

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

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**A Research Project submitted in partial Fulfillment of the Requirement For
The Award of masters In Tax Laws Administration**

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DECLARATION

I declare that this research project proposal is my original work and that it has not been presented in any other university for academic credit

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ABBREVIATIONS AND ACKRONYMS

CGT	Capital Gain Tax
GDP	Gross Domestic Product
KRA	Kenya Revenue Authority
PAYE	Pay As You Earn
SMEs	Small and Medium Term Ebtreprises
SPSS	Statistical Packages for Social Sciences
	Value Added
VAT	Tax

DEFINITION OF TERMS

Tax Administration: It refers to the procedures attached to tax compliance including registration and filling of returns (Chandan, Singh & Khanna, 2010).

Tax Attitude: The way of thinking or feeling about taxes (Alegana, 2014).

Tax Compliance cost: It refers to the expenditure of time or money in conforming with government requirements such as legislation or regulation (Alegana, 2014).

Tax Compliance: The Degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner (Hofmann, Hoelzl & Kirchler, 2008).

Tax Evasion: It refers to the conscious or unconscious action and behavior of a person who is liable to pay tax but who fails to fulfill this duty by either under reporting his tax liability or failing to account for his income generating activities altogether. Tax evasion also refers to the reduction or minimization of tax liability by illegal methods (Alegana, 2014).

Tax Information: The knowledge or facts provided about taxes (Ali, Fjeldstad & Sjursten, 2013).

Tax Obligation: Responsibilities pertaining to tax payment and declaring of tax returns which a person duly registered and having a PIN is required to observe (Kirchler, Muehlbacher, Kastlunger & Wahl, 2007).

Tax Rate: The tax rate is the tax imposed by the federal government based on an individual's taxable income or a corporation's earnings. Kenya uses a progressive tax rate system, where the percentage of tax increases as taxable income. It can also be defined as the percent of income paid as tax (Ely, *et al.*, 2001)

Tax: A compulsory financial contribution imposed by a government to raise revenue, levied on the income or property of persons or organizations, on the production costs or sales prices of goods and services, etc (Ely, *et al.*, 2001).

ABSTRACT

Tax compliance has been a crucial subject to researchers in many countries around the globe. In most third world countries house rental taxation has been classified as economic. In Kenya, statistics indicate that less than half of property owners and developers comply with rental income tax requirements. The general goal of this study was to determine the factors influencing monthly rental income tax compliance by the property owners in Kisumu, Kondele estate. Some of the specific variables of considerations included; determining the extent to which tax rates explains tax compliance; assessing the availability of tax information as a factor influencing tax compliance; determining the extent to which costs incurred by rental property owners in being tax compliant influence their level of tax compliance; and determining how rental property owners attitude about tax influence tax compliance. The discussions of the findings of the study were based on the Fiscal exchange and the Allingham-Sandmo (AS) Theories. A descriptive survey design was adopted for this study. The study targeted approximately 200 rental property owners in Kodele estate, in Kisumu town. The study applied a systematic random sampling technique whereby the researcher selected the n th respondents from the targeted population to be included in the sample. This study integrated both the primary and the secondary sources of data. Primary data was obtained through a questionnaire, whereas the secondary data was obtained from the available written/documented materials. In evaluation of relation between variables, that is dependent variables and independent variables, a multiple regression model was adopted. The study applied both qualitative and quantitative techniques of data analysis, and the information obtained were presented in form of tables, charts and graphs. To test the statistical significance, the F and t test was used. The F-Statistic was applied to determine significance of regression model, that is, to what extent the variation in independent variable explains the changes in dependent variable. Analysis of Variance (ANOVA) was used to establish total variations within and between variables to determine relation between variables. T- test was employed to test statistical significance of regression coefficients at 95% confidence level. The study findings established that tax rate and tax knowledge significantly and positively influences residential rental income tax compliance by property owners. Based on this finding the study recommends that tax rate applicable on residential rental income influences tax compliance by property owners and an increase in tax knowledge and education enhances compliance by property owners. The study found that income levels and cost incurred in being tax compliant, tax legislations (fines and penalties) negatively influence tax compliance by property owners. The study thus concludes that high levels of income encourage tax compliance but low-income levels encourage non-compliance of residential rental income tax by property owners and punitive fines and penalties encourage property owners to comply tax obligations. Based on the finding, this study recommends that KRA should develop training programs to create awareness on residential rental income tax compliance by property owners. It is also recommends that additional studies on the other factors that influence compliance of residential rental income tax by property owners, should be conducted

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Tax Compliance can be defined as the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner (Chepkurui, Namusonge, Biraori&Kipkoech, 2014). While Tax evasion can be defined as the failure by a person or business to comply with the tax obligations. It is a serious challenge to tax authorities in both the developed and developing countries. It diminishes the mobilization of resources that governments need to invest in critical areas of social and personal development including health, education and infrastructure development (Cummings, 2007). A residential property refers to a land that is predominated by houses, though it is not for industrial and commercial use but rather for domestic use. Housing does vary significantly. These may include single-family, multi-family and so on (Palil, 2010). Residential rental properties can be of various classes based on flats, stand-alone houses, apartments and so on. The demand for housing depends on one's ability and willingness to pay the required fee in form of rent. Rental housing has really expanded and most individuals or entities are investing in rental houses (Sani&Gbadegesin, 2015). Thus, understanding the compliance of rental income taxation is highly important for the government and for the reason that taxation of rental income influences the relationship between house owners and house rentees (Berhane&Yesuf, 2013).

While focusing on tax compliance, Sapiei&Kasipillai, (2013), notes that the main objective of taxation is actually to raise income to enable the government to finance development projects that are meant to improve the economy of a given country or the region. It's therefore important for the government to put in place a mechanism that will help in ensuring that all citizens are tax compliant (Ayuba, Saad&Ariffin, 2016). Tax is the main source of revenue for developing and developed countries.

Globally, different countries, including the developed nations have experienced challenge associated with property tax compliance among the property owners. For instance, Italy loses €183 billion, or \$242 billion, to tax evasion a year, and its debt of €1.9 trillion represents just over 10 years of tax evasion (Griffiths, 2015). Countries like Italy and Greece have vowed to crack down on tax evasion and cash transactions for goods and services that

fall below the authorities' radar. Germany and Britain signed an agreement with Switzerland about recovering some tax revenue from accounts held by their citizens in Swiss banks. South America has the world's largest shadow economy compared with its G.D.P. followed by Africa and Europe, where income hidden from the tax authorities amounts to about 20.5 percent of G.D.P. That compares with 10.8% in North America (Association, 2008). Of the three East African countries of Kenya, Uganda, and Tanzania, tax evasion as a function of GDP is high. Uganda loses the least amount in tax evasion: In 2011, it lost 856 million USD, followed by Tanzania at 1.9 billion USD, and Kenya loses slightly over 2 billion USD. In 2011, the informal economy constituted 33% of the GDP in Kenya and represented 7% of total government expenditure. The tax burden in Kenya would thus be high, standing at about 20.9%. If the Kenya government is to increase its social expenditure, then it needs to reduce tax evasion in the informal economy (Lumumba, Wanjohi, Magutu&Mokoro, 2010).

According to Hofmann, Hoelzl&Kirchler, (2008), taxpayers' behavior towards tax system has evoked great attention among many Revenue Authorities in the World especially in Developed Countries. However, it is debatable on what has been done towards the study of taxpayers behavior towards tax system in developing countries as they concentrate more in studies which would increase their budgets bottom-line in terms of huge revenue collection and enforcement efforts at the expense of studies on taxpayers behavior which would make increase in this tax revenue to be realized and enforcement efforts work. Perhaps the less developed countries are not to blame as they run on budget deficits hence, scarce resources to see through such studies which are perceived as adding no direct value to revenue collection. Empirical evidence on the ground shows there has been hostility between the taxpayers and tax collectors on issue relating to tax compliance (Ayuba, Saad&Ariffin, 2016).

