures who have in operation at the CBD for less than 10 years represented a 27.8%, these respondents could be in operation at other regions, therefore also had insight on compliance and tax consultation. Majority of the firms within the CBD mombasa were found to be in operation between 11 to 21 years representing a 49.4%, while those over 22 years were 22.7%.

Table 4.4

4.3.2 Highest educational qualification:

	Frequency	Percentage %
Secondary	57	32.4%
College	68	38.6%
Bachelor's Degree	34	19.3%
Master Degree	17	09.7%
Doctoral Degree	0	0.00%
Total	176	100.0%

Education of the respondents shed light on their knowledge of taxation, their need to hire taxation consultants or for those with taxation related qualification handling their tax issues on their own. From the findings the secondary school certificate holders represented 32.4%, while college graduates were most with 38.6%. the respondents with bachelors degree were 34 representing a 19.3% whereas those with masters degree were 17 representing a 9.7%. These

findings therefore indicated the need for the real estate agents towards procuring of the tax consultation services in Mombasa Central Business District.

Table 4.4

4.3.4 Hired a Tax consultant in any occasion

	Frequency	Percentage %
Yes	95	54.0%
No	81	46.0%
Total	176	100.0%

From the findings, the researcher found out that over 50% of the respondents had at one point hired a tax consultant on matters relating taxation.

Table 4.5

4.3.5 Title / position within the business

	Frequency	Percentage %
Chief Executive Officer / Business Owner	23	13.1%
General Manager	32	18.2%
Finance Manager	57	32.4%
Other operations and assistance departments in finance based on the organization	64	36.3%
Total	176	100.0%

Majority of the respondents were from other operations and assistance departments with 36.3%, followed by Finance Managers who had 32.4%, General Managers and Owners of the business had 18.2% and 13.1% Respectively.

4.4 Descriptive Analysis

The respondents were. The study rated this attribute using a likert scale of 1 to 5 where strongly agree = 5, agree = 4, neutral = 3, disagree = 2 and strongly disagree = 1

4.4.1 Taxpayer Education

This refers to the taxpayers' ability to understand and to either comply or not comply with taxation rules. Research done in Australian taxpayers revealed that most educated taxpayers recorded high tax compliance than those with limited education.

Table 4.6

Statements	Mean	STD dev
I know I should obtain a tax payer identification PIN number	4.421	0.998
I know how to keep records/documents pertaining to rental income and expenditure for a period of seven years after submission of the tax return	3.321	1.023
I understand that I should pay taxes due within the stipulated period	4.032	0.904
I know which income should be included or excluded in determining the taxable income	3.252	1.243

The respondents expressed their knowledge on taxpayer education, their knowledge to tax compliance, the respondents agreed that they know should obtain the tax payer Personal Identification Number (PIN) from a mean response of 4.421 with a standard deviation of 0.998. this indicated a strong agreement. When asked if they knew how to keep document records pertaining to rental income and expenditure for a period of seven years after submission of the tax returns, majority of them had no clue therefore they expressed a neutral opinion from a mean of 3.321 with a standard deviation of 1.023, this therefore implied that the knowledge of how long they should keep documents after filing is still insufficient. On the statement that they understood they should pay taxes due within the stipulated time, the respondents expressed a strong agreement to have possessed the knowledge on payment of taxes within stipulated time by having a mean of 4.032 with a standard deviation of 0.904. finally on the statement as to the knowledge of income which should be included or excluded in determining the taxable income, most of them had no idea while some possessed a scanty knowledge, this was evidenced from a mean response of 3.252 with a standard deviation of 1.243, this indicated high variance between the respondents with some having no idea while others having the knowledge.

4.4.2 Sanctions

Punishments are negative discipline to the individuals who disrupt the guidelines and fines are discipline by paying cash for disregarding the standards and material law with the goal that it very well may be said that a punishment is negative discipline to the individuals who defy the norms by paying cash (Alm et al, 2011). In tax laws There are two kinds of tax penalties , the administrative sanctions and criminal sanctions. Administrative sanctions can be imposed if the taxpayer makes abuses such as withholding taxes and not remitting or not collecting at all, the administrative sanction penalties interest are on the rise. Criminal sanctions are liable to a prison term.

