EFFECT OF RENTAL TAX AMNESTY ON TAX COMPLIANCE ON INDIVIDUAL TAXPAYERS IN KENYA

A CASE OF STAREHE SUB-COUNTY, NAIROBI

JACINTAH MUMO FRANCIS

A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF POSTGRADUATE DIPLOMA IN TAX ADMINISTRATION AT JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY.

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DECLARATION

This research project is my original work and has not been presented for a postgraduate diploma in any other academic institution.

Signature. ……………………………………… Date……………………

Jacintah Mumo Francis

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

Signature. ……………………………………… Date………………………

Mrs. Pauline Mwangi.

Lecturer: Kenya School of Revenue Administration.

DEDICATION

I dedicate this project to family for their emotional & moral support and understanding during this period of study out of the busy working schedule and demanding family roles.

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ABSTRACT

A tax amnesty is a limited-time offer by the state to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness or pardon of a tax liability relating to a previous tax periods. However, the actual experiences of many countries indicate that the immediate impact on revenues is always quite small. This research examined the effect of rental tax amnesty on tax compliance on individual taxpayers Starehe District. Specifically, the paper examined the effect of taxpayer's tax amnesty knowledge, the influence of enforcement efforts and to establish the effect of perceived opportunity for tax evasion on tax compliance on individual taxpayers. This research adopted descriptive study technique which involved use of primary data. The research targeted a population of about 980 taxpayers and administered the 114 questionnaire to the respondents via a drop & pick method. Data analysis was done through use of multiple linear regression model and the quantitative reports obtained presented using tables. Empirical evidence showed that Tax amnesty information, enforcement measures and perceived opportunity for tax evasion indeed have an impact on Tax Compliance in Starehe Sub-County with significant relationship at 5% significance level. The research concludes that rental tax amnesty is effective if it is followed by strong enforcement measures.

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ACRONYMS

EACCMA: East Africa Community Customs Management Act

GDP: Gross Domestic Product

ITA: Income Tax Act

GOK: Government of Kenya

KPMG: Klynveld Peat Marwick Goerdeler

HMRC: Her Majesty’s Revenue and Customs

ICT: Information and Communication Technology

CBD: Central Business District

ARIMA: Autoregressive Integrated Moving Average

KNBS: Kenya National Bureau of Statistics

KRA: Kenya Revenue Authority

NARC: National Rainbow Coalition

KESRA: Kenya School of Revenue Administration

SPSS: Statistical Package for the Social Sciences

DEFINITION OF TERMS

Tax - For purposes of this research, it is the ways by which governments impose charges on its citizens and corporate entities to finance their expenditures (Lymer and Oats, 2009).

Tax Avoidance - The researcher applies this term a scheme of getting round the law to reduce a tax liability to the tax collectors (Higgins, 2009).

Tax Compliance - For purposes of specifically this research, the word compliance is used to refer to registration with KRA as taxpayer, keeping of business records, filing of self-assessment returns and payment of taxes when they are due (Kirchler, 2009).

Tax Evasion - The researcher uses this term as an illegal act, often entails taxpayers intentional misrepresenting the true state of their affairs to the tax authorities in order to lower their tax liability and includes dishonest tax reporting (Brealey, Myers and Allen, 2010).

Tax on rental income – for the purposes of this study, refers to an income tax which is taxed directly through self-assessment as opposed to consumption tax on expenditure (ITA, 2010, section 3(2)(iii) and section 6).

Tax Gap - This research defined tax gap as the difference between the expected and the actual revenue generated by tax authorities (Gcabo and Robinson, 2007).

Non Compliance- For purposes of this research refers to the failure by individual or organization to meet the tax obligations whether deliberate or unintentional (Kirchler, 2009).

Rent income- The researcher uses this term to mean gains or profits including royalty, premium or similar consideration received for the use or occupation of property (ITA, 2010, section 6).

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter presents the background of the research on the effect of rental tax amnesty on tax compliance on individual taxpayers. It further, presents statement of the problem, research objectives, questions and finally the importance of the study.

1.2 Background of the study

Government revenue is essential in accelerating economic growth and development. The major aim of many governments is to stimulate and guide their economic and social development thus many countries across the world aim at improving revenue generation capabilities in order to meet their ever rising need for economic growth and development (Bhartia, 2009). The most important instrument of marshaling this revenue is through the implementation of an effective tax policy (Wawire, 2011). A tax according to Bhartia, (2009) is a financial charge or other levy imposed upon a taxpayer by a state or any other functional equivalent of a state such that failure or resistance to pay is punishable by law. Umeora (2013) asserts that taxation is the most important sources by which governments accumulate revenue to be used in meeting recurrent expenditure and to redistribute wealth and management of the economy. Further, Kaldor (2004) pointed out the importance of government revenue in accelerating economic development and financing public services spending. Whatever the prevailing ideology or political situation of a particular country, the government must steadily expand a host of non-revenue yielding services such as education, health, infrastructure, and social security. Toye (2008) asserted that the link between taxation and economic development is between a universal desire and a form of government action that is believed to be a means to that end.

Accordingly taxation is the largest source of government budgetary resources in Kenya. Between 1995 and 2004 for instance, tax revenue formed 80.4% of total government revenue (Moyi and Ronge, 2006). Over the last decade, the dependency on the tax revenue has increased with an increased development agenda to over 92.3% while non-tax revenue stands at 7.7%. It's expected that 83% of Kenya's budget for the financial year 2017/2018 which is Ksh.2.64349 trillion, will be financed from domestic sources and 17% from foreign sources. Of the 83% financing from domestic sources, 94.2% of the financing will be from taxation with estimated total revenue to be raised from rental income for the financial year 2017/2018 is expected to be Ksh.67.1 billion (GOK budget highlight, 2017/2018).

1.2.1 Rental Income

According to KPMG (2016) rental income is any income earned from the permitting another to use property that one owns or has rights over. The taxation of rental income is universal. In the United Kingdom for instance, those earning income from land and property are required to disclose to HMRC. The rental income should be declared in the tax returns and the applicable tax rates applied. However, income of less than GBP 4,250 per annum does not attract rental income tax. This exemption applies under the rent-a-room allowance scheme (Grampert, 2001). Rent-a-room allowance applies to the letting out of furnished accommodation in a person's home.

In the United States of America, cash or the fair market value of property received for the use of real estate or personal property is taxable as rental income. Taxpayers can then elect to deduct expenses of renting property from their rental income. Allowable deductions include mortgage interest, property tax, operating expenses, depreciation and repairs.

In Kenya, it arises from the renting of a house, apartments, rooms, space in an office building, or other real or moveable property (ITA, 2016, laws of Kenya). Section 3(2)(a)(iii) of the Income Tax Act (ITA) Cap 470, provides that income arising from a right granted to another person for the use or occupation of property constitutes income chargeable to tax and taxable on anyone in receipt of rental income unless they are tax-exempt. (ITA, 2016, laws of Kenya).

The earning of rental income can be the core business of a person or can be incidental to their core business but where a person has several sources of income, the ITA provides for the taxation of rental income as a separate source of income. Section 6(1) of the ITA provides for the taxation of rental income: gains or profits include a royalty, rent**,** premium or similar consideration received for the use or occupation of property. This may include*;* advance rent, any amounts paid to cancel a lease; and security deposits (ITA, 2016, laws of Kenya).

1.2.2 Tax amnesty

Baer and Le Borgne (2008) defined tax amnesty as a limited-time offer by the state to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness or pardon of a tax liability (including interest and penalties), relating to a previous tax periods, as well as freedom from legal prosecution. These temporary programs allow taxpayers who have previously evaded tax to voluntarily remit unpaid tax arrears without incurring all the sanctions that failure of timely payment would ordinarily incur. If collected through enforcement action, taxpayers with these liabilities would owe the tax plus various penalties and interest on the unpaid amount and might also be subject to criminal prosecution. By participating in the amnesty, taxpayers can avoid certain program-specified consequences. To consider the impact a tax amnesty might make on revenue administration first requires an understanding of Revenue administration itself and a tax amnesty.

At a glance of fiscal histories of governments around the world, we see that most of the governments applied amnesty programs to increase revenues. Although amnesties are not the only way to gain revenue, amnesties are acted due to political reasons since the other revenue raising alternatives such as increasing tax rates may result in reduced chance of re-election

(Luitel and Sobel, 2005). Therefore, amnesties seem more attractive than alternative policies for politicians.

OECD (2014) aptly characterized revenue administration in terms of the value of the revenue the authority collects for the operation of all government and in the fairness with which the authority collects such revenue within the state's tax framework (OECD, 2014). One contribution is the extra revenue that may flow from the amnesty, which the amnesty no doubt accomplishes in a manner particularly appealing to Government. Amnesty collections emerge without the politically difficult tasks of increasing statutory rates or changing definitions in the tax base. Amnesty programs, however, raise equity concerns that likely impact the overall efficiency of government tax administration. Because the money comes from those who previously had shirked payment, the amnesty understandably strikes the public as a special deal for evaders and therefore arguably violates principles of general fairness. Honest taxpayers may believe they have been cheated by the special deal provided to evaders, which could harm overall compliance by encouraging the attitude that waiting for the next amnesty is better than perpetual voluntary compliance.