In Kenya, it is a law that any income generated from any investment in the country is subject to taxation (Karanja, 2014). However, the low tax revenue is more attributed to lack of good mechanisms to enforce tax collection. The Kenyan government needs to invest more on tax administration so as to ensure that no tax revenue is lost or uncollected. As such, Kenya is also ranked among countries with low compliance as far as tax revenue collection is concerned (Makori et al., 2013). Although there has been significant growth in tax collection by over 300% (2003-2011), 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 (Karanja, 2014).

1.1.1 Factors influencing Residential Rental Tax Compliance

There is a growing body of research into taxpayer compliance behavior that is helping to develop a better understanding of what motivates taxpayers to comply, or not, with requirements of the tax system (Gayer & Mourre, 2012). According to Mwangi (2014) one of the main tax evasion reason is the high personal income tax rates, which tend to lead taxpayers to evade tax. It is generally believed that a high tax rate is the main cause of tax evasion. Incentives to evade tax depend on the marginal rates of taxation because these govern the gains from evasion as a sum of the tax evaded. High tax may be a disincentive to work which can lead to low tax revenue collection (Kołodziej, 2011). Attitude and perception towards tax and its general compliance levels has also been identified as a major factor which influences compliance of tax (Mukabi, 2014). Attitude may be positive or negative evaluation of an individual about someone or an object and so forth. Attitude usually controls an individual's action. Thus, a taxpayer with positive attitude toward tax evasion is expected to be less compliant than a taxpayer with negative attitude (Kirchler et al., 2008; Nicoleta, 2011). Income levels are also deemed to influence tax compliance by various individuals and entities. According to Kirchler et al. (2007), most taxpayers do want to lose their hard earned cash by gambling with tax authorities. Nicoleta (2011) also posits that the self-employed people are more likely to avoid paying taxes as compared to employed ones.

Fines and penalties are part of the coercive approach, which advocates hard actions against tax non-compliance. Penalties and fines usually encourage tax compliance. The only problem lies with detection of such individuals or entities that are likely to avoid paying taxes (Mukabi, 2014). Thus, it's crucial for the tax authority to have an effective system that can help in detection of non-compliance and penalize or fine tax evaders. Tax knowledge and education are also considered to be a vital part of attitudes towards tax compliance. Kirchler et al. (2008) posits that knowledge of tax is crucial since when an individual knows what is supposed to be done at anytime he/she will always comply. Knowledge is power as they say. Poor knowledge on taxation can lead to a distrust and negative attitude towards tax; while

good tax knowledge, correlates with a positive attitude towards tax (Hofmann, Hoelzl&Kirchler, 2008).

1.1.2 Rental Income Tax Compliance

Residential rental income tax is the tax imposed on income from rent of residential buildings. Since any income that is received from renting out a property is legally chargeable to income tax, the owners of the property are required to declare this income on their tax return. This income could be from renting out land or buildings (Berhane&Yesuf, 2013). The rental income tax rate of 10% tax on gross rent took effects on 1st January 2016 and applies to rental income received from calendar month January 2016. Eligible persons are required to file their tax return via iTax System (KRA, 2015). The 10% tax rate on gross rental income is payable by a resident person whether individual or an entity and will apply to rental income that has accrued in or is derived from Kenya for the use of residential property where the rent income does not exceed KShs.10 million per annum (The Finance Act, 2015). The change is part of the KRA efforts to encourage property owners to be tax compliant. The tax is simple to compute since it is based on a percentage of the gross rentals and is lower than the standard rate of 30% to reflect the fact that the landlords do not receive a deduction for the expenses incurred to generate the income (KPMG, 2015). Some of the benefits of the residential rental income tax include simplified tax computation at 10% flat rate on gross rent and not at 10% -30% rates. Landlords shall not be required to produce records to account for expenses. In addition to simplifying the taxation of rental income, the Finance Act also provides for an amnesty on taxes, penalties and interest on rental income for the period prior to 2014 (KPMG, 2015).

1.1.3 Property Owners in Kodele Estate, Kisumu County

Kodele is a middle to low class residential estate in Kisumu Kenya. Kisumu town is considered to be one of leading towns in Kenya as far as starting and registering a business is concerned with a population of over 200,000 (Mosoti&Murabu, 2014). The recent growth of the town has been heightened by growth of service sector especially education and finance (Muchira, 2007). Residential housing in kisumu town kodele estate comprise of wide variety of forms, from publicly aided tenant purchase, mortgage houses and apartments to

semi-urban houses. Some residents of Kisumu town a quiet number of some rental houses or units and manage them secretively (Mwangi, 2007). The level of rent charged on such units varies depending on some facts like closeness to a tarmac road, a business centre, security, the size of the house and so forth. Rents are usually collected by the owners or the agents appointed by the owners (UN-HABITAT, 2006). Thus, residential rental houses in kisumu town collect rent income, which is subject to taxation.

1.2 Statement of the problem

Tax compliance has been a crucial subject to researchers in many countries around the globe. In most third world countries house rental taxation has been classified as economic. (Tilahun&Yidersal, 2014). Like the other tax systems, the system of house rental taxation has been confronted with many challenges both on the side of the tax payers and the officials (Berhane&Yesuf, 2013). In most third world countries house rental taxation has been classified as economic transactions which a bit difficult to detect given the large number of citizens involved (OECD, 2012).

Osebe (2013), analyzed factors which affect tax compliance in Kenyan real estate sector and established that compliance costs, knowledge of tax and education, penalties and the perceived tax evasion opportunities influenced tax compliance. Mwangi (2014) also investigated the factors which influence tax compliance with a focus on SME's which operates in Industrial area, Nairobi and revealed high tax rates, lack of adequate information on tax matters and costs of tax compliance affected tax compliance. However, the housing sector has never received much focus yet it is a major sector of the economy that would significantly contribute to the overall amounts of revenue collected within the county. With the inadequate or nosystems of ensuring 100 percent tax compliance, together with loopholes within the various channels of revenue collection, there is a general tendency of tax evasion among the property owners. Furthermore, the few studies on rental income taxation in Kenya focuses on the old method of taxation where landlords where taxed at a rate of 30% on their net rental income. It is therefore important to focus on the contemporary issues influencing monthly rental income tax collections and major factors influencing the entire process among the property owners in Kondele estate in Kisumu city.

Despite the fact that the current residential rental income tax regime was introduced as part of the incentives meant to attract more people into the tax net, the county has never realized maximized rental tax compliance among the property owners. This research therefore seeks to determine the factors influencing monthly rental income tax compliance by the property owners in Kisumu, Kondele estate.

1.3 Objectives of the study

1.3.1 General objective

The general goal of this study was to determine the factors influencing monthly rental income tax compliance by the property owners in Kisumu, Kondele estate.

1.3.2 Specific Objectives

- (i) To establish the influence of tax rates on tax compliance among rental property owners in Kondele estate in Kisumu County.
- (ii) To determine the influence of tax Knowledge and information on tax compliance among rental property owners in Kondele estate in Kisumu County.
- (iii) To establish the influence of the level of rental income on tax compliance among rental property owners in Kondele estate in Kisumu County.
- (iv) To determine the influence of rental tax fines and penalties on tax compliance among rental property owners in Kondele estate in Kisumu County.

1.4 Research Questions

- (i) What is the influence of tax rates on tax compliance among rental property owners in Kondele estate in Kisumu County?
- (ii) What is the influence of tax Knowledge and information on tax compliance among rental property owners in Kondele estate in Kisumu County?
- (v) What is the influence of the level of rental income on tax compliance among rental property owners in Kondele estate in Kisumu County?
- (vi) What is the influence of rental tax fines and penalties on tax compliance among rental property owners in Kondele estate in Kisumu County?

1.5 Significance and justification of the study

This study sought to establish factors that influence residential rental income tax compliance by property owners in Kisumu town, Kondele estate. Thus, the findings of this study would be of help to property owners as it will highlight the various factors that influence their compliance to rental income taxes. In addition, the study gives recommendations on how tax compliance by property owners can be enhanced. The findings of this study will assist various policy makers including the Kenya Revenue authority, the government of Kenya and other line ministries in developing effective policies to enhance residential rental income tax compliance by property owners and to reduce tax non-compliance to acceptable levels.