Table 4.7

Statements	Mean	STD dev
The penalty rates are very low and I can afford to pay the penalty	3.157	1.246
I believe that the penalty is lower than my tax saving due to not complying with tax laws	2.860	1.082
Serious enforcement and penalty by the KRA may result if I do not comply	4.261	1.031
The KRA Tax enforcement mechanisms are Strong and on Regular basis	3.735	0.972

The respondents expressed their opinions on the statements provided, when asked if the penalty rates were very low and the could afford to pay, they showed a varied response which with a mean of 3.157 and a standard deviation of 1.246 indicated variation of the responses from particular respondents. They do not believe that the penalty is lower than their savings due to not comply with the tax laws, with a mean of 2.860 and a standard deviation of 1.082. they strongly agreed that Serious enforcement and penalty by the KRA may result if they do not comply with the requirements with a mean of 4.261 and a standard deviation of 1.031. the respondents do not believe that the Kra Enforcement mechanisms are weak, The KRA Tax enforcement mechanisms are Strong and on Regular basis with a mean of 3.735 and a standard deviation of 0.972.

4.4.3 Cost of Tax Consulting

The complying costs of tax legislation has led to huge interest among policy makers of government, academics and businesses in the recent past. It was pioneered by Sandmo (1970) contemporary research in this area and he looked into the cost of complying with various taxes by the United Kingdom taxpayers in 1970s to 1980s.

Table 4.8

Statements	Mean	STD dev
Firms which procure Tax consulting services have higher chances of ensuring accuracy in filing of tax returns and favourable tax payable.	3.412	1.190
The Tax consultants at Mombasa charge a reasonable low fee for their services on consultation	2.621	1.151
Tax Consultancy firms in Mombasa offers a faster and reliable tax consultation services which also is cheap	3.210	1.106
Tax consulting services are a guarantee in ensuring accurate Tax compliance.	2.737	0.986

The respondents were in neutral with the statement that Firms which procure Tax consulting services have higher chances of ensuring accuracy in filing of tax returns and favourable tax payable, by having a mean of 3.412 with a standard deviation of 1.190, this indicated their stand on hiring of tax consultants towards tax compliance, from the large variation, indicated that some of the respondents did not believe in hiring of tax consultants. On the statement that The Tax consultants at Mombasa charge a reasonable low fee for their services on consultation, the respondents disagreed from a mean 2.621 and a standard deviation of 1.151, this therefore implied that some tax consultancy services are expensive for the firms to comfortably afford. they further presented a neutral view on the statement that Tax Consultancy firms in Mombasa offers a faster and reliable tax consultation services which also is cheap with a mean of 3.210 and a standard deviation of 1.106, with the high variance, this indicated that some of the respondents were in agreement while others disagreed to the statement. the respondents disagree on the statement that Tax consulting services are a guarantee in ensuring accurate Tax compliance by having a mean of 2.737 and a standard deviation of 0.986.

4.4.4 Uptake of Tax Consulting

This study's aim is to specifically investigate the factors affecting uptake of tax consulting among real estate taxpayers in Mombasa county Central Business District (CBD). Given that tax consulting firms act as help between KRA and majority of Kenyan taxpayers' which is inclusive of real estate agents and landlords who have tasked them with collecting and remitting their monthly rental collections, there is need for further research on this. In recognition of the importance of tax consultants KRA over the last few years has registered more tax agents with view of improving the quality of services to taxpayers and also help the taxpayers in compliance with the tax laws.

Table 4.9

Statements	Mean	STD dev
Tax consulting services helps in ensuring accurate Tax compliance at the end of the year. Not seeking tax consulting services indicate incorrect tax compliance.	4.128	0.939
Tax Consulting helps to ensure accurate filing of taxes. My tax consultant files Monthly Rental Income satisfactorily.	4.236	1.210
Lack of consulting a tax advisor can indicate problems with tax compliance.	4.310	1.109
Tax consultants assists not just in doing filing and preparation of taxes.	3.979	0.945

The respondents were asked to provide their opinion on the statements as to whether they agree or disagree, they were in agreement with the statement that Tax consulting services helps in ensuring accurate Tax compliance at the end of the year. Not seeking tax consulting services indicate incorrect tax compliance from a mean of 4.128 and a standard deviation of 0.939. on the statement that Tax Consulting helps to ensure accurate filing of taxes. That their tax consultant files Monthly Rental Income satisfactorily the had a strong agreement by having a mean of 4.236 with a standard deviation of 1.210. they strongly agreed on the statement that Lack of consulting a tax advisor can indicate problems with tax compliance by having a mean of 4.310 with a standard deviation of 1.109. Tax consultants assists not just in doing filing and preparation of taxes with a mean of 3.979 and a standard deviation of 0.945.