1.2.3 Tax Compliance

According to Mutua (2012) tax compliance is the satisfaction the four basic tax obligations of citizens and businesses that generally must be administered by all revenue administrations in accordance with their respective tax laws: registration (identification); filing (submission of tax returns on time); declaration (correctly report tax liabilities); and, payment (on time as stipulated in the law) (Mutua, 2012). However, a non-compliant taxpayer is one who fails to satisfy any one or more of these aspects and poses a risk to revenue collection. Due to the fact that there seem to be difficulty in achieving: greater clarity, less complexity, and a simpler and fairer tax structure, taxpayers' education comes hand in hand to benefits both compliant and noncompliant taxpayers to achieve all this. Because most taxpayers want to do the right thing and pay their fair share of tax, they do not want to pay more than is necessary (Olowookere and Fasina, 2013)

Tax compliance in Kenya is still low due to various reasons some of which are structural while others relate to taxpayers' attitude towards taxation (KRA, 2016). It is estimated that tax compliance was rated at 65% and 66.9% for the fiscal years 2014/2015 and 2015/2016 respectively with rental income being the least complied tax obligation (KRA, 2017). There is empirical evidence that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Singh, 2003; Mohamad Ali *et. al.*, 2007).

Terkper (2007) advanced the reason that tax payers demonstrate various degrees of voluntary compliance owing to factors such as lack of understanding of the tax laws; improper book keeping and apathy towards government. In addition, Christina *et al* (2003) determined the economic and behavioral factors affecting tax compliance among taxpayers in the United Governments of America. They administered questionnaires to participants of amnesty program; their respondents identified factors that made them not to comply with the tax laws, as complexity of the tax laws, ignorance of the tax laws, and the perceptions of unfairness of the tax system (Christina *et al*, 2003). Their research findings showed that a significant portion of non-voluntary compliance was unintentional, caused by the complexity of tax laws and ignorance, as most of the tax payers did not understand their tax liabilities and their tax obligations.

According to Posner (2010) the level of tax compliance by individuals and firms worldwide are immensely higher compared to what would be predicted under pure economic models of enforcement (Posner, 2010). At the personal level, social norms clarify much of the disparity in cross-country tax compliance levels (Bobek, Roberts and Sweeney, 2007). This suggests that broader cultural and institutional factors may influence tax compliance at the firm level as well.

1.2.4 Tax amnesty and Tax Compliance

Tax amnesty has been used by governments to enhance voluntary compliance (Luitel and Sobel, 2005). Due to tax amnesty, taxpayers are introduced into tax bracket and are subsequently monitored to ensure compliance to the relevant tax laws. Accordingly Guilfoyle (2003) noted that tax compliance is measured through the subsequent revenue collection following an offer for tax amnesty from individual taxpayers. His findings for Michigan tax amnesty showed a positive relationship between the two variables, that is amnesty and tax compliance.

Tax compliance is a worldwide worry since most countries would like to fund their recurrent expenditure through mobilization of domestic revenue. In Kenya, KRA has sought to boost tax compliance by introduction of sanctions such as electronic monitoring, audits, compliance checks, investigations and shutting of non-compliant taxpayers' businesses, heavy penalties and prosecution of tax evaders. There is also a whistle browsers rewards to those who volunteer information that leads to recover of taxes. This sanctions and the reward has helped in improvising the general level of tax compliance. While there is an increase in collection figures and compliance, the tax compliance ratio on rental income is still below the global average of 20% and the sub Saharan average of 18% (KRA, 2013).

With the emerging trend of reduced donor funding, the government needs to improve on its internal financing in order to meet the repayment of loans and accrued interest at the same time bridging budget deficit that is ever increasing and currently over KSH 4 trillion (CBK, 2017). The issue facing Kenya today in its pursuit of her fiscal policy is among others low revenues collections in the short run and the low level of tax compliance in the long run (KRA, 2014). A sustained increase in reduced tax compliance fuels government borrowing from the financial sector. This crowd out private investment inhibiting sustained economic growth.

1.3 Statement of the Problem

In developing countries, matters of taxation are very challenging and have attracted increasing attention in the past few years with many countries striving to attain a fully tax compliance among its citizens. Developing countries have witnessed various difficulties such as poor administration tax, failure to collect adequate tax revenues, structures in taxation system where tax horizontal and vertical equity considerations are not cohesive, government and economic instability among others. Tax concetration in this developing countries is majorly on employment income constituting about 56% of total tax collection with little attention on corporation taxes. Tanzi (2010) observed that many developing countries finds it challenging when it comes to tax revenue collection from informal sector and others source such as rental income. This is for the simple reason that there is low capacity of tax administration to monitor compliance among rental taxpayers (Tanzi, 2010). Kenya, like most other developing countries, experiences challenges in collecting revenue from rental income to the level required for the advancement of economic growth(KRA 2015). This over the years with other factors has led Kenya to experience a consistent deficit of revenue over expenditure for years (2015).

According to KRA (2010) property developers in Kenya are rapidly growing. Estates, apartments and office block for either sale or rent have surged but there has been no reflection in tax revenue. Taxation of the rental sector is notoriously difficult especially in developing countries due to the fact that most of the constructions are informal, limited registration and rental payment is basically in cash. It for this reason that the KRA opted to focus on rental tax simplification and introduced rental tax amnesty in order to introduce more landlords and landladies to the tax bracket. Further, KRA opted to focus also some of its resources in educating and sensitizing the taxpayers with the main focus on the landlords. Facilitating taxpayers through automation, education and sensitization, continuous auditing of the system is being done to boost the level of tax compliance among the taxpayers on rental income in Kenya. ICT Excellence, voluntary disclosure of income encourages taxpayers to voluntary comply with tax authority (KRA, 2010). In addition, KRA also required employees to file self-assessment returns and give details of their landlords for the purpose enhancing voluntarily tax compliance on rental income by landlords. Further, KRA has aggressively through media, road shows, talk shows and tax clinics implored upon landlords to declare their rental income (KRA, 2016).

Despites this initiatives, tax compliance levels on rental income have steadily remained low, even further after use of sanctions such as penalties; armed monitoring, routine audits and fines. The problem of low or non compliance of late has led to closure and suspension of non-compliant taxpayers' personal identification numbers in an effort to enhance tax compliance and improved revenue collections to the required targets (KRA, 2017).

In the last 15 years, the real estate sector has emerged as the sector of choice as far as investment is concerned, which saw an invested of capital in excess of Ksh 250 billion in 2015 and 2016.Mbui (2016) in a review of Kenya’s real estate sector in 2016 and a preview of 2017 noted that Kenya’s real estate market is well diversified in terms of income, geography and types. Due to this nature of non compliance among the rental income taxpayers, the government of Kenya resorted to give out tax amnesty on rental income in an effort to enhance compliance in the rental income sector. However, the degree of the effect of tax amnsety on taxation of rental income its impact on tax compliance behavior is not understood well and studies in this topic have not clearly and extensively been addressed in Kenya. Consequently, covering this knowledge gap amongst the rental income taxpayers is the main purpose of this study. It is for this reason that this study attempt to find out the effect of rental tax amnesty on tax compliance on individual taxpayers in Starehe sub- County.

1.4 General objective of the Study

The main objective of this study was to establish the effect of rental tax amnesty on Tax Compliance on individual rental income taxpayers in Starehe Sub- County.

1.4.1 Specific objectives

I. To determine the effect of taxpayer's tax amnesty knowledge on tax compliance on individual rental income taxpayers in Starehe sub- County.

II. To examine the influence of post amnesty enforcement efforts on tax compliance on individual rental income taxpayers in Starehe sub- County.

III. To establish the effect of perceived opportunity for tax evasion on tax compliance on individual rental income taxpayers in Starehe sub- County.

1.5 Research Questions

I. What is the the effect of taxpayer's tax amnesty knowledge on tax compliance on individual rental income taxpayers in Starehe sub- County?

II. What is the influence of post amnesty enforcement efforts on tax compliance on individual rental income taxpayers in Starehe sub- County?

III. What is the effect of perceived opportunity for tax evasion on tax compliance on individual rental income taxpayers in Starehe sub- County?

1.6 Significance of the Study

The the finding of these study will add to the theory and body of knowledge that can be used in future by both researchers and academicians who pursue factors affecting tax compliance. Further, the finding of this study can be used by management in future in designing various tax policy with regards to tax compliance and tax collection.

The findings of this study can also be help business such as landlords to understand the critical role of voluntary tax compliance as an engine to economic development.

1.7 Scope of the Study

The study will focus on individual rental income taxpayers. Geographically, the study focuses on the landlords and landladies in Starehe Sub-County. Justification of why the focus will be on this area is that the area is expected to have the highest level of buildings and hence individual taxpayers should contribute a large portion of the revenue collected on rental income in the country.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers the theoretical and empirical review revolving around the effect of rental tax amnesty on tax compliance on individual taxpayers. Further, it covers the empirical literature review and the conceptual framework of this research.