1.6 Scope and limitation of the study

In terms of scope, the study basically focused on the factors influencing monthly rental income tax compliance by the property owners in Kisumu, Kondele estate. Major areas of focus included; extent to which tax rates influences tax compliance; assess the availability of tax information as a factor influencing tax compliance; determine the extent to which costs incurred by rental property owners in being tax compliant influence their level of tax compliance; and determine how rental property owners attitude about tax influence tax compliance.

The study was limited in a number of ways; firstly, the stud basically focused on kondele estate, which is geographically small, and this would affect the generalization of the findings to other residential properties. The researcher worked with the maximum number of the representative sample so as to get diverse information relating to the objectives. The respondents may be unwilling to give their honest opinions regarding the inquiries of the researcher for fear of victimization. The researcher would assure the respondents of utmost confidentiality. The researcher may not be able to access most current and reliable secondary data regarding tax compliance. In this case, the researcher may diversify the search for secondary data from online sources.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Chapter two review available literature on tax compliance as investigated by various scholars around the world. The chapter presents the theoretical literature review, the empirical literature review and finally a summary of literature review.

2.2 Theoretical Review

The study will review various theoretical frameworks that would form the basis of the entire research. In this section, the study will review the Allingham-Sandmo (AS) Theory and the Fiscal Exchange Theory. The study will adopt a deductive approach whereby the findings of the study will be informed by the existing theoretical frameworks.

2.2.1 The Allingham-Sandmo (AS) Theory

The Allingham-Sandmo (AS) theory is also known as the economic deterrence theory emanated from the seminal work of Allingham and Sandmo (1972). This theory affirms that the behavior of a taxpayer is usually influenced by the factors which determine the benefits and cost of tax evasion (Allingham&Sandmo, 1972). The economic deterrence model in its basic form views the individual taxpayer as a rational economic agent, who assesses the costs (determined by probability of detection and penalties or a fine for the fraud) and benefits (determined by tax rate) of evading taxes, and thus chooses not to pay, if the benefit of non-compliance outweighs the costs (Walsh, 2012).

The basic premise of this theory is that individual usually takes part in activities which have the potential of maximizing their returns or rewards as well as minimizing their costs, tax amnesty being one of those activities. If sanctions are probable enough, and the costs severe enough to outweigh the rewards of an act, the act will not be performed (Mengere, 2014). This theory concludes that tax compliance depends more on tax audit and the penalties or fines as outlined on the tax legislations. This implies that, all taxpayers only pay their taxes because they fear being sanctioned according to the legal provisions. Thus, an increase in sanctions or fines and penalties will increase tax revenue (Awa &Ikpor, 2015). It is on the basis of this assumption that the model advocates stricter audit and heavy penalties for offenders as a basis for reducing non-compliance (Fjeldstad, Schulz-Herzenberg&Sjursen, 2012). The relevance of the AS model in residential rental income tax compliance is that when there are low probability of audit and penalties, tendency for evasion by property owners will be higher, while if there is a high tendency for detection and

penalties are severe, fewer property owners will evade residential rental income tax. The theory therefore assumes taxpayer maximizes expected utilities of noncompliance tax gamble. That is, balancing between tax cheating benefits against detection and sanctions.

2.2.2 Fiscal Exchange Theory

This theory is acclaimed to have evolved from the economic deterrence and social psychology models. It is premised upon the existence of a social, relational or psychological contract between the government and the taxpayers (McKerchar & Evans, 2009). This theory suggests that government expenditures are the main stimulators of tax compliance and the governments has the ability to ensure that its citizen comply by offering more improved public goods and services with the little they collects in form of tax (Ali, Fjeldstad & Sjurson, 2013).

This theory have developed over time to posit that tax bargaining between taxpayers and the government, which is considered as fundamental to building a relation of accountability and obligations between state and society (Fjeldstad, et al., 2012). This theory affirms that government expenditures serves as a motivating factor for taxpayer compliance, especially when the taxpayers value the goods and services they perceive to be receiving from the government (Bello & Danjuma, 2014). Thus, the taxpayers will be more willing to comply when they are satisfied with provision of services from government, even in the absence of detection and punishment. Conversely, they are also likely to adjust their terms of trade, by reducing compliance when they are dissatisfied with services provision from the government, or even when they dislike the way their taxes are spent.

The relevance of this theory is that property owners may be willing to pay residential rental income tax since they value public goods and services being offered by their government and believe that the more they pay taxes, they will be offered more improved and better goods and services. Conversely, they are also likely to adjust their terms of trade, by reducing compliance when they are dissatisfied with services provision from the government, or even when they dislike the way their taxes are spent (Torgler, 2003). The relevance of this theory is that property owners may be willing to pay residential rental income tax since they value public goods and services being offered by their government and believe that the more they pay taxes, they will be offered more improved and better goods

and services. Conversely, the property owners may not be willing to comply if they feel that they do not derive any benefit from the taxes collected by the government or that there is wasteful spending and looting in public coffers.

2.3 Empirical Literature

2.3.1 Influences of tax rates on compliance among rental property owners

Musau (2015) assessed factors influencing tax compliance among rental properties and SMEs in Nairobi County. The study picked a sample of 398 respondents and collected data using questionnaires which was analyzed using the binary probit regression model. The study findings revealed that when an individual perception about difficulties of evading taxes increases, the high likelihood of being tax compliant among rental properties and SMEs in Nairobi County. The findings also revealed those individuals who are satisfied with what the government is offering as public goods and service from taxes; have enough tax information; trust government officials in handling their taxes; and have the perception that if tax filing procedures are less complex, tax payers are likely to comply with tax payment. Mukabi (2014) explored factors influencing turnover tax compliance in the Kenya revenue authority domestic taxes department in Nairobi County. The study used a sample of 56 respondents selected via stratified sampling and data collected using questionnaires.

Berhane and Yesuf (2013) assessed the challenges and opportunities of house rental income business tax in Regional state of Tigray in Ethiopia. The study collected data via a survey questionnaire. The study findings established that there exists inefficiency and insufficient number of business house rent tax assessment and collection officers in the regional state of Tigray. Moreover, the study found that most taxpayers lack sufficient knowledge of tax assessment and collection procedures. Thus, most of business house rent taxpayers do not know the existing applicable rules and regulations. Further, the study found that due to negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of proper business house rental income taxes. Kasipillai&Jabbar (2006) assessed whether gender and ethnicity differences occur in relation to tax compliance attitude and behavior. The results of t-test established that both male and female had similar tax compliant attitude and for ethnicity, similar result were also observed. In addition, regression

results established that gender, education, and individual tax return preparation were statistically significant as the main determinants of non-compliant attitude.

The high levels of taxation of rental properties in Africa and in Kenya in particular, warrants attention on accelerated research areas aimed at addressing the overall effects of taxation on rental properties (Osambo, 2009) By studying taxation behavior in five different countries (USA, Gambia, Nigeria, South Africa and Kenya), Derwent (2000) concluded that increased tax burden is a major threat. The results show that the increase in tax rates leads to higher production, distribution and selling costs which lead to higher prices and as a result consumers change their buying behavior. People react to the higher prices by buying less of the product. When sales fall, some manufacturers cut back on production and some workers may lose their jobs. The productive resources like land, capital, labor and entrepreneurship are allocated to other industries or go unused. For instance when the government increase taxes on items such as beer and cigarettes for the purpose of realizing revenue and discouraging their consumption people tend to buy local brews. Whenever prices increase due to increase in tax rates; prices of goods and service increase and there is a drop in the consumption rate and a decrease in sales volumes which leads to retarded growth of rental properties. Tax payment is among the outflows of cash from the business which reduce the purchasing power of an enterprise. This is due to the fact that a large amount of cash collected is used to pay taxes rather than to expand the business. The study showed that the purchasing power of an enterprise drops immediately an organization pays taxes (Mungaya, 2012).

2.3.2 Tax Knowledge and Information

Standard models assume that tax payers are fully informed of all the aspects that cover the tax reporting processes. However this is a strong assumption and not the case (Andreoni, Errard, 2008) Tax research has shown that the degree of information is an important factor on the behavior of tax payers and how it influences tax evasion. Less educated tax payer's are less exposed to tax compliance information and are less informed about relevant tax compliance information and thus are more prone to tax evasion. Some tax payers find the complexity of tax information more difficult to understand than others. This

complexity may lead to unintentional noncompliance if tax payers have problems maybe in filling of tax returns.