4.5 Correlation Analysis

The researcher carried out Karl Pearson correlation analysis to establish the relationship between independent variables and dependent variables in the study.

Table 4.10
Coefficient of correlation

		Correlations			
		Taxpayer_ Education	Sanctions	Cost_of_Tax_ Consulting	uptake_of_tax_ consulting
Taxpayer_ Education	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	176			
Sanctions	Pearson Correlation	.399**	1		
	Sig. (2-tailed)	.000			
	N	176	176		
Cost_of_Tax_ Consulting	Pearson Correlation	.472**	.470**	1	
	Sig. (2-tailed)	.000	.000		
	N	176	176	176	
uptake_of_tax_ consulting	Pearson Correlation	.704**	.648**	-.393**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	176	176	176	176

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

The correlation sought to establish the relationship between the independent and the dependent variables, in this study, independent variables included the Taxpayer Education, Sanctions and Cost of Consulting. There is a strong positive correlation between the taxpayers education with the uptake of tax consulting. Taxpayers education which encompasses the knowledge of the requirements and purposes for tax compliance has a strong influence on the uptake of tax consulting. The coefficient r was 0.704 explaining a strong positive influence of tax education onto the uptaking of tax consultation.

The coefficient r explaining the relationship between Sanctions with the uptake of the tax consulting was 0.648, this indicated a strong positive correlation between the variables, therefore these findings implied that Sanctions imposed has a strong influence on the adoption of the uptaking of Tax consultants by the firms within the CBD.

There was a moderate Negative correlation between the cost of Tax consulting with the uptake of tax consulting, the coefficient of correlation r for cost of Tax Consulting was $r=-0.393$, therefore indicating a moderate negative influence on the uptaking of Tax Consultation. This indicated an inverse relationship between the cost of consulting and uptake of tax consultancy, when the cost is high, there is low uptake of the consultancy at the mombasa CBD. Correlation is significant at the 0.01 level (2-tailed) therefore indicating that the model was statistically significant to explain the relationship between the variables studied.

4.6 Regression Analysis

Linear Regression Model was conducted also to further the understanding of the relationship between the variables under study.

4.6.1 Coefficient of Determination

With an aim of discovering the extent to which the dependent variable.

Table 4.11

Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.827^a	.684	.678	1.38430

a. Predictors: (Constant), Cost_of_Tax_Consulting, Sanctions, Taxpayer_Education

From the model summary the value of R denotes a simple correlation which explains the degree of correlation; in the model above, the value R being 0.827 denotes a high degree of correlation. R square is the coefficient of determination, it explains amount of variation of the dependent variable that is caused by the independent variables under the study. From the model summary R square was 0.684. this indicated that only 68.4% variation of uptaking of tax consulting is

attributed or explained to the independent variables studies, Tax payers education, Sanctions and Cost of Consulting.

4.6.2 Analysis of Variance (ANOVA)

The researcher sought to establish the significance of the regression model and to test differences between two or more means using ANOVA.

Table 4.12

ANOVA ^a						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1 Regression	712.350	3	237.450	123.912	.000 ^b	
Residual	329.599	172	1.916			
Total	1041.949	175				

a. Dependent Variable: uptake_of_tax_consulting

b. Predictors: (Constant), Cost_of_Tax_Consulting, Sanctions, Taxpayer_Education

The above findings from the analysis of Variance shows that the models obtained were statistically significant, from a significance level of 0.00 which is below $p=0.05$ and F value 123.912. this therefore implies that the models are statistically significant to predict the relationship between taxpayer education, Sanctions and Cost of consultancy to the uptake of tax consultancy by the firms.

4.6.3. Coefficients

The researcher also adopted the use of multiple regression analysis to check the main determinants.

Table 4.13

Regression coefficient

Model	Coefficients^a				
	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.961	.766		2.550	.000
Taxpayer Education	.430	.047	.462	9.239	.000
Sanctions	.367	.050	.369	7.394	.000
Cost_of_Tax_Consulting	-.180	.046	-.202	-3.894	.001

a. Dependent Variable: uptake_of_tax_consulting

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + \epsilon_0$$

From the table above, the general regression Model equation can be derived as follows;

$$Y = 1.961 + 0.430X_1 + 0.367X_2 - 0.180X_3 + \epsilon$$

Y indicate the Uptake of Tax Consultation by the Real Estate firms/ Taxpayers in Mombasa Central Business District,

The Y intercept, $B_0=1.961$ which indicates the progress of uptake of tax consultation by the Real Estate Taxpayers in Mombasa when other variables under study are Zero. This indicated a growing uptake in the consultation services by the real estate firms within mombasa, to enable tax compliance.