2.2 Theoretical Literature Review

2.2.1 The Neoclassical Theory

Neoclassical theories posit that taxpayers choose to participate in activities that maximize their rewards and minimize their costs (Alm, McKee and Beck, 1990). If sanctions are probable enough, and the costs severe enough to outweigh the rewards of an act, the act will not be performed. As a means to deter non-compliance, tax amnesty should be followed by increased enforcement measures. Therefore taxpayers would take advantage of a tax amnesty to avoid being caught up with increased enforcement measures thus report their income through filing of tax returns and in the long run change their attitude towards tax compliance (Alm and Beck, 1993). Taxpayers are made aware of their exposed risk of being caught and reduced chances of benefiting from evasion (Torgler, 2002). Alm and Beck (1993) show that amnesties may sometimes increase compliance and tax collections, especially if individuals perceive paying taxes is the social norm and the amnesty is accompanied by heightened enforcement efforts. However, amnesty revenues may come at the expense of reduced long-run tax revenues because of the reduction in tax compliance. The authors conclude that although tax amnesties generate short-term revenues, their ability to generate revenues in the long run is ambiguous. Andreoni (1991) on the other hand, examines fully anticipated tax amnesties and finds that evasion rises as a result of the amnesty but tax revenue does not necessarily fall. This is because evasion rises only to the extent that people expect to participate in the amnesty and if they participate in the amnesty, then the government is able to recapture not only the new evasion but also the pre-existing evasion. If the initial evasion is large, then the amnesty may increase tax revenue even if there is an increase in evasion.

Most often the success of an amnesty is measured in terms of revenue yield and attracting participants and retaining them in the tax system in subsequent years. Christian, Gupta, and Young (2002) find that a substantial portion of amnesty program participants subsequently continued to file tax returns. They conclude that the 1983 Michigan amnesty was successful in attracting many participants and in retaining many of them in the system, however, its impact on revenue was negligible (about 0.1 percent of state personal income tax revenue).

2.2.2 Agency Theory

Klein, Crawford and Alchin (1978) argue that incentives to take advantage of other parties are so strong that firms often vertically integrate, even at the cost of efficiency, to avoid the unfavorable outcomes of relying on contractual relationships. In general, agency theory suggests that policy-makers and tax administrators should be wary about any assumption that uncompelled agents or vendors will represent the state and collect the tax. This does not mean firms will never comply with a request to contribute to society. In fact there is substantial evidence of corporate social responsibility (Tucker and Henkel, 1992). Finding behavior of people who contribute to the good of an organization or association on a purely voluntary basis is common. Religious organizations, voluntary fire departments, and boys and girls clubs are among many examples. There are also situations in which groups participate in programs that benefit the community, even though they are only partially compensated for their activities.

In agency models, the government (i.e. the principal) pre-commits to an audit strategy in order to encourage maximum compliance by taxpayers. For instance, Reinganum and Wilde (1985) model the taxpayer as a risk-neutral agent of the government who has private knowledge of his own income. The government, whose goal is to maximize tax revenues net of audit costs, cannot observe actual income without costly investigation.

Reinganum and Wilde use this setting to compare a random audit strategy of the type implied in early models with a cut-off audit strategy in which an agent triggers an audit by reporting below a certain level of income. They show that the use of a cut-off strategy weakly dominates a random audit strategy because it will induce truthful reporting at the least cost. In addition to the desirable effect on compliance, they argue that such a strategy would enhance horizontal equity ex- post over random auditing since those with equal incomes will be audited with equal certainty.

2.2.3 Compliance Theory

The Compliance theory is based on behavioral motivations and answers the question of what leads a state, firm, or individual to act in compliance with laws. March & Olsen (1998) divided the basic logic of human action into the logic of consequences and the logic of appropriateness. The logic of consequences views actors as choosing rationally among alternatives based on their calculations of expected consequences, whereas the logic of appropriateness sees actions as based on identities obligations, and conceptions of appropriate action. Tax policy should be guided by the general principles of neutrality, equity, and simplicity. Thus developing tax systems that allow them to exploit whatever options are available rather than establishing rational, modern and efficient tax systems.

2.3 Empirical literature

2.2.1 Tax Amnesty knowledge

An amnesty increases taxpayer education, thus reducing operational costs of return filing. This is so because an amnesty offer and the subsequent participating is one way of educating the taxpayers on the procedures and legal implication of evasion (Aim and McKee, 1998). However, testing the effectiveness of this theory requires an examination of the variables underlying to this theory and their effects on voluntary Tax compliance.

As the tax law has become increasingly complex, complexity has come to be recognized as a possible reason for tax noncompliance (Jackson and Milliron, 1986). In the context of tax compliance decisions, complexity should include 2 dimensions, excessive detail in the tax rules and numerous computations required. Taxpayers should be able to understand the tax rules for computations by which they are to be taxed. These tax rules should aim to be simple, understandable and clear in order to enhance tax compliance. In general, complexity of tax system should increase as the number of criteria specified by tax laws increase. Clotfelter (1983) reveals that complexity of tax system has been associated with greater under reporting of tax.

2.3.2 Awareness of Post Amnesty enforcements effort

According to Palil and Mustapha (2011), a theoretical economic model introduced by Allingham and Sandmo (1972) has clearly indicated that penalties as well as audit probability have an impact on tax compliance. The higher the penalty and the potential audit probability the greater the discouragement for potential tax evasion. However, the more complex models like principal agent theory and game theory suggest that penalties and audit probability are difficult to portray in compliance models as the results are determined endogenously with tax cheating (Andreoni *et. al.*, 1998). Andreoni *et. al.*(1998) suggested that to overcome the endogeneity it is necessary to control the enforcement environment artificially by using laboratory experiment methods. This has been evidenced by Beck, Davis and Jung (1991) and Becker, Buchner and Sleeking (1987) through their experiments in which they found that penalty rates affect tax compliance in accordance with the theory. However, an experimental approach does limit the environment to a narrow perspective compared to the real world. Bryman and Bell (2003) suggested that an experimental approach is only suitable for a study that can be addressed with a high degree of experimental arrangement and control. Nevertheless, an experimental approach for a tax compliance study might show a smaller effect or influence than for direct observation (Alm, Jackson and McKee, 1992). In addition, Marrelli (1984), Wang and Conant (1988), Gordon (1990), Marrelli and Martina (1988) found that penalty rates have a negative association with evasion. In contrast however, Virmani (1989) indicated results the other way around, in which penalty rates had a positive association with evasion, meaning that higher rates did indeed encourage people to cheat.

Since previous studies indicate that penalty rates impact upon tax compliance behaviour, the awareness of offences was presumed to have a significant influence as well. If the taxpayers are aware of the offences they are committing when evading tax and the consequences of being non compliant taxpayers, they might reduce their tendency to evade tax. On the other hand, if they are not aware of the implications of being dishonest in terms of the offence they are likely to be charged with if caught, they might be more inclined to cheat because they presume that they will not be detected and could save money. Thus, educating taxpayers and keeping them well informed with the sentences of being an evader may be important, as a prevention measure is better than cure (imposition of a penalty).

Another important factor affecting tax compliance is the relationship between tax compliance and the severity of sanctions. The idea is that fear of penalties prohibits tax noncompliance behavior. Establishing an effective system to penalize tax evaders is an important measure to encourage tax compliance. Taxpayers will be more likely to comply if noncompliance may result in severe penalties. In some cases, legislation extending amnesty also imposes harsher penalties on those who are eligible for amnesty but do not take it (Luitel and Sobel, 2005).

According to the theoretical work conducted by Allingham and Sandmo (1972), tax compliance can be increased by increasing the penalties associated with it. To be effective, penalties must be applied speedily and forcefully. Witte and Woodbury (1985) report a significant relationship between the severity of criminal sanctions and tax compliance.

2.3.3 Perceived opportunity for tax evasion on Revenue collection

Entrepreneurs are regarded as a high-risk cluster in matters tax compliance due to their propensity to evade taxes being high. Opportunity has often been documented as a major explanatory factor in non-compliance (Kirchler, 2007). To be precise, cash flows that are not accessible to and reported by third-party elements, or the absence of withholding mechanisms at the point of payment, opportunities to evade taxes are bound to emerge (Lehman, 2017). The link between opportunity and non-compliance seems to have at least two different facets. First, in cases where

People do not deliberately capitalize on opportunities, the specific circumstances leading to evasion opportunities might still lead to non-compliance. Opportunities crop up when tax filings are not entirely automated. Absence of a platform for automated tax filing procedures are more likely to become error stricken even without intent to take advantage of the available opportunities. Consequently, opportunities may lead to an increase in intended as well as unintended non- compliance. Soliz (2015) demonstrates that an experimentally induced opportunity to cheat increased non-compliance regardless of whether the participants actually intended to be non- compliant or not.