In 2017, Kenya adopted the self-assessment system of paying taxes. The responsibility of declaring and paying the correct taxes is vested on the tax payer. A tax payer is required by law to file a self-assessment return by the end of the six month after year end. After filing the returns, Kenya Revenue Authority (KRA) reviews them and if it has reason to believe that a tax payer did not disclose the correct taxes, it is empowered under the law to carry out an in-depth tax audit to verify the information disclosed by the tax payer. This is where problems start! The tax payer then goes through the rigorous process that is both time consuming and costly for errors or omissions that would have been avoided had advance tax rulings been in place (Muiru, 2012) Further, businesses contemplating significant transactions are often faced with the problem of not knowing, with some degree of certainty, what the tax outcome of those transactions would be. This uncertainty could sometimes mean a deal is aborted because an adverse tax treatment could make it commercially non-viable. The situation is further complicated by the complexity of our tax laws and the fact that they are subject to change from time to time.

The way business is conducted has also become more sophisticated due to the geographical spread of enterprises. We have recently witnessed many multinational companies set up operations in Kenya in keeping pace with the wave of globalization. The world has become a global village but it is unfortunate that our tax laws have not kept pace with this trend. For instance, it is not a wonder to find a company producing goods in one country and selling in another country to benefit from tax advantages in low tax jurisdictions. The complexity of business transactions makes the application of intricate tax laws that have generally not kept pace particularly problematic. Tax payers often find themselves in difficult situations while making important business decisions as tax laws may not be clear as to the treatment of complex business transactions. Our tax legislation does not provide for advance tax rulings though in practice, tax payers seek the Commissioner's interpretation of various tax laws or tax implications of certain business transactions. Sometimes this is done on a no-name basis in order to retain confidentiality (Muiru, 2012).

2.3.3 Legal provisions and Tax Compliance costs

A compliance cost is expenditure of time or money in conforming to government requirements such as legislation or regulation. For example, people or organizations registered for value added tax have the extra burden of having to keep detailed records of all input tax and output tax to facilitate the completion of VAT returns. This may necessitate them having to employ someone skilled in this field, which would be regarded a compliance cost. Compliance costs normally include all costs associated with obeying the law, including planning and administration, in addition to the direct time and money spent filing paperwork. Businesses especially small ones often face heavy costs in the process of preparing, filing, and paying taxes in addition to the burden of tax payments. These compliance costs, added to fines, penalties, and the risks of inspections and demands for bribes, often deter business creation and growth in developing and transition countries. A tax compliance cost survey can provide useful information for the design of reforms to reduce compliance costs and risks for small businesses.

This note highlights key findings of tax compliance cost surveys conducted in South Africa, the Republic of Yemen, Ukraine, and Peru that measured the burdens on business. These surveys helped fine-tune the design of reforms to lower costs for businesses and improve their competitiveness (Coolidge, 2010). High compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness (Ojeka, 2012). The full cost of a tax system is more than simply the amount of tax paid. It also includes the cost of tax planning and paperwork. Economists call these "tax compliance" costs, and the IRS estimates Americans spend 6.6 billion hours per year filling out tax forms—including 1.6 billion hours on the 1040 form alone. In a study carried out on tax compliance and simplifications (OECD, 2004) established that compliance costs tend to increase with the number of taxes that an entrepreneur is subject to, the complexity of the tax rules, the frequency of submitting tax returns and the number of levels of government involved in levying and collecting taxes. Taxes introduce complexities and costs not relevant to rental property management and the complexities may increase where more than one level of government is involved for example the devolved government in Kenya. This results to rental property owners avoiding the paying of taxes as it affects the business. Property assessment for rating purposes has

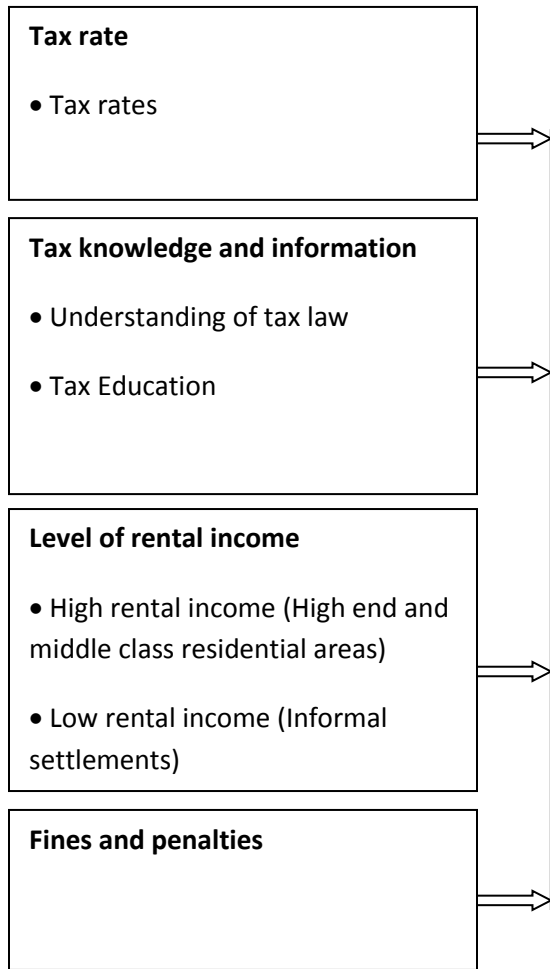
been practiced in Kenya for over a century. Property taxation is a major source of local authority finance though its full potential has not been realized (Walsh, 2012).

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

2.4 Conceptual framework

The independent variables are tax rate and system, tax information and education, tax compliance cost and taxpayers attitude. Tax rate and system as an independent variable influencing tax compliance is indicated by the complex nature of the tax system and high tax rate. Tax knowledge and information is the second independent variable and is characterized by the lack of knowledge of taxation by property owners as well as misunderstanding of the taxation system. Level of rental income measured the disparities among the high and the middle income property owners and the low income property owners. This aimed at establishing whether the level of income would be a factor that determines compliance. Issues of fines and penalties were considered, and the study sought to establish how various fines and penalties imposed on tax evaders influence their nature of compliance. The dependent variable for the study is tax compliance by property owners' government policies and regulations are the extraneous variables for this study.

Independent Variable



Dependent Variable

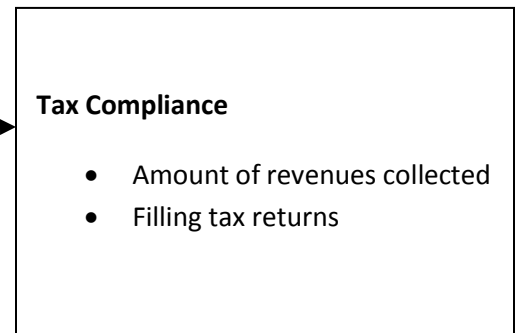


Fig 2.1 Conceptual framework

CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology as the method of achieving the purpose of the study. This includes the research design, target population, sampling for the study, data collection instruments and data analysis.

3.2 Research design

A descriptive survey design was adopted for this study. A descriptive survey design was used as the best for this study as it describes characteristics associated with the subject population, and in particular factors that make them behave the way they do. This design also enabled the researcher to collect a large quantity of in-depth information about the population being studied. According to Cooper and Schindler (Cooper, 2003) descriptive design discovers and measures the cause and effect of relationships between variables. Mugenda and Mugenda, (2003) state that a descriptive research determines and reports the way things are and attempt to describe possible behavior, attitude, values and characteristics of such things. The data required for analysis needed to be collected from a large population that was drawn from property owners in kondele estate in Kisumu town.

3.3 Target Population

The study targeted the rental property owners in kondele estate in Kisumu town. The data obtained from the Demographic Survey report of 2017 estimated the average housing units of Kondele estate to be 200 units. This comprised of high rise apartments and semi permanent structures. In this sense, the targeted population was approximated to be 200 property owners.

3.4 Sampling Frame

The study was basically conducted among residential property owners in Kondele estate in Kisumu County. The study focused on two categories of property owners; the property owners of the high rise apartments; and the property owners of the low income semi-permanent structures.