Taxpayers Education was found to have 0.430, this implies that a unit increase in taxpayers education on compliance and taxation matters affects the uptake of consulting by 0.430. alternatively, Tax payer education influences the uptake of tax consultancy by 43%, improvement in the taxpayer education result to improvement in uptaking of the tax Consultancy by 43% on the Real estate Firms in mombasa.

Sanctions in the form of penalties and fines were found to drive the Real Estate firms towards the uptake of tax consultancy. The sanctions affects the uptake of tax consultancy by 36.7%, the fear

for penalties and fines from non compliance has influenced the adoption of the Tax Consultancy by 36.7%.The findings underscore that hefty Penalties are negative punishment to those who break the rules and fines improves compliance to the required standards (Alm, 2011).

The cost of tax consulting incurred by the real estate firms was found to have a negative influence on the their uptake of Tax consulting by a -18%. This implied that the current costs these real estate firms incur while consulting is higher therefore deminishing their uptake to tax consultation from the firms. If the tax consultants would revise their charges and reduce by a unit, there would be an improvement on the uptake of tax consulting by the real estate firms by 18%.

From the model, ε - is the error term, which indicates the other factors that affect the uptake of tax consulting but has not been included in this study. The significance values of the variables are below $p=0.05$ with 0.000 and 0.001 for Cost of compliance. This indicates the variables are significant.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the summary of findings is discussed, the research conclusions and Recommendations for improvement on the uptake of the Tax Consulting. Further recommendations on areas which further studies can be conducted.

5.2 Summary of findings

5.2.1 Effects of taxpayer education on the uptake of tax consulting services by real estate taxpayers in Mombasa.

The researcher found out that the taxpayer education strongly affects the uptake of tax consulting services by real estate taxpayers in Mombasa. From the correlation analysis, there is a strong positive correlation between the taxpayer's education with the uptake of tax consulting. Taxpayers education which encompasses the knowledge of the requirements and purposes for tax compliance has a strong influence on the uptake of tax consulting. The coefficient r explaining the relationship between taxpayer education and uptake of tax consulting was 0.704 explaining a strong positive influence of tax education onto the uptake of tax consultation.

Further analysis on the linear regression model, Taxpayers Education was found to have 0.430, this implies that a unit increase in taxpayers' education on compliance and taxation matters affects the uptake of consulting by 0.430. alternatively, Tax payer education influences the uptake of tax consultancy by 43%, improvement in the taxpayer education result to improvement in up taking of the tax Consultancy by 43% on the Real estate taxpayers in Mombasa.

In their study, Alabede, Zaimah, and Kamil (2011), found that most of the respondents (80%) believed that level of education does have influence on non-compliance attitude of the taxpayers. They found out that those respondents with the highest level of education had a high compliance level than those with the lowest education level. They noted that high educated taxpayers know well the reason and meaning of paying tax and are more responsible towards tax compliance than those with low education level.

5.2.2 Effects Sanctions on the uptake of tax consulting services by real estate taxpayers in Mombasa.

The researcher found out that Sanctions Significantly influences the uptake of tax consulting services by the real estate agents in Mombasa. The coefficient r explaining the relationship between Sanctions with the uptake of the tax consulting was 0.648, this indicated a strong positive correlation between the variables, therefore these findings implied that Sanctions imposed has a strong influence on the adoption of the up taking of Tax consultants by the firms within the CBD.

While on the linear regression analysis, Sanctions in the form of penalties and fines were found to drive the Real Estate firms towards the uptake of tax consultancy. the fear for penalties and fines from non-compliance has influenced the adoption of the Tax Consultancy by 36.7%. The findings underscore that hefty penalties are negative punishment to those who break the rules and fines improves compliance to the required standards (Alm, 2011).

The positive effect of increased fine levels on taxpayer compliance has been found even where low penalty levels are imposed. The huge concern even then has been the perception of the taxpayers on actual levels of penalty being more than the penalties (Jackson & Jones, 2014).