Second, the notion that people depict the propensity to capitalize on opportunities demonstrates they are able to do so only if the opportunities are realized to begin with. Despite this reality, opportunities to evade often tend to remain unnoticed. Although a large number of taxpayers tend to notice opportunities for evading small amounts, only a minority unearth chances to evade larger amounts (Kley, 2011). Noticeably, inability to perceive opportunities extends to laboratory experiments explicitly manipulating opportunity. Whereas controlling for intended evasion annihilated the effect of opportunity on evasion, simultaneously controlling for intended evasion and perceived opportunity re-established the main effect of opportunity on non-compliance (Soliz, 2015). Indeed, it has been shown that those actually evading perceive increased opportunities to do so. In conclusion, opportunity is a necessity of taxpayers' tax compliance regardless of the stature and its role is moderated by its perceived advantages.

2.4 Other related study

Baer and Le Borgne (2008) in their research defined tax amnesty as a limited-time offer by the state to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness or pardon of a tax liability (including interest and penalties), relating to a previous tax periods, as well as freedom from legal prosecution. Tax amnesty has three general characteristics; its short lived in nature, generally lasting from three to six months, participation in an amnesty is voluntary and individuals may decide not to participate; however, consequences of not participating could be such that if they are caught later, they could get a stiffer punishment than before and finally waives the fines and penalties associated with the evasion but not the principal amount of taxes that is due (Baer and Le Borgne, 2008).

Tom (2012) studied the effect of tax amnesty on revenue growth in Kenya. The study adopted a descriptive research design and relied on secondary data for individual and corporate taxpayer's on revenue for periods with and without tax amnesty for the year 1992 to year 2010 as well as growth in GDP and inflation rates. Regression analysis was used to evaluate the degree of relationship between tax amnesty and revenue growth. Results demonstrated that tax amnesty does not indeed have a positive effect on tax revenue growth after taking into account other factors like GDP and inflation that are likely to affect tax revenue growth (Tom, 2012). However, for there to be growth in revenue, tax amnesty must be followed by enforcements measures to ensure the benefits of the tax amnesty are realized both in the short and long-run. The study however, only relied on secondary data that has time series trend effect. Time series data requires the use of autoregressive-integrated moving average (ARIMA) model to analyze and detrend the data. In this case monthly tax data tested to see if the ARIMA process that generated the income tax revenues before the amnesties was the same as the process that generated the income tax revenues after the amnesties. Ideally, tax amnesty extends the tax base by enhancing voluntary disclosure thus might affect voluntary compliance.

Alm, McKee and Beck (1998), examined the long run effects of a tax amnesty. Their study used laboratory experimental methods. Their finding established had mixed conclusion that compliance falls after an amnesty, however, if Post amnesty enforcement measures and effort are increased compliance level rises up. However, their research also established that regardless of the risk of being caught, the taxpayers' attitude to voluntary compliance would still remain high (Alm, McKee and Beck, 1998). Their finding was further supported by Torgler and Schaltegger (2003) in their study on tax amnesty using cross-country experiments in Switzerland and Costa Rica. Torgler, Schaltegger and Schanffner (2003) established also that long-run tax compliance rises if the possible tax amnesty is subjected to a popular vote, regardless of whether the amnesty is passed or rejected. However, the anticipation of a future tax amnesty has a negative effect on tax compliance.

According to Fox and Murray (2004), the goal and objectives of amnesties are many, but increased revenue yield, expanded tax base and enhanced tax compliance certainly top the list as

Governments fear that they are failing to collect substantial revenue that is due. The Kenyan Government beleaguered by declining revenues, raising expenditures, economic recession in early 2000's implemented a raft of administrative measures to address this. Some traditional administrative measures include taxpayer voluntary Tax compliance checks, taxpayer audits, tax payer field visits, tax clinics and continuous taxpayer education (KRA, 2016).

Kirchler *et al* (2007) studied the comparative analysis on tax compliance between informal and formal employment. They employed a descriptive research design and used both secondary and primary data. Their finding established that self-employed individual have a high potentials of evading taxes than salaried taxpayers (Kirchler, Muehlbacher, Holzl and Webley, 2007). Though, self-employed taxpayers have greater chances of evading taxes, these chances might escalate with the amount of various sources of income. Therefore, the level of tax compliance depends on the choices of income one gets and this relate with the source of that income. Taxpayers are less compliant on revenue made by low effort than on those with revenue obtained by hard-effort. Taxpayers are unwilling to lose their hard-earned income by gambling with the tax revenue authority (Kirchler, Muehlbacher, Holzl and Webley, 2007).

2.5 Conceptual Framework.

Independent Variables **Dependent Variable**

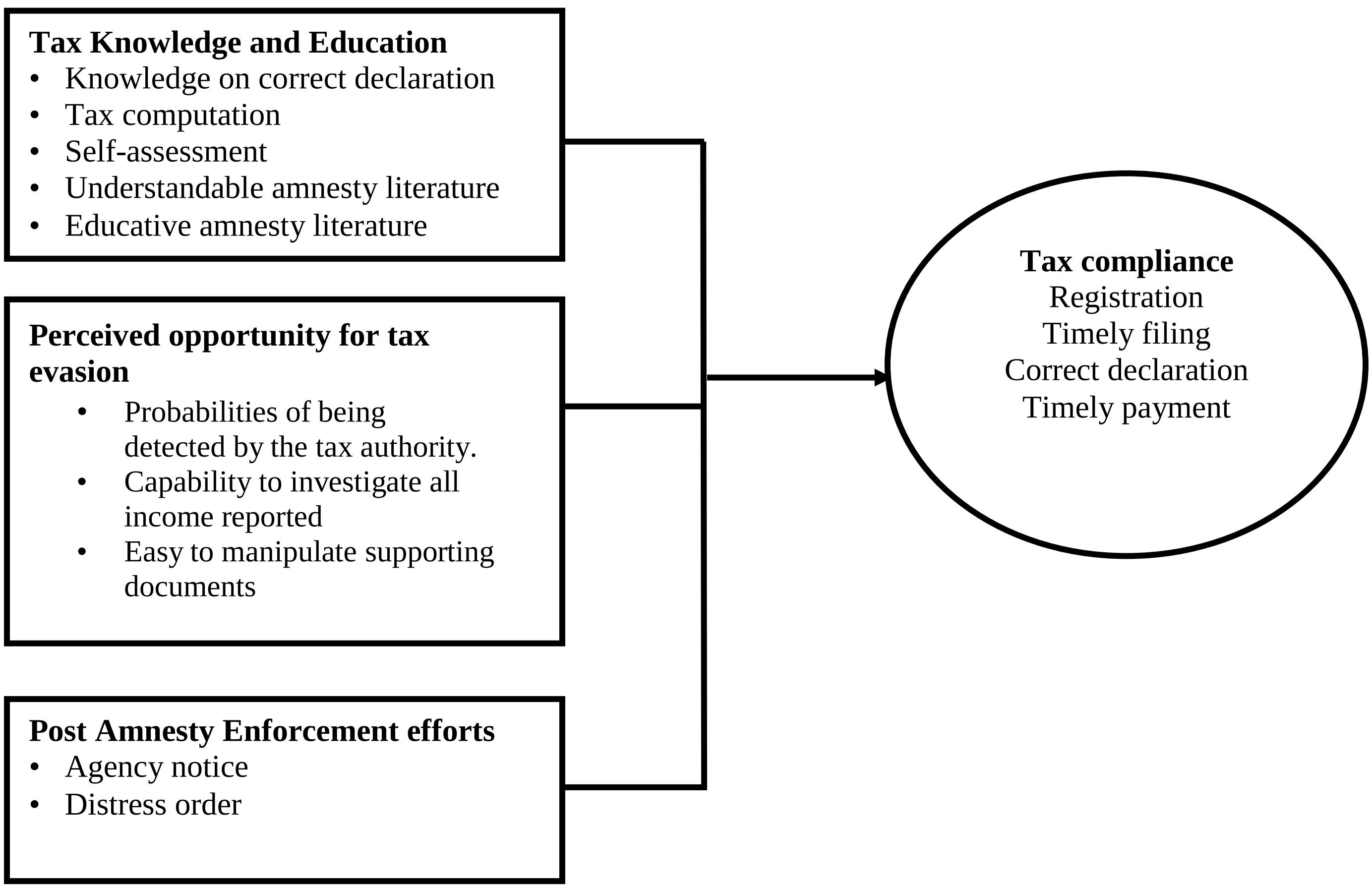

Figure 2.1 Conceptual Framework.

2.6 Research Gap

It evident from the above literature that tax compliance is a worldwide worry since most countries would like to fund their recurrent expenditure through mobilization of domestic revenue. In Kenya, KRA has sought to boost tax compliance by introduction of tax amnesty and sanctions such as electronic monitoring, audits, compliance checks, investigations and currently shutting of non-compliant taxpayers' businesses, heavy penalties and prosecution of tax evaders.