3.5 Sample size and sampling technique

The study considered 30% of the total population targeted. According to Mugenda and Mugenda (2001), a sample size of between 10 and 30% of the targeted population would form a representative sample. The study adopted a probability sampling whereby the subjects of the population get an equal opportunity to be selected as a representative sample. This was considered as the best techniques since it ensured that there is no biasness in selecting the sample. Stratified sampling was used, whereby the population was divided into two strata; Property owners with high rise apartments (High end and middle class residential areas), and the low class semi-permanent housing units. Simple random sampling was then used in each stratum. From the total population, the study was conducted among 60 rental property owners.

3.6 Data Collection

This study integrated both the primary and the secondary sources of data. Primary data was obtained through a questionnaire. The first section of the questionnaire gathered data on the respondents' background information while the other sections collected data on the study variables, which comprised of tax rate, attitude and perception, income levels, fines and penalties, tax knowledge and how they affect residential rental income tax compliance. In designing the questionnaires for the study, the questions were designed in such a manner as to attract vital answers, which helped the researcher in analyzing the situation at hand. The questionnaires were issued to the property owners through agents or managers (caretakers) requested to pass them to the property owners of the sampled residential rental houses and then picked after one week. Secondary data on the research were obtained from KRA publications. The KRA publications provided information on the number of property owners were on board the residential rental income tax regime.

3.7 Validity of the instruments

Cronbach (1982) suggests that validity of an instrument may be established deductively by showing that the item corresponds to the definition of the traits intended to be measured.

To ascertain the validity of the instruments, each respondent completed the questionnaire and each question item was discussed to determine suitability, clarity and relevance for the purpose of the study. The researcher also sought the expertise of the supervisors to establish

content validity and assess the relevance of the instruments to the study. The researcher administered the research instruments independently to the three scholars or researchers to examine each question item against research objectives. Each of them was asked to give an independent opinion on suitability and adequacy of each question item. Their views comments and suggestions were used to improve the questionnaire while working on the final copy in which they were incorporated in the design of the final instrument.

3.8 Reliability of the instruments

Reliability in research may be affected by random errors, the pre-test will help the researcher to identify the most likely source of errors and hence respond to before the actual study. Errors might come about as a result of inaccurate coding, ambiguous instructions, interview, fatigue and bias. The researcher in designing and administering of instruments was able to avoid such errors. The split half technique was used to verify instruments reliability, whereby the extent to which all parts of the test contribute equally to what is being measured, were tested. This helped in measuring internal consistency, which was determined by the people's responses. The researcher used the delayed response technique, whereby the instruments were given to the respondent and after fortnight the researcher gave another one to the same respondent (Ely *et al.*, 2001). The researcher then compared the consistency in the responses. In case the same respondent gave consistent response then the instrument were considered as being reliable.

3.9 Data Analysis

Descriptive statistics involved the use of measures of central tendency, which included frequencies, percentages, the mean and standard deviation while inferential statistics was used to draw conclusions.

Analytical model

In evaluation of relation between variables, that is dependent variables and independent variables, a multiple regression model was adopted. Regression analysis is a technique used to estimate relationships between two or more variables. The multiple linear regressions was as follows

The regression formula; $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$ will be used in comparing variables. Where;

Y is the dependent variable (Tax Compliance),

β_0 is the regression coefficient,

$\beta_1, \beta_2, \beta_3$ and β_4 are the slopes of the regression equation,

X_1 tax rate,

X_2 level of rental income,

X_3 is penalties and fines

X_4 is the Tax Information

ϵ is the error term

Test for significance

To test the statistical significance, the F and t test was used. The F-Statistic was used to determine significance of regression model, that is, to what extent the variation in independent variable explains the changes in dependent variable. Analysis of Variance (ANOVA) was also used to establish total variations within and between variables to determine relation between variables. T- test was employed to test statistical significance of regression coefficients at 95% confidence level.

3.10 Ethical Considerations

In terms of logistical considerations, the researcher first sought permission from the university. This acted as an introductory letter to get permission to conduct research from the County Government of Kisumu, as well as from the revenue authority offices. As for the ethical considerations, the researcher developed a good rapport with the participants, assuring them that all their responses would be treated with utmost confidentiality and would only be used for the purpose of the study. All scholarly works quoted were recognized.

CHAPTER FOUR: RESULTS INTERPRETATION AND ANALYSIS

4.1 Introduction

This chapter shows response rate, the results of data reliability, and descriptive statistics of the study variables, regression analysis and an interpretation of the study findings. The target population of this study was the residential property owners of Kondele estate in Kisumu Town. The questionnaires were self administered by the researcher, who later made follow ups through phone calls. The respondents were fully briefed of the significance of the study and how the information obtained would be relevant to them.

4.2 Response Rate

This study had selected a sample of 60 respondents and dropped 56 questionnaires to the sampled property owners. The researcher collected 46 questionnaires were completely responded to which made a response rate of 82%, which was considered sufficient.

4.3 Data Reliability

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

The Cronbach alpha coefficient was used to establish the reliability of the questionnaire. Table 4.1 shows obtained results

Table 4.1 Reliability

Variable	Cronbach Alpha	N of items
Tax rate	.792	5
Tax Information	.737	6
Tax Compliance Cost	.744	6
Tax Legislations	.747	4
Tax Knowledge	.814	6

Table 4.1 shows that all the study variables yielded Cronbach alpha coefficients values of more than 0.7, which is the recommended value. This indicates that the instrument was reliable to obtain data on determinants of residential rental income tax compliance by property owners.

4.4 Descriptive Statistics

This comprised of the results on the respondents profile and summary descriptive statistics of the research variables.

4.4.1 Respondents Profile

Table 4.2 is the results on the percentages of the responses who participated in the study.

Table 4.2 Respondent's profile

		Frequency	Percent
Gender	Male	33	71.7
	Female	13	28.3
	Total	46	100.0
Years of property existence	Below 2 years	8	17.4
	3-5 years	21	45.7
	6-8 years	5	10.9
	9 years and above	12	26.1
	Total	46	100.0

Source: Research Findings

Table 4.2 shows that 71.7% of respondents were male whereas 28.3% were female. Results also show that on average most properties had been in existence for a period of more than 3 years.

4.4.2 Tax Rate

This section evaluated several statements on tax rate to determine its effect on residential rental income tax compliance by property owners.

Table 4.3 shows obtained results

Table 4.3: Tax Rate

Statement	Mean	Std. Deviation
1. 10% residential rental income tax rate is fair to property owners	2.96	1.398
2. Residential rental property owners are now willingly paying tax due to the well-structured tax rate	2.78	1.348
3. The computation of tax on gross rental proceeds is simple for property owners to apply	3.04	1.282
4. A 10% tax rate on gross receipts results in overall lower tax burden than a 30% tax rate on net rental income	2.74	1.182
5. The lowered tax rate has influenced willingness of residential rental property owners to be tax compliant	2.67	1.248

Source: Research Findings

Table 4.3 the highest mean value was 3.04 which corresponds to the scale value of 3 in the questionnaire an indication that the respondents were indifferent on whether the computation of tax on gross rental proceeds is simple for property owners to apply. The other mean value correspond to the value 2 which indicates that the respondents agree that 10% residential rental income tax rate is fair to property owners and residential rental property owners are now willingly paying tax due to the well-structured tax rate. The respondents also agreed that a 10% tax rate on gross receipts results in overall lower tax burden than a 30% tax rate on net rental income and the lowered tax rate has influenced willingness of residential rental property owners to be tax compliant. On average, the results indicate that the tax rate influences residential rental income tax compliance by property owners respectively.

4.4.3 Tax Information and knowledge

This section sought to evaluate several statements on tax knowledge and information among the property owners, to determine its effect on residential rental income tax compliance by property owners.