5.2.3 Effects of cost of tax consulting on the uptake of tax consulting services among real estate taxpayers in Mombasa.

It was evidenced that the Cost of Tax Consulting negatively affected the uptake of the tax consulting services by the real estate agents in Mombasa. A correlation analysis obtained a moderate Negative correlation between the cost of Tax consulting with the uptake of tax consulting, the coefficient of correlation r for cost of Tax Consulting was $r=-0.393$, therefore indicating a moderate negative influence on the up taking of Tax Consultation.

The results were similar when linear regression analysis results indicated that a negative influence on their uptake of Tax consulting by a -18%. This implied that the current costs these real estate firms incur while consulting is higher therefore diminishing their uptake to tax consultation from the firms. If the tax consultants would revise their charges and reduce by a

unit, there would be an improvement on the uptake of tax consulting by the real estate firms by 18%.

Earlier research by Franzoni (2008) was of the conclusion that companies will create a kind of dislike against authorities whose tax systems are complex and impose high levies. This will lead to encouraging systems of tax avoidance because of the high financial gains and the lower rates of condemnation (Franzoni, 2008). In addition, because of how complex the system is, the taxpayers usually need to rely on external tax consultants who by means complex tax avoidance engineering will reduce the amount of tax payments (Franzoni, 2008).

5.3 Conclusion

The research study was guided by the main research objective of investigating the factors that affect the uptake of tax consulting by real estate taxpayers in Mombasa County Central Business District. The researcher identified these factors to being the taxpayer's education on tax related matters, sanctions enforced for non-compliance and the cost of tax consulting.

With the first specific objective of determining the effect of taxpayer education on the uptake of tax consulting among real estate taxpayers in Mombasa. The researcher concludes that taxpayer's education has a significant effect on the uptake of tax consulting among the real estate firms in Mombasa. The knowledge of tax payer identification number, record keeping requirements and timeline for tax payment as well as other related disclosures during filing.

The second research objective of the study was to determine the effects of fines and penalties on the uptake of tax consulting services by real estate taxpayers. The study concludes that sanctions have improved the uptake of tax consulting among the real estate firms in Mombasa, resulting from the fear of paying hefty fines and penalties for non-compliance.

Guided by an objective of examining the effect of cost of tax consulting services on the uptake of tax consulting services by real estate taxpayers. The research concludes that cost of consulting negatively affects the uptake of tax consulting. This resulted from higher fees charged by the tax consultancy firms in Mombasa.

5.4 Recommendations

The study recommends on the following;

- i. Extensive tax payer education to be carried out to equip the businesses with the basic and necessary knowledge on the requirements of tax compliance.
- ii. Enforcement of the sanctions on the firms which are non-compliant will improve on compliance.
- iii. There should be regulation on the fees charged by the tax consultancy firms so as to improve on the levels of tax compliance through uptake of tax consulting. Proper monitoring on the tax consulting firms will also aid in the standardization of charges.

5.5 Areas of Future Research

The research study sought to investigate the factors that affect the uptake of tax consulting services by real estate taxpayers in Mombasa County Central Business District. The researcher investigated three factors; the taxpayer education, Sanctions in the form of penalties and fines and the cost of tax consulting. From the models generated, using the R square to explain the amount of variation of the dependent variable that is caused by the independent variables under the study. From the model summary R square was 0.684. this indicated that only 68.4% variation of up taking of tax consulting is attributed or explained to the independent variables studied, Tax payers education, Sanctions and Cost of Consulting. The remaining 31.6% of variation is explained by other factors not under the study, therefore the researcher recommends further study to evaluate other factors that affect the uptake of Tax Consulting services by real estate agents.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

PUBLIC

 **KENYA REVENUE
AUTHORITY**
ISO 9001:2015 CERTIFIED

KRA/KESRA/MSA/002 13th February, 2019

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: ERASTUS KIPKIRUI LABOSO (ADM NO. HDB336- Co16 - 2387/2018)

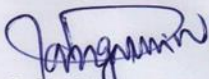
This is to confirm that the above mentioned is a student at the Kenya School of Revenue Administration (KESRA), Mombasa Campus, pursuing a Postgraduate diploma in Tax Administration.


Presently, Erastus is in his final year of study and is conducting a research project titled "**Factors affecting uptake of Tax Consulting among Real Estate Tax Payers in Mombasa Central Business District.**" He is in the process of gathering data and thereafter, write his project that will **STRICTLY** be used for **ACADEMIC PURPOSES ONLY**.