Despite these policies in place revenue collection figures and compliance is still bellow especially the tax compliance ratio on rental income which is below the global average of 20% and the sub Saharan average of 18% (KRA, 2013).

The available scholarly work as discussed in the above literature review is only concentrated in the short and long run effect of tax amnesty on either revenue collection or economic growth in Kenya. For instance, Fox and Murray (2004) looked at the goals and objectives of amnesties, Kirchler *et al* (2007) studied the comparative analysis on tax compliance between informal and formal employment while Kimani (2006) researched on the responses to KRA tax marketing promotion by the Matatus in Kenya. None of scholarly work was established on the effect of rental tax amnesty on voluntary compliance. Thus this is envisioned to fill this research gap by assessing the effect of rental tax amnesty on voluntary compliance by the real estate sector in Kenya.

2.7 Summary and Conclusion of Literature Review

Amnesty is granted through law which is given to a class of tax payers to shield them from prosecution. A tax amnesty is supposed to be a reform measure to broaden the tax base and raise revenue collections by allowing taxpayers in default to correct their previously under-reported tax liabilities. Governments enact tax amnesties primarily to generate an immediate increase in revenues at reduced administrative costs.

However, tax evasion occurs when individuals fail to comply with their tax obligations. The resulting effects may have serious damages to the well-functioning of the public sector; this may be due to lack of enough revenue by the Government to provide public goods to its citizens. Non-compliance has been present since the inception of taxation. People do not like paying taxes and hence may look for ways of reducing their payments. Different reasons are advanced for not complying with tax regulations. These include lack of money; unfairness in the tax system; complexity associated with the tax laws and requirements; and people not being aware of what is expected of them.

In general, penalties are the most predominant regulatory mechanism in most of the tax laws worldwide. It is also noted that the approaches examining tax systems in order to detect strategies to improve compliance are mainly outcome oriented and that they don't put into consideration the social and human factors. Based on the available literature, it's evident that most of taxpayers are honest and willing to pay taxes. However, the hindrance of fully compliance was noted the complexity of the system (Richardson, 2009).

In general, higher audit probabilities and severe penalties encourage tax compliance. Raising the probability of detection will increase tax compliance and tax audit represents one of the effective detective measures used by tax authorities (Alm, 1991). In fact, tax audits are considered to have both direct deterrent effect on the taxpayers actually audited and indirect deterrent effect on taxpayers not audited (Alm et al., 2004).

CHAPTER THREE

RESEARCH METHODOLODY

3.1 Introduction

This chapter presents the methods and procedures that were used to carry out this research. Specifically, the chapter presents the research design, the target population, the sampling strategy, and data collection procedures.

3.2 Research Design

In Orodho (2003) and Ogula (2005) it is ascertained that research design is the scheme, structure, outline, plan or strategy of investigation used to give answers to the research questions. This study aims to establish the effectiveness of rental tax amnesty in enhancing voluntary tax compliance. Thus the research will adopt a descriptive research design. Yin (2013) defines a descriptive study design as the finding out of the what, where and how of a phenomenon as it is presently. The choice of descriptive research design is informed by Creswell (2003), Mugenda and Mugenda (2008) and Yin (2013) argument that descriptive research design seeks to obtain information that describes existing phenomena as is by seeking respondents' perceptions, attitude, behaviour or values. Mugenda and Mugenda (2008) further adds that descriptive approach uses a pre-planned design for analysis that allows research findings to be presented through simple statistics such as tables and measures of central tendency can be used. Kothari (2008) in recapitulation asserts that descriptive design has enough provision for protection of bias and maximization of reliability.

3.3 Study Locale

The study was carried out in Starehe sub - County. The sub- County has a high concentration of real estate development due to its proximity to the Central business district (CBD) Nairobi and it is densely populated. Over the past one decades, the district also has witnessed high rise developments of rental units and apartments to accommodate its vast dense population. However, the rental tax collection from the rapid growth in real estates does not comensulate with the growth in rental income earned by the landlords and landladies in the District, which warranted the study on determinant of the effect of rental tax amnesty on Tax compliance on individual rental taxpayers in the sub -County. In addition, the researcher has a vast knowledge of the sub -county which made it easier for her to carry out the research at a reasonable cost as her fieldwork was self-sponsored. These characteristics justify this study.

3.4 Target Population

A population is the entire gathering of elements about which extrapolations are made (Cooper and Schindler, 2011) or is a group of the variables that is being studied (Chandan, Singh and Khanna, 2010). The population under this study were taxparyers who are landlords and landladies in Starehe sub-County within Nairobi County Kenya. The population of study were all the 1359 registered taxpayers who are landlords and landladies in Strarehe district (KRA, 2017). However, records show that out of the 1359 landlords and landladies, only 379 were active in complying with their rental income tax obligation representing 27.89%. 72.11% of the study population (the landlords and landladies) were believed to either opted out of the monthly rental income regime or who had defaulted in their obligation thus were under tax compliance review by tax revenue authority. This population formed the target group for this research hence this research targeted a population of approximately 980 taxpayers (landlords and landladies) in Starehe sub-County.

3.5 Sampling Procedure

According to Mugenda and Mugenda (2008), sampling means selecting a given number of subjects from a defined population as a representative of the whole population (Mugenda and Mugenda, 2008). Sampling Procedure according to Saunders *et al,* (2009) details the activities that will help the researcher in arriving at a representative sample to be used in solving the research problem (Saunders *et al.,* 2009). The following sampling design was employed in this study;

3.5.1 Sample Size

A sample size is the number of study elements or units selected from the population of interest for investigation (Chandan, Singh and Khanna, 2010). According to Saunders *et al*, (2009) a good sample size minimizes possible sampling errors and increase precision. Thus the bigger the size of the sample, the lower the possible systematic and nonsystematic errors in taking a broad view of the population (Saunders, M., Lewis, P. and Thornhill, A., 2009). However, Mugenda and Mugenda (2003) contends that a sample size of 10% is appropriate when the population is small and exhibits the same characteristics (Mugenda and Mugenda, 2008). In line with Mugenda and Mugenda (2008), a sample size of 98 respondents (landlord and landladies) were selected randomly for the study.

3.5.2 Sampling frame

According to Saunders *et al*, (2009) the sampling frame for any probability sample is the whole list of entire cases in the population from which the sample is derived (Saunders, M., Lewis, P. and Thornhill, A., 2009). The sampling frame for this research was a list of all the 980 landlords and landladies within Starehe sub - County from which the study picked taxpayers whose tax compliance level on rental income is review by KRA officers (KRA, 2017).

3.5.3 Sampling technique

The study adopted a probabilistic sampling technique. Simple random sampling method was employed. A list of landlord and landladies in Starehe district whose tax compliance in rental income was under review by the KRA officers were obtained. A respondent was chosen from the list using a table of random numbers without replacement.

3.6 Data Collection

The research used primary data. Primary data was gathered and generated for the project at hand directly from respondents mainly using questionnaires. The questionnaire had both open and closed-ended question. The closed-ended question provided more structured responses that facilitated tangible recommendations. The closed-ended question was used to test the rating of various attributes, and this helped in reducing the number of related responses in order to obtain more varied responses. The researcher administered the questionnaire individually to all the respondents of the study via a drop and pick method.

3.5 Data Reliability and Validity

Reliability is the extent to which results are consistent over time and accurately represent the characteristics of the total population under study. Mugenda and Mugenda (2008) define unwavering quality (reliability) as a measure of the extent to which an examination instruments yields consistent steady results or information after repeated trial. The Cronbach's Alpha coefficient was used to test the reliability of the responses from the respondents. Cronbach's alpha measures the average of measurable items and its correlation (Tavakol, 2011). A study is reliable if the results of a study can be reproduced under a similar methodology (Tavakol, 2011).

According to Tavakol (2011) Validity (legitimacy) is the extent to which results obtained from the analysis of the data actually represents the marvel under study. The research instruments were pre-tried to guarantee consistency and steadfastness of the examination instruments and their capacity to tap information that can be replicated by destinations of the study. Crude information from the instruments was subjected to an unwavering quality investigation from which Cronbach's co-efficient alpha was computed (Tavakol, 2011).

3.7 Data Collection procedures

A research permit was obtained from KESRA registrar office Nairobi to give permission to the researcher to carry out data collection exercise. An introductory letter was sent to department and section heads two weeks prior to commencement of the exercise to enable the relevant departmental heads to prepare for the exercise in advance to a void inconvenience. The researcher distributed the questionnaires herself to the respondents.

3.8 Data Analysis and Presentation

Data collected was simplified, organized and tabulated to make it easier to understand and analyzed the data using the Statistical package for social sciences (SPSS). The study relied on primary data for analysis. Descriptive statistics was used to simply describe what's going on in the data. Measures of central tendencies, standard deviations and percentages were used to describe the data. Ordinary Least Square (OLS) estimates were employed to estimate the linear regression coefficient. Correlation analysis was used to show the correlation between the effectiveness of the amnesty and voluntary tax compliance. The quantitative reports obtained from the analysis were presented using tables.