Table 4.4 Tax knowledge and information

	Mean	Std. Deviation
1. Property owners have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime	3.20	1.344
2. Lack of proper records on expenses incurred greatly contributed to non-compliance by property owners in the previous regime	2.39	1.085
3. Knowledge about tax laws plays a major role in determining property owners' tax compliance	1.87	.909
4. Effective tax education can change the attitude and perception of property owner towards tax compliance	2.11	1.080
5. Majority of tax payers are familiar with the iTax system	3.28	1.259
6. KRA has created a lot of public awareness on residential rental income tax	2.61	1.468

Source: Research Findings

As per the results on table 4.4 the highest mean values were 3.28 and 3.20 which corresponds to the scale value of 3. The results indicate that the respondents were indifferent on whether majority of tax payers are familiar with the iTax system and that property owners have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime. The results also established that the respondents agreed that lack of proper records on expenses incurred greatly contributed to non-compliance by property owners in the previous regime, KRA has created a lot of public awareness on residential rental income tax and that effective tax education can change the attitude and perception of property owner towards tax compliance. The results also established that respondents strongly agreed that tax knowledge on tax laws plays a crucial role in determination of property owners' tax compliance.

4.4.4 Income levels and cost incurred

Table 4.5 presents analysis of the findings on the cost incurred in being tax compliant and the income levels of the respondents.

Table 4.5 Income levels and cost incurred

	Mean	Std. Deviation
1. Tax rate should vary with level of residential rental income	1.93	1.124
2. Low residential rental income earners should not be taxed	2.11	1.320
3. Tax on residential rental income is lower when based on gross income instead of net income	2.59	1.257
4. The monthly payment of tax has an evenly distributed impact on the cash flow of property owners	2.39	1.064
5. Property owners with low income levels are more likely to be non-compliant	2.57	1.500
6. Residential rental income tax poses high administrative cost to property owners as it is due monthly.	2.39	1.453

Source: Research Findings

Results on table 4.5 indicate that, highest mean values are 2.59 and 2.57 which corresponds to the scale value of 2 which indicates that the respondents agreed that tax on residential rental income is lower when based on gross income instead of net income and that property owners with low income levels are more likely to be non-compliant. The respondents also agreed that the monthly payment of tax has an evenly distributed impact on the cash flow of property owners, residential rental income tax poses high administrative cost to property owners as it is due monthly and low residential rental income earners should not be taxed respectively. Additionally, the respondents strongly agreed that the tax rate should vary with level of residential rental income.

4.4.5 Rental tax legislations

Table 4.6 gives the analysis of the responses on rental tax legislations

Table 4.6 Fines and penalties

	Mean	Std. Deviation
1. Fines and penalties are very punitive to property owners	1.83	1.102
2. Fines and penalties discourage non-compliance with of residential rental income tax obligations	2.22	1.172
3. Periodic waiver of fines and penalties could encourage tax compliance	2.35	1.251
4. Property owners file nil or incorrect returns to avoid penalties of non-compliance on the iTax system	2.24	1.214

Source: Research Findings

Results on table 4.6 show that, highest mean values were 2.35, 2.24 and 2.22, which correspond to the likert scale value of 2. This indicates that the respondents agree that periodic waiver of fines and penalties could encourage tax compliance, property owners file nil or incorrect returns to avoid penalties of non-compliance on the iTax system and fines and penalties discourage non-compliance with of residential rental income tax obligations. The lowest mean value was 1.83, which indicates that the respondents strongly agreed that fines and penalties are very punitive to property owners.

4.5 Regression Analysis

4.5.1 Regression Model Summary

The table below presents the regression model summary of all the variables

Table 4.7 RegressionModel Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.539 ^a	.291	.202	.71664

a. Predictors: (Constant), tax rates, tax information, costs incurred, tax legislations

Table 4.5 shows that R-Square value (coefficient of determination) is 0.291, which indicates that the independent variables (tax rates, tax information, costs incurred, and tax legislations) explain 29.1% of the variation in the dependent variable (Residential rental income tax compliance). This means that 70.9% of residential rental income tax compliance is influenced by other factors apart from the considered research variables.

4.5.2 Analysis of Variance

Table 4.8 presents the results obtained from the Analysis of Variance

Table 4.8 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.414	5	1.683	3.277	.014 ^b
	Residual	20.543	40	.514		
	Total	28.957	45			

a. Dependent Variable: Residential rental income tax compliance

b. Predictors: (Constant), tax rates, tax information, costs incurred, tax legislations

ANOVA results on table 4.9 shows regression model is significant since the F statistics value (3.277) is significant at 95% confidence level since the p-value (0.014<0.05). This indicate a significant relation between independent research variables (tax rates, tax information, costs incurred, tax legislations) and residential rental income tax compliance.

4.5.3 Regression Coefficients

Table 4.9 presents the results for the regression coefficients of the study variables

Table 4.9 Regression Coefficients

Model	Unstandardized		Standardized	T	Sig.
	coefficients		coefficients		
	B	Std. Error	Beta		
Constants	1.49	0.745		1.999	0.052
Tax Rate	0.347	0.137	0.345	2.537	0.015
Cost and income levels	0.417	0.254	0.26	1.642	0.109
Tax knowledge	0.522	0.211	0.373	2.476	0.018
Fines and penalties	0.148	0.184	0.121	0.804	0.064

From the above table, the regression equation would therefore be derived as;

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

$$Y = 1.49 + 0.347X_1 + 0.417X_2 + 0.522X_3 + 0.148X_4$$

The regression coefficient results indicate a positive significant effect between tax rate, tax knowledge, income levels and residential rental income tax compliance by property owners. The results further show that there is an insignificant negative effect between cost and income levels, tax penalties and fines, and residential rental income tax compliance by property owners. The regression analysis noted that there is a positive relationship between tax knowledge and tax compliance. The study indicated a positive value of 0.522. The findings further indicated that there is a significant influence of the tax knowledge to tax compliance with a significant value of 0.018, and given that the level of significance was tested at 95% then this value is less than 0.05, hence it is statistically significant.

Income levels has a positive correlation to tax compliance, as indicated by a positive value of 0.417 with a P-value of 0.109, which indicates that income levels is statistically insignificant since it is greater than 0.05. Fines and penalties indicated a positive correlation to residential income tax compliance as indicated by a positive value of 0.148, and a P-value of 0.064. Since the P-value is greater than 0.05, fines and penalties has a statistically insignificant impact on the

residential tax compliance. Correlation values of 0.347 shows that tax rate have a positive impact on residential income tax compliance. The P-value of 0.015 was ascertained and gives an indication that tax rates are statistically significant at 95% confidence level.

4.6 Discussion

4.6.1 Tax Rate and Tax Compliance

The study result found a significant positive relation between tax rate, knowledge of tax and residential rental income tax compliance. This means that, tax rate has a direct effect on residential rental income tax compliance. Kołodziej (2011), support that a high tax rate could be seen as an unfair treatment of taxpayers. These findings are consistent with the findings of most studies that have found that the high tax rate causes high tax noncompliance (Hai& See, 2011). However, Hai and See found that taxpayers who are aware that their tax rate is higher than average tax rate paid by others have higher records of tax evasion. By implication, the perception by taxpayers that pay high tax rate is that they can outweigh their overpayment through tax evasion. In a similar study, Joulfaian& Rider, (2008), found that taxpayers' underreporting behavior is positively correlated with high tax rate.

Moreover, though some literatures showed that the high tax rate is positively related to tax evasion and negatively related to tax compliance, other studies found either no relationship or in fact even positive relationship between tax rate and tax compliance. Furthermore, some studies that have been recently conducted in some parts of Africa have shown that tax rate do not have any positive or negative effect on tax compliance (Modugu, Eragbhe, & Izedonmi, 2012). The fact is that the respondents, so the studies are undecided on the effect of tax rate on tax compliance. Other studies found a negative relationship between tax rate and tax evasion or positive relationship between tax rate and tax compliance (Alm, Sanchez, & De Juan, 2005).

Moreover, the effect of tax rate on tax compliance is not only limited to country specific data; evidences are also obtainable in cross-country analysis. In a cross-country analysis of determinants of tax evasion internationally conducted with the OECD countries evidences showed that there is insignificant correlation between marginal tax rate and tax evasion (Richardson, 2006).

The findings on tax rate revealed that property owners were indifferent on whether the computation of tax on gross rental proceeds was simple for property owners and that property

owners agreed that the 10% tax rate on gross receipts was fair compared to the previous 30% rate. The findings also established that the relation between a taxpayer and revenue authority influences willingness of taxpayers to be compliant and that property owners perceive payment of taxes as contribution to economic growth.