Regarding the above, the School would like to seek your permission to allow him to collect data that relates to his research from your organization.

Thank you in advance for your support and cooperation.

Yours sincerely,


John Langat,
Principal - KESRA, Mombasa Campus




Tulipe Ushuru Tujitegeme!
Times Tower Building - Halls Salsale Avenue - P.O. Box, 48240, Nairobi, Kenya, Tel: 020 281 000 / 4 999 999

APPENDIX II: QUESTIONNAIRE

This questionnaire is aimed at collecting data purely for academic purposes. The study seeks to determine the factors affecting uptake of tax consulting among real estate taxpayers in Mombasa Central Business District. All information received will be treated with strict confidence.

Kindly take a few minutes and ANSWER all questions indicated by either filling in the blank or ticking the option that applies. Your participation in facilitating this study is highly appreciated.

Section A: Personal Information

1. Years in Business in Mombasa Central Business District

10 and below 11-21 years 22 and above

2. Highest educational qualification:

Secondary College Bachelor's Degree
 Master Degree Doctoral Degree

3. Do you have a Tax consultant? (Tick)

Yes [] No []

4. Please enter your title / position within the business

Chief Executive Officer / Business Owner []

General Manager []

Finance Manager []

Other manager based on the organization setting

Section B: Taxpayer Education

This refers to the taxpayers' ability to understand and to either comply or not comply with taxation rules. Please tick/indicate the box that represents the extent to which you agree with the statements provided on the five-point type Likert scale.

Key: 5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree

	Statements	1	2	3	4	5
B1	I know I should obtain a tax payer identification pin number					
B2	I know how to keep records/documents pertaining to rental income and expenditure for a period of seven years after submission of the tax return					
B3	I understand that I should pay taxes due within the stipulated period					

B5	I know which income should be included or excluded in determining the taxable income					
----	--	--	--	--	--	--

Section C: Fines and Penalties

Penalties are negative punishment to those who break the rules and fines are punishment by paying money for violating the rules and applicable law so that it can be said that a penalty is negative punishment to those who break the rules by paying money. Please tick/indicate the box that represents the extent to which you agree with the statements provided on the five-point type Likert scale. Key: 5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree

	Statements	1	2	3	4	5
C1	The penalty rates are very low and I can afford to pay the penalty					
C2	I believe that the penalty is lower than my tax saving due to not complying with tax laws					
C3	Serious enforcement and penalty by the KRA may result if I do not comply					
C4	The KRA Tax enforcement mechanisms are Strong and on Regular basis					

Section D: Cost of Tax Consulting

Costs of tax consulting are those incurred by taxpayers so as to be assisted by tax consultants to meet the requirements of the tax laws and regulations by revenue authorities in a certain period of time. Please tick/indicate the box that represents the extent to which you agree with the statements provided on the five-point type Likert scale. Key: 5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree

	Statements	1	2	3	4	5
D1	Firms which procure Tax consulting services have higher chances of ensuring accuracy in filing of tax returns and favourable tax payable.					

D2	The Tax consultants at Mombasa charge a reasonable low fee for their services on consultation					
D3	Tax Consultancy firms in Mombasa offers a faster and reliable tax consultation services which also is cheap					
D4	Tax consulting services are a guarantee in ensuring accurate Tax compliance.					

Section E: Tax Consulting

Tax consulting is a service whereby tax professionals give advice to taxpayers and also help taxpayers in tax issues for a fee (Luscombe 2010). The terms tax professionals include tax advisors, franchises, registered tax agents, self-employed accountants, and lawyers practicing in the area of taxation. Please tick/indicate the box that represents the extent to which you agree with the statements provided on the five-point type Likert scale. Key: 5=Strongly Agree 4=Agree 3=Neutral 2=Disagree 1=Strongly Disagree

	Tax Consulting	1	2	3	4	5
E1.	Tax consulting services helps in ensuring accurate Tax compliance at the end of the year. Not seeking tax consulting services indicate incorrect tax compliance.					
E2	Tax Consulting helps to ensure accurate filing of taxes. My tax consultant files Monthly Rental Income satisfactorily.					
E3.	Lack of consulting a tax advisor can indicate problems with tax compliance.					
E4.	Tax consultants assists not just in doing filing and preparation of taxes.					

THANK YOU.

APPENDIX III: TAX COLLECTION RATE 2015

Figure 3: Revenue Growth



Source: KNBS Figures