3.8.1 Analytical Model

The study estimated a multiple linear regression model as follows;

Dependent Variable (Y): Tax compliance over the period of research.

The following were the independent variables:

i. Tax knowledge on amnesty-informativeness,

ii. Post amnesty enforcement efforts,

iii. Perceived opportunity for tax evasion

The research model estimated was a multiple linear regression model as follows:

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

Where Y= Tax compliance over the period of research;

β_0 - is the Y intercept or co-efficient of constant of the equation,

β_i - is the coefficient of each independent variable ,

X_1- Tax knowledge on amnesty,

X_2- Enforcement efforts,

X_3- Perceived opportunity for tax evasion

ε- is the error term capture the un-explainable effect on tax debt realization

The study used the analysis of variance (ANOVA) test and t-significance to establish the significances of the relationship between independent variables and tax compliance. The study also used Pearson Correlation analysis to test the relationship between the two variables by measuring the existence, direction (positive or negative) and magnitude of such linear relationship.

3.9 Operationalization of Variables

The independent variables of this research were; Tax knowledge, Post Amnesty enforcements efforts and Perceived opportunity for tax evasion. The dependent variable was the output that was expected to help taxpayers to produce output such as report their own income freely, calculate tax liability correctly, file tax return on time, comply with tax laws and claim correctly deductions.

Table 3.1 Operationalization of Variables

Variables Measured	Elements/Indicators	Source
Tax compliance	• Registration and addition of correct obligations • Timely filing of returns and freely • Correct Declaration • Timely Payment	Terkper, 2007
Tax knowledge	• Knowledge on correct declaration • Tax computation • Self-assessment • Understandable amnesty literature • Educative amnesty literature • Customized amnesty literature	Kirchiler (2009); Singh, (2003); Mohamad et al, (2007); Nurlis (2015)
Enforcements efforts	• Agency notice • Distress orders	Glenday (2002);Thisen (2003); Kirchiler (2009);
Perceived opportunity for tax evasion	• Probabilities of being detected by the tax authority. • Probabilities of being detected by the tax authority. • Probabilities of being detected by the tax authority.	Mohamad et al, (2007);

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, presentation and interpretation of findings on the primary. The main objective of the study was to investigate the effect of Rental tax amnesty on Tax compliance on individual rental taxpayers in relation to taxpayer level of tax knowledge, post amnesty enforcement effort and probability of perceived opportunity for tax evasion towards the amnesty.

4.2 Response Rate

The study distributed a minimum of 114 questinniare from which 98 filled in and returned the questionnaires making a response rate of 85.96% and this gave a non-response rate of 14.04%. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% is rated good, 70% is rated very good and above 80% is rated excellent as shown in table 4.1 .

Table 4.1: Mugenda and Mugenda (2008) response rate

Response rate	Description
$\alpha \geq 0.8$	Excellent
$0.7 \leq \alpha < 0.8$	Very Good
$0.6 \leq \alpha < 0.7$	Good
$0.5 \leq \alpha < 0.6$	Adequate

In line with Mugenda and Mugenda (2008) response rate as shown table 4.1, a responce rate of 85.96% is rated excellent thus it was satisfactory to make valid conclusions for the study.

4.3 Data Validity

Reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. Cronbach's alpha was calculated by application of SPSS version 20 for reliability analysis. The value of the alpha coefficient ranges from 0-1 and may be used to describe the reliability of factors extracted at 0.5 significance level from dichotomous and or multi-point formatted questionnaires or scales.

Table 4.2: Reliability Coefficients

Items	Cronbach's Alpha	Number of items
Tax amnesty knowledge	0.865	8
Post amnesty enforcement efforts	0.853	6
Perceived opportunity for tax evasion	0.831	6

A higher value shows a more reliable generated scale. Cooper and Schindler (2008) have indicated 0.7 to be an acceptable reliability coefficient. Table 4.1 shows that Knowledge on tax amnesty had the highest reliability (α=0.865) followed by Taxpayers fear of Post amnesty enfoncement efforts (α=0.853), Taxpayers fear of Perceived opportunity for tax evasion (α=0.831). This illustrates that all the four instruments were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Cooper and Schindler, 2008).

4.4 Interpretations of data collection items

Using a five-point continuous Likert scale, the respondents were required to rate the extent to which they agree or disagree with the tax amnesty knowledge and in formativeness, Taxpayers fear of Post amnesty enforcement efforts and taxpayers perceived opportunity for tax evasion and how they perceve tax compliance in real estate sector. The range was 'Strongly Agree' (5) to 'Strongly disagree' (1). The scores of 'Strongly disagree' and 'Disagree' have been taken to present a small extent (S.E) (equivalent to mean score of 0 to 2.5 on the continuous likert scales (0< S.E <2.5). The scores 'Neither agree nor disagree' have been taken to represent a variable that was responded to, to a moderate extent (M.E.) equivalent to a mean score of 2.6 to 3.9 on the continuous likcrt scales (2.6<M.E. <3.9). The score of both 'Agree" and 'Strongly agree' have been taken to represent a large extent (L.E.) equivalent to a mean score of 4.0 to 5.0 on a continuous likert scale (4.0<L.E. <5.0). A standard deviation of >1, implies a significant difference in opinion among respondents while <1 implies that there was no significant difference in opinion.

Table 4.3 Response Rating

Rating	**Continuous likert scale**
Strongly disagree and 'Disagree	0< S.E <2.5
Neither agree nor disagree	2.6<M.E. <3.9
Agree and Strongly agree	(4.0<L.E. <5.0).

4.5 Summary Descriptive Statistics

The descriptive statistic considered was mean and standard deviation. The results is shown in table 4.4 below.

Table 4.4 Summary Descriptive Statistics Results

Variable	**Tax amnesty**	**Post amnesty enforcement efforts**	**Perceived opportunity for tax evasion**
Mean	2.5141	3.5141	3.253
Median	4.95	5.22	4.24
Minimum	3.51	2.54	2.26
Maximum	1.74	1.411	1.351
Std. Dev.	0.0193	0.1899	0.1788

Tax knowledge and the in formativeness of tax amnesty messages showed a mean of 2.5141 with a standard deviation of 0.0193. This implies that taxpayers barely get tax amnesty information. Fear of Post amnesty enforcement had a mean of 3.5141 with a standard deviation of 0.1899 indicating that taxpayers fear being caught up after amnesty period and greatly penalised thus they take up the amnesty and comply with the tax law. The result shows that most taxpayers are not informed and educated on the tax amnesty matters.

4.5.1 Tax Amnesty and Tax Compliance.

After receiving the tax amnesty message the respondents were asked to rate the effect of tax amnesty with regards informativeness.

Table 4.5 Descriptive Statistics of effectiveness of Tax Amnesty on tax compliance.

Variables	Mean Score	Standard Deviation
The tax amnesty message induced me to pay back tax arrears	4.93	1.23
The amnesty was an incentive to me	4.57	1.57
I was induced to file returns which I have never declared	4.87	1.69
I informed others about tax amnesty	4.44	1.19
I was induced to always file my returns after tax amnesty	4.41	1.32
I was pressured by the tax amnesty deadline to file return	2.32	0.98
I was induced to pay more tax arrears	4.67	0.76

The tax amnesty to a large extent was regarded as an incentive and induced the respondents to file and pay tax arrears. Those who choose to take the tax amnesty informed others about the tax amnesty. Two items above recorded a standard deviation of < 1. This implies a significant difference in opinion among respondents, which suggests that there was mixed reactions with some strongly agreeing and others strongly disagreeing. From the findings majority of the respondents were not pressured by the tax amnesty deadline.

4.5.2 Tax knowledge and information about Tax amnesty

The taxpayers were asked to rate the level of tax knowledge and informativeness on tax compliance**.** The results are shown in table 4.6 below.

Table 4.6 Descriptive Statistics of Tax amnesty information and knowledge.

Variables	Mean	Std	Mode	Median	Skewness	Kurtosis
Was the literature readily available	4.10	2.424	3	14.00	1.073	-0.868
The tax amnesty literature was understandable	1.49	0.390	1	1.00	1.312	1.072
Tax amnesty literature was educative	1.56	0.367	2	2.00	0.514	-1.661
The tax amnesty literature was customized i.e. addressed my needs	2.71	1.204	3	3.00	-0.564	0.513

The result showed that the tax amnesty literature to a large extent was readily available, educative and understandable and recorded a mean score of more than (4.10). However, to a moderate extent they were customized (2.71) obtained a standard deviation of >1. This implies a significant difference in opinion among respondents some of who felt it was customized and those who disagreed.

The findings are in line with Richardson, (2008) who established that the tax law has become increasingly complex and that complexity has come to be recognized as a possible reason for tax noncompliance. The excessive detail in the tax rules and numerous computations required in taxation contribute to high noncompliance. Taxpayers should be able to understand the tax rules for computations by which they are to be taxed. These tax rules should aim to be simple, understandable and clear in order to enhance tax compliance.