4.6.2: Tax Knowledge and tax compliance

The findings of this study indicated that knowledge and information has a direct impact on residential rental income tax compliance hence an increase in knowledge of tax and awareness increases the levels of residential rental income tax compliance by property owners. The findings are in agreement with other research findings by Andreoni, Errard, (2008), who noted that the degree of information is an important factor on the behavior of tax payers and how it influences tax evasion. Less educated tax payer's are less exposed to tax compliance information and are less informed about relevant tax compliance information and thus are more prone to tax evasion. The findings on tax knowledge and education and information on tax revealed that property owners were indifferent on whether majority of taxpayers are familiar with the iTax system and that property owners have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime. The results also revealed that tax knowledge on tax laws plays a vital role in determination of property owners' tax compliance.

The results suggested that tax knowledge has a significant impact on tax compliance even though the level of tax knowledge varies significantly among respondents. The results also indicate that tax compliance is influenced specifically by probability of being audited, perceptions of government spending, penalties, personal financial constraints, and the influence of referent groups. Results of this study answer such questions as which various taxpayer characteristics of tax knowledge affect compliant behavior. The results of this study can inform policymakers on the extent to which tax knowledge is important in a self assessment system and in what ways it can affect compliance. It also provides an indicator for tax administrators of the relative importance of tax knowledge in assisting with the design of tax education programs, simplifying tax systems and developing a wider understanding of taxpayers' behavior.

Knowledge about tax law is assumed to be important for preference and attitudes towards taxation. There is little research that explicitly considers how attitude towards taxation is

influenced by specific knowledge of tax regulations (Eriksen and Fallan, 2006). The research done by Eriksen and Fallan demonstrated the importance of tax knowledge in a tax system, especially in a SAS. They suggested that fiscal knowledge correlates with attitudes towards taxation and that tax behaviour can be improved by better understanding of tax laws. A recent study by Kirchler et. al. (2008) also emphasizes that tax knowledge in individual taxpayers is also positively related to tax compliance (Park and Hyun, 2003).

Just like in other studies conducted on the assessment of the influences of tax payers' knowledge on taxation, individual taxpayers are the main subject of this study and are particularly important in understanding tax compliance particularly in a self assessment system (Kasipillai, 2000; Mohamad Ali et.al., 2007). Firstly, compared to corporate taxpayers, individual taxpayers are inclined to self-complete tax returns rather than engaging a tax agent (Trivedi, Shehata and Mestelmen, 2004). Since self assessment systems require a high level of tax knowledge, self completion among less knowledgeable taxpayers could lead to unintentional noncompliance behavior and could increase tax gaps effects (Mohani, 2001; RiahiBelkaoui, 2004).

4.6.3 Income levels and tax compliance

The results have found that the cost incurred and income levels of the property owners influence residential rental income tax compliance by property owners but the relationship is insignificant. This indicates an insignificant relationship between income levels, and residential rental income tax compliance by property owners that indicates that a decrease in income reduces compliance with residential rental income tax by property owners.

The findings on income level found that the monthly payment of residential rental income tax had an evenly distributed impact on the cash flow of property owners but the payment pose a high administrative cost to property owners. According to Spicer and Becker, (2010), while focusing on the factors influencing tax compliance noted that taxpayers exhibit a wide range of behaviors towards their tax obligations, justified for several reasons, ranging from an economic point of view to behavioral, political and psychological motivations. The consideration of moral feelings, like shame and guilt is relevant to provide a satisfactory explanation about taxpayer's compliance behavior. Complying or not is also a function of individual's willingness and not only a function of deterrence factors. The researcher basically

focused on the level of taxpayers income as a sub factor of tax morale, According to this study, tax morale is the intrinsic motivation of individuals to pay taxes and a civic duty which can be crucial to explain the level of acceptance of tax burden. It can be conceptualized as a set of moral principles or values that individuals have regarding the payment of their taxes (Englebrecht, 2005). Among the range of tax morale definitions provided by the literature, it seems clear that moral rules and feelings, equity and the relation between taxpayers and government are important factors for an understanding of the concept. A better understanding of tax morale concept can be made in the light of the many factors that have been identified to shape it.

Sour (2011) found that tax compliance rate will be increased by increasing the probability of audit. Significantly higher levels of taxable income were being reported due to increase in the probability of audit (Beck et al., 2001). On the other hand, tax non-compliance will increase when an audit detection rate decrease, (Lederman, 2003) .There may be a substantial impact on tax compliance by a small increase in detection risk (Carnes &Englebrecht, 2005) whilst Income reported will increase through an increase in audit rate (Dublin & Wilde, 2008). In increasing tax compliance among taxpayers, Carnes and Englebrecht, (2005), found that perceptions of audit detection risk are more effective than actual detection risk. Spicer and Becker, (2010) concluded that the tax non-compliance of taxpayers will significantly increase when they perceive themselves to be victims of tax inequity. Taxpayers' morale increases when tax officials treat them with respect. The taxpayers will avoid tax if tax officials solely rely on deterrence (Frey & Feld, 2002).

4.6.4 Tax fines and penalties and tax compliance

Just like in the levels of income, the results obtained showed that fines and penalties on tax evasion by the property owners influence residential rental income tax compliance by property owners but the relationship is insignificant. The findings concluded that there is insignificant relationship between Tax penalties and fines, and residential rental income tax compliance by property owners that indicates that a decrease in income reduces compliance with residential rental income tax by property owners.

The results on tax legislations (fines and penalties) established that periodic waiver of fines, penalties encouraged compliance and that punitive fine and penalties discourage non-compliance with of residential rental income tax obligations.

The findings of the study are consistent with the findings by Makori, et al., (2013), who noted that tax penalties not only support tax compliance, they also define it. Tax penalties determine the standards of conduct that the law imposes on taxpayers; they distinguish compliant taxpayers from non-compliant taxpayers (Joulfaian& Rider, 2008). The legal and economics literatures conventionally assume that the relationship is purely instrumental: the function of tax penalties is solely to support tax compliance. On this understanding of the relationship, the robust tax compliance observed in the United States presents a deep and persistent puzzle. The deterrence model, which assumes that taxpayers are amoral, rational actors, cannot match the weak expected penalties of current law to the high levels of taxpayer compliance. The norms model, which supplements the deterrence story by appealing to social and personal tax-compliance norms, does little more than posit a black box of taxpayer motivations. Still, these two models no doubt account for an appreciable level of taxpayer compliance, even if they do not account for all of it. There is good reason, then, to take note of the deficiencies that these models identify in the existing penalty structures ((Eriksen&Fallan, 2006). The current study posits that tax penalties not only support tax compliance, they also define it, a fact that has been overlooked by most researches done on tax penalties. Tax penalties determine the standards of conduct that the law imposes on taxpayers; they distinguish compliant taxpayers from non-compliant taxpayers.

The results of regression analysis established that tax rate, cost incurred and income levels, fines and penalties and tax knowledge explained 29.1% of the variation residential rental income tax compliance by property owners. The ANOVA results established a significant relation between tax rate, cost incurred, fines and penalties and tax knowledge and residential rental income tax compliance. The regression coefficient results established a positive significant relation between tax rate, tax knowledge and residential rental income tax compliance. The findings also established an insignificant relationship between cost incurred and income levels in being tax compliant, fines and penalties and residential rental income tax compliance by property owners.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Chapter five presents the conclusions and recommendations based on research findings, limitations of the study and suggestion of areas which may require further consideration as far as future research is concerned.

5.3 Conclusion

The study findings established that tax rate and tax knowledge significantly and positively influences residential rental income tax compliance by property owners. Based on this finding the study recommends that tax rate applicable on residential rental income influences tax compliance by property owners and an increase in tax knowledge and education enhances compliance by property owners. The study found that income levels and cost incurred in being tax compliant, tax legislations (fines and penalties) negatively influence tax compliance by property owners. The study thus concludes that high levels of income encourage tax compliance but low-income levels encourage non-compliance of residential rental income tax by property owners and punitive fines and penalties encourage property owners to comply tax obligations.