4.5.3 Post enforcement efforts

The relationship between tax compliance and the severity of sanctions if one fails to take up the amnesty was investigated. Establishing an effective system to penalize tax evaders is an important measure to encourage tax compliance. The table 4.7 below summarises the key findings.

Table 4.7 Descriptive Statistics of respondents' Taxpayers fear of Post amnesty enforcement.

Variables	Mean	Std	Mode	Median	Skewness	Kurtosis
Strict enforcement measures encourage voluntary compliance	3.71	2.204	3	3.00	-0.554	-0.533
If I do not participate in amnesty, the penalties and fine are very high if caught.	2.49	0.391	1	2.00	1.212	1.172
The tax amnesty message about penalties induced me to file and comply.	2.10	1.434	2	3.00	1.072	-0.668
The late filing penalties influence me to comply.	3.56	1.357	2	2.00	0.524	-1.461
The consequences of not	2.31	1.437	2	2.00	0.332	-1.363

participating could be such that if I am caught later, I could get a stiffer punishment than before.						
Strict enforcement measures encourage voluntary compliance	3.71	2.204	3	3.00	-0.554	-0.533

Strict enforcement measures encourage voluntary compliance with a mean of 3.71 and a standard deviation of 2.204. This shows that if the tax amnesty is followed by strict enforcement measures and punitive punishment for those who do not comply, then compliance would be enhanced. Ideally, the fear of penalties prohibits tax noncompliance behaviour. Taxpayers will be more likely to comply if noncompliance may result in severe penalties. This is in line with the theoretical work conducted by Allingham and Sandmo (1972) that tax compliance can be increased by increasing the penalties associated with it. To be effective, penalties must be applied speedily and forcefully. The respondents acknowledging some form of tax noncompliance are less likely if such acts would result in severe penalties.

4.5.4 Perceived opportunity for tax evasion

The study sought to find out whether measured indicators of perceived opportunity for tax evasion influences tax compliance on individual Rental taxpayers. The table 4.8 below shows the results.

Table 4.8 Descriptive Analysis for Perceived Opportunity for Tax Evasion.

Variables	Mean	Std	Mode	Median	Skewness	Kurtosis
I can manipulate figures in tax return	3.14	1.057	1	1.00	1.321	-1.161
Tax authority is tolerant	1.49	0.390	1	1.00	1.312	1.072
I believe the tax authority has limited capability to investigate	3.71	1.204	3	3.00	-0.564	0.513
Tax officers are corrupt	4.23	0.367	2	2.00	0.514	-1.661
Low probability of detection	1.26	1.053	2	2.00	0.433	-1.033

The findings on Table 4.8 indicates that respondents with a mean of 3.14 agreed to have manipulated figures in tax return since there was no need to send supporting documents to KRA and they can manipulate the figure in the tax return. To a moderate extent individual taxpayers felt that the tax authority has limited capability to investigate the property owners. The respondents were indifferent with some strongly disagreeing and others strongly agreeing that the tax authority had limited capability to investigate all income reported to it thus giving room for under reporting. Many individual taxpayers agreed that tax officers are corrupt and this gave them an opportunity window to evade tax and thus opportunities to evade taxes were high.

4.6 Correlation Analysis

The study sought to establish the effect of the tax amnesty on tax compliance on individual taxpayers in Starehe sub- county. Pearson Correlation analysis was used to achieve this end at 95% confidence levels.

Table 4.10 Correlation Analysis

Correlations coefficients					
		Tax compliance	Tax Amnesty Knowledge	Post Amnesty enforcement	Perceived opportunity to evade tax
Tax compliance	Pearson Correlation	1	.634**	.719**	.786**
	Sig. (2-tailed)	0.000	0.000	0.000	0.000
	N	98	98	98	98
Tax Amnesty Knowledge	Pearson Correlation	.634**	1	.402**	.484**
	Sig. (2-tailed)	0.000	0.000	0.000	0.000
	N	98	98	98	98
Post Amnesty enforcement	Pearson Correlation	.719**	.402**	1	.366**
	Sig. (2-tailed)	0.000	0.000	0.000	0.000
	N	98	98	98	98
perceived opportunity to evade tax tax	Pearson Correlation	.786**	.484**	.366**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000
	N	98	98	98	98

The results provided in table 4.10 above, Correlation analysis showed that, there was a modarete positive correlation between tax compliance and tax amnesty knowledge which was statistically significant ($r = 0.634$, $n = 98$, $p < 0.0005$). Also results in Table 4.10 above showed that, there was a strong positive correlation between voluntary Tax compliance and Post amnesty enforcement, which was statistically significant ($r = 0.719$, $n = 98$, $p < 0.0005$).

4.6 Regression Analysis

Further analysis was done using multiple regression analysis in order to determine relationship and magnitude of relationship between tax compliance and three factors namely Tax amnesty knowledge, fear of post amnesty enforcemt efforts and perceived opportunity to evade tax. This was described in three tables below:

4.6.1 Model Summary

R-square values present the strength of the relationship between tax compliance behavior and independent variables. From the adjusted determination coefficients, generally moderately strong linear relationships were established between dependent and independent variables. Adjusted R-square value 0.678 was established. Their R-squared value of 0.758 was established and this implies that 75.80 % of the variation in dependent variable is attributed to the changes in the independent variables. Being that the DW statistics were close to the prescribed value of 2.0 for residual independence, it can be concluded that there was no auto correlation.

Table 4.11 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.686	0.758	0.678	0.13828	1.879

a. Predictors: (Constant), Tax amnesty information, Post amnesty enforcement, and perceived opportunity for tax evasion on tax compliance.

4.6.2 Analysis of Variance

Analysis of Variance's (ANOVA) F-test was used to make simultaneous comparisons between two or more means; thus, testing whether a significant relation exists between variables (dependent and independent variables); thus, helping in bringing out the significance of the regression model. Since the value (p=0.038) were below 0.05, it can be concluded that the regression models were significant

Table 4.12 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.290	1	0.290	2.761	0.038
	Residual	0.419	4	0.105		
	Total	0.708	5			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), Tax Amnesty knowledge, Post amnesty enforcement, and perceived opportunity for tax evasion on tax compliance.

The results provided in table 4.8 ANOVA above showed that overall, the model applied in this study can statistically significantly predict the outcome variable of relationship between dependent variable" Tax compliance" and predictors "Tax Amnesty knowledge, Post amnesty enforcement, probability of perceived opportunity for tax evasion on tax compliance.to a large extent as demonstrated by p-value less than 0.05 in a ANOVA table.

4.6.3 Regression Coefficients

Table 4.13 Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
		β	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	3.613	.220		3.799	.001	.387	1.288
	Tax Amnesty Knowledge	.520	.092	.313	5.649	.000	.332	.708
	Post Amnesty enforcement effort	3.575	14.520	.427	.246	.000	-26.121	33.272
	perceived opportunity for tax evasion	2.471	12.332	.388	.246	.000	-26.121	33.272

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), Tax Amnesty Knowledge, Probability of Post Amnesty detection, and perceived opportunity for tax evasion on tax compliance.

From the regression analysis, all the explanatory variables are statistically significant at 5% level of significance in explaining the variation in model. The coefficient of Tax Amnesty knowledge, Post amnesty enforcement efforts, perceived opportunity for tax evasion on tax compliance. had a p-value <0.05 thus were significant at 95% confident level. Thus model established is as follows ;

Tax Compliance= 0.613+0.313 Tax Amnesty Knowledge + 0.427 Post Amnesty enforcement effort+ 0.388 perceived opportunity for tax evasion on tax compliance.

($Y = 0.613 + 0.313X_1 + 0.427X_2 + 0.388X_3$).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter covers various sections including the summary of the study, the conclusion and the limitations of the study. The chapter will also cover recommendations for further research as well as implications for policy and practice.

5.2 Summary of the study

The objective of the study was to establish the effect of rental tax amnesty on tax compliance on individual taxpayers in Starehe sub-County. From the findings on descriptive analysis of various variables, the study established that Tax amnesty information, Post amnesty enforcement and perceived opportunity for tax evasion indeed have an effect on Tax Compliance in Starehe sub-county. These findings are in line with Torgler and Schaltegger (2003) and Torgler, Schaltegger and Schanffner (2003), studies in United Kingdom (UK) in the 2003. Their finding established that long-run tax compliance rises if the possible tax amnesty is subjected to a popular vote, regardless of whether the amnesty is passed or rejected. However, Torgler, Schaltegger and Schanffner (2003) also find that the anticipation of a future tax amnesty has a negative effect on tax compliance.

The study also established that those in agreement with the popular statements that “I was induced to file returns which I have never declared” had a mean score of 4.87 and a standard deviation of 1.69. Those in agreement with the popular statements that “I was induced to always file my returns after tax amnesty had a mean of 4.41 and standard deviation of 1.32. This is an indication that their filing behavior changes as a result of tax amnesty other factors held constant. Thus the success of an amnesty is measured in terms of revenue yield and attracting participants and retaining them in the tax system in subsequent years. This is also in line with Fisher, Godderis and Young (1989), Joulfaian (1988) and Christian, Gupta and Young (2002) have made attempts to address the issue of retaining taxpayers in the tax system in subsequent years after tax amnesty. Further, analyzing the 1986 Michigan amnesty, Fisher, Godderis and Young (1989) find that most non-filers were out of compliance only for a single year prior to the amnesty, and that only a small number of taxpayers evaded large amounts of taxes over long periods of time. This finding has established that amnesties bring habitual evaders back into the system, providing substantial long-run revenue gains.

The study found that there was strong relationship between voluntary Tax compliance and Tax amnesty knowledge, Post amnesty enforcement and perceived opportunity for tax evasion on tax compliance. In order to determine the significance of the model, the processed data, had a significance level of 5% which shows that the data was ideal for making a conclusion on the population's parameter. From the findings the following regression model was established.

Voluntary Tax Compliance= 0.613 + 0.313 Tax Amnesty Knowledge + 0.427 Post amnesty enforcement efforts+ 0.388 perceived opportunity for evasion.

5.3 Conclusion

This research project was conducted in order to establish the effect of rental tax amnesty on tax compliance on individual taxpayers in Starehe sub-County. Amnesty is granted through law which is given to a class of tax payers to shield them from prosecution. A tax amnesty is supposed to be a reform measure to broaden the tax base and raise revenue collections by allowing taxpayers in default to correct their previously under-reported tax liabilities.

The study results also inferred that perceived opportunity for tax evasion has a significant effect on tax compliance. This is because through opportunity, induced opportunity to cheat increased non-compliance regardless of whether the participants actually intended to be non-compliant or not.

Based on the findings of this research, this research concludes that, there is a strong relationship between voluntary Tax compliance due to tax amnesty knowledge, Post amnesty enforcement and perceived opportunity for tax evasion. The association is positive with regards to tax amnesty knowledge, post amnesty enforcement effort and perceived opportunity for tax evasion. Amnesties have become increasingly popular with passage of time but there is very little systematic empirical evidence on why tax administrations often result to tax amnesties and how amnesties have impacted on Tax compliance. This research has explored this and empirical results indicate that amnesty adoption depends systematically on array of economic, fiscal and political influence. It is also anticipated that in the advent of County Governments which are semi-autonomous, that they will resort to amnesty to improve their revenue. This in effect therefore creates potential areas of research to provide more empirical evidence on productivities of amnesties.

5.4 Limitations of the Study

Tax amnesty and compliance is a wide concept, and due to constraints in time and resource availability, the research focused specifically on the effect of rental tax amnesty on Tax compliance.

Primary data was collected from the landlords and landladies whose compliance is under review by Kenya Revenue authority. The study was also limited to the degree of precision of the data obtained from the primary data. Tax amnesty research needs to be taken with a lot of caution as there may be other factors which influence Tax compliance which might not be captured in the study.

The model may not be reliable due to some shortcoming of the regression models. Due to the shortcomings of regression models, other models can be used to explain the various relationships between the variables.

Further the fact that tax amnesty in Kenya has only declared twice in the recent past and therefore a new concept in tax revenue management may be hindrance to draw conclusion for the effect of rental tax amnesty on tax compliance on individual taxpayers in Starehe sub- County. For further development of empirical evidence on the effect of rental tax amnesty on tax compliance on individual taxpayers ought to be carried after repeated amnesties within a spell of time.

5.5 Assumptions of study

The study assumed that all the respondents' participants gave truthful and honest answers. Also the study assumed that all the data collected had a normally distribution.

5.6 Recommendation

In the light of the major findings of this study and the above conclusion, the following recommendations are suggested:

Tax amnesty knowledge, Post amnesty enforcement and perceived opportunity for tax ecasion has significant effect on the success of tax amnesty. Therefore, there should be continual education of tax payers to ensure that they are aware and practice tax laws put in place, strict enforcement measures in order to ensure compliance.

5.7 Areas for Further Research

As a result of the above mentioned limitations the researcher identified the following areas as areas of further researcher. It will be necessary for a study to be carried out on the long-term effect of repeated amnesties in Kenya which other researchers may build on to provide further empirical evidence on effectiveness of tax amnesty on tax compliance.

Further, in the recent past, we have seen the various Local Authorities in Kenya declare amnesties to collect land rates and rents. It is further expected that in the advent of County Governments in Kenya that amnesties will become more popular and frequent to improve revenue collection as the case has been in the US for the various states. This presents further opportunity for local research to provide empirical evidence on this.

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Appendix I: Letter of Introduction.

Jacintah Mumo Francis,
P.O Box 79661-00200,
NAIROBI.
20th July, 2018.

Dear Sir/Madam,

RE: REQUEST FOR DATA COLLECTION

In partial fulfilment of the requirements of Post Graduate Diploma in Tax Administration, at Jomo Kenyatta University of Agriculture and Technology i am undertaking an academic research on “The effectivess of rental Tax Amnesty in enhancing voluntary Tax Compliance”.

I am in a process of gathering data through a questionnaire that will be used in the study. The questionnaire has been designed to capture the views and information from target respondents for the purpose of this study. The information given by the respondent shall be handled in strict confidentiality.

I humbly request you to spare a few minutes of your time to answer the following questions as objectively as possible. I would also like to thank you in advance for taking part in assisting me to complete my course in Tax Administration.

I appreciate the assistance and cooperation..

Sincerely

____

Appendix II: Questionnaires.

Instructions: Please read the questions and answer them either by filling in the blank spaces or ticking the check boxes [/] or tables

Section A: General information.

1. What is your gender?

Male [ ] Female [ ]

2. What is your highest level of education?

Primary School [ ] Secondary school [ ] Tertiary education [ ] University education [ ]

Others (Specify) ___________________________

3. Do you have a tax compliance certificate?

(i) Yes [ ] (ii) No [ ]

4. Are you aware of KRA tax amnesty?

a) Yes ( )

b) No ( )

5. Has KRA tax amnesty campaign made you file your tax return promptly?

a) Yes ( )

b) No ( )

If no give the reasons

____

6. Has KRA tax amnesty campaign made you not your file tax return?

a) Yes ( )

b) No ( )

If yes give the reasons

7. Tax Amnesty and Voluntary Tax Compliance.

KRA issued pamphlets, newsletters and posted messages on the KRA web site. Please rate the extent to which you reacted to the following statements with regard to the publicity by KRA tax amnesty. Where 1= Strongly Disagree 2= Disagree 3= Neither agree nor Disagree 4= Agree 5= Strongly agree.

	5	**4**	**3**	**2**	**1**
The tax amnesty message induced me to pay back tax arrears					
The amnesty was an incentive to me					
I was induced to file returns which I have never declared					
I informed others about tax amnesty					
I was induced to always file my returns after tax amnesty					
I was pressured by the tax amnesty deadline to file return					
I was induced to pay more tax arrears					

8. Taxpayer's tax amnesty knowledge and information.

KRA issued pamphlets, newsletters and posted messages on the KRA web site. Please rate the extent to which you reacted to the following statements with regard to the publicity by KRA tax amnesty. Where 1= Strongly Disagree 2= Disagree 3= Neither agree nor Disagree 4= Agree 5= Strongly agree.

	5	**4**	**3**	**2**	**1**
Was the literature readily available					
The tax amnesty literature was understandable					

Tax amnesty literature was educative					
The tax amnesty literature was customized i.e. addressed my needs.					

9. Post amnesty enforcement effort.

After receiving the tax amnesty message: TAX AMNESTY NO PENALTIES; NO INTEREST, NO FINES; FILE YOUR UNDECLARED TAXES. Please rate the extent to which you reacted on the following statements with regard to KRA tax amnesty. Where 1= Strongly Disagree 2= Disagree 3= Neither agree nor Disagree 4= Agree 5= Strongly agree.

	5	**4**	**3**	**2**	**1**
The tax amnesty message about penalties induced me to file and comply.					
If I do not participate in amnesty, the penalties and fine are very punitive if caught.					
The rate penalties influence me not either comply or not to comply with tax payment					
The consequences of not participating could be such that if I am caught later, I could get a stiffer punishment than before.					
Strict enforcement measures encourage voluntary compliance					

10. Perceived opportunity for tax evasion

KRA convened press conferences, interviews, press releases, corporate events, lobbying, public services and reports. Please rate the extent to which you reacted to the following statements with regard to publicity by KRA tax amnesty. Where **1** Strongly Disagree 2= Disagree 3= Neither agree nor Disagree 4- Agree 5 Strong agree.

	5	4	3	2	1
Since the supporting documents do not need to be sent to the KRA, I can manipulate the figure in the tax return					
If detected not reporting my exact income, I believe that the tax authority is tolerant towards my offence and most probably, it will escape without any punishment.					
If I don't report my exact rental income during the amnesty, I believe the tax authority has limited capability to investigate					
Tax officers are corrupt					
Low probability of detection					

12. As a taxpayer, indicate any challenges you face when dealing with tax matters.

____

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THANK YOU FOR YOUR COOPERATION.