The study result found a significant positive relation between tax rate, knowledge of tax and residential rental income tax compliance. This means that, tax rate has a direct effect on residential rental income tax compliance. The findings also means tax knowledge and information has a direct impact on residential rental income tax compliance hence an increase in knowledge of tax and awareness increases the levels of residential rental income tax compliance by property owners. Less educated tax payer's are less exposed to tax compliance information and are less informed about relevant tax compliance information and thus are more prone to tax evasion.

The results have found that the cost incurred and income levels of the property owners and fines and penalties negatively influence residential rental income tax compliance by property owners but the relationship is insignificant. This indicates an inverse relationship between income levels, tax legislations and residential rental income tax compliance by property owners that indicates that a decrease in income and fines and penalties reduces compliance with residential rental income tax by property owners.

The findings on tax rate revealed that property owners were indifferent on whether the computation of tax on gross rental proceeds was simple for property owners and that property

owners agreed that the 10% tax rate on gross receipts was fair compared to the previous 30% rate. The findings also established that the relation between a taxpayer and revenue authority influences willingness of taxpayers to be compliant and that property owners perceive payment of taxes as contribution to economic growth.

The findings on income level found that the monthly payment of residential rental income tax had an evenly distributed impact on the cash flow of property owners but the payment pose a high administrative cost to property owners. The results on tax legislations (fines and penalties) established that periodic waiver of fines, penalties encouraged compliance and that punitive fine and penalties discourage non-compliance with of residential rental income tax obligations. The findings on tax knowledge and education and information on tax revealed that property owners were indifferent on whether majority of taxpayers are familiar with the iTax system and that property owners have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime. The results also revealed that tax knowledge on tax laws plays a vital role in determination of property owners' tax compliance.

The results of regression analysis established that tax rate, cost incurred and income levels, fines and penalties and tax knowledge explained 29.1% of the variation residential rental income tax compliance by property owners. The ANOVA results established a significant relation between tax rate, cost incurred, fines and penalties and tax knowledge and residential rental income tax compliance. The regression coefficient results established a positive significant relation between tax rate, tax knowledge and residential rental income tax compliance. The findings also established an insignificant negative relationship between cost incurred in being tax compliant, fines and penalties and residential rental income tax compliance by property owners.

5.4 Recommendations

The study found that tax knowledge and information significantly influences residential rental income tax compliance by property owners. Based on the finding, this study recommends that KRA should develop training programs to create awareness on residential rental income tax compliance by property owners.

The study further established that punitive fines and penalties encourage compliance with residential rental income tax by property owners. The study therefore recommends that the tax

authority in Kenya (KRA) should revise its fines and penalties to make them more severe to encourage tax compliance.

This study collected data from property owners to establish the various factors which influence compliance with residential rental income tax. Thus, this study recommends a similar study, which incorporates the views of the tax authority in Kenya to establish the factors behind residential rental income tax non-compliance by property owners.

The study having found that the considered research variables explain 29.1% of variation in residential rental income tax compliance by property owners, it is recommends that additional studies on the other factors that influence compliance of residential rental income tax by property owners should be conducted.

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PPENDIX I: QUESTIONNAIRE

I am a student pursuing and carrying out a research on the factors influencing monthly rental income tax compliance in kenya, with a focus on rental property owners of kondele estate, kisumu county, kenya. The research is purely academic in nature and any information obtained will be kept confidential. Your cooperation and support will be highly appreciated.

Section I: Background Information

1. What is your gender? Male () Female ()
2. Number of years that the property has existed

Below 2 years (), 3-5 years (), 6-8 years (), 9 years and above ()

Section II: Tax Rate

3. Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

Statement	1	2	3	4	5
Residential rental property owners are now willingly paying tax due to the well-structured tax rate					
10% residential rental income tax rate is fair to property owners					
A 10% tax rate on gross receipts results in overall lower tax burden than a 30% tax rate on net rental income					
The lowered tax rate has influenced willingness of residential rental property owners to be tax compliant					
The computation of tax on gross rental proceeds is simple for property owners to apply					

Tax Information and knowledge

4. Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

Statement	1	2	3	4	5
The relationship between a tax payer and the revenue authority influences the willingness of tax payers to be compliant					
Payment of taxes is perceived by property owners as contribution to economic growth					
Visible improvements in government spending encourages property owners to be tax compliant					

Property owners have diverse knowledge regarding tax systems in Kenya					
Vast information on political goodwill and fair distribution of public resources influences your perception towards tax compliance					
The Kenya Revenue Authority(KRA) is perceived to be efficient in tax administration thus likely to catch up with defaulters					

5. Have you attended any formal training organized by KRA or other institution on residential rental income tax?

Yes () No () Not sure ()

6. Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

Statement	1	2	3	4	5
Property owners have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime					
Lack of proper records on expenses incurred greatly contributed to non-compliance by property owners in the previous regime					
Knowledge about tax laws plays a major role in determining property owners' tax compliance					
Effective tax education can change the attitude and perception of property owner towards tax compliance					
Majority of tax payers are familiar with the iTax system					
KRA has created a lot of public awareness on residential rental income tax					

Income levels and costs incurred in being tax compliant

7. Based on the property income levels and the costs incurred in being tax compliant, evaluate the following statements and tick where appropriate under the choices below.

Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

Statement	1	2	3	4	5
Tax rate should vary with level of residential rental income					
Low residential rental income earners should not be taxed					
Tax on residential rental income is lower when based on gross income instead of net income					
The monthly payment of tax has an evenly distributed impact on the cash flow of property owners					
Property owners with low income levels are more likely to be non-					

compliant					
Residential rental income tax poses high administrative cost to property owners as it is due monthly					

Fines and penalties

8. The following statements relates to the existing tax legislations, fines and penalties. Evaluate the statements and tick where appropriate under the choices below.

Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

Statement	1	2	3	4	5
The existing fines and penalties are very punitive to property owners					
The existing laws on fines and penalties discourage non-compliance with of residential rental income tax obligations					
The legal provisions on the periodic waiver of fines and penalties could encourage tax compliance					
Property owners file nil or incorrect returns to avoid penalties of non-compliance on the iTax system					

Section III: Residential rental income tax compliance

9. Is your business registered for Residential rental income tax?

Yes () No ()

10. Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

Statement	1	2	3	4	5
Residential rental property owners file tax returns every month					
Residential rental property owners declare correct monthly rental income					
Residential rental property owners file tax returns only to avoid penalties					
KRA has offered an enabling environment for tax filing					
Residential rental property owners file returns on time and as required by law Residential rental property owners enjoy paying taxes and are always tax compliant					

11. Can you recommend ways through which compliance on residential rental income tax can be improved?

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Thank you

APPENDIX II: WORK PLAN

Activity	Months					
	July	August	September	October	November	December
Concept paper						
Writing of proposal						
Defense of Proposal						
Correction of proposal						
Data collection						
Data ,Interpretation and Analysis						
Writing of report						
Project Defense						
Correction of report						

APPENDIX III: BUDGET

Typesetting ,Printing and Photocopying	28,000
Communication and Internet	10,000
Transport	15,000
Subsistence and lunch	15,000
Mislenious	6,800
Total Cost	74,800/=

List of Property owners In Kondele Estate

1. Kolwa Apartment
2. Kotieno residential
3. Jowi place
4. Bima Place
5. Fanana House
6. Sami residential
7. Michael Accommodation
8. Sami residential
9. Osiepe flats
10. Mariwa residential area
11. Good Hope apartment
12. Kibos hostel
13. Nyamasaria residential
14. Ziwani flats
15. Lake region house
16. Kona lejo house
17. Oumaongere
18. Canon Jacob Heights
19. Kabundu house
20. Oyamo residences
21. Nyarsakwa place
22. Mlangukubwa
23. Maji flats
24. Kabondo residential
25. Kwa chief residents
26. Lake region investment units
27. Miriam Johns
28. Ojowi house
29. JaUkwala residences
30. Okidi Family
31. Nyacheki residents
32. Sakwa
33. Nuru flats
34. Kilgoris investments
35. Upper road heights
36. OumaKouma place
37. K. K premises
38. Good Hope residences
39. Kiboko place

40. Sister Elizabeth residences
41. KonyangoOdima
42. J. J flats
43. JumaKarim region
44. Abdul residences
45. Karanja's place
46. Neel Deep residences