FACTORS AFFECTING CAPITAL GAIN TAX ADMNINISTRATION AMONG TAXPAYERS IN KILIFI COUNTY

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A RESEARCH PROJECT REPORT SUBMITTED TO THE DEPARTMENT OF TAX ADMINISTRATION IN THE KENYA SCHOOL OF REVENUE ADMINISTRATION IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE POSTGRADUATE DIPLOMA IN TAX ADMINISTRATION

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DECLARATION

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

…… ……..…..……

Signature Date

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HDB336-C016-2400/2016

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

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DEDICATION

I take this chance to dedicate this research work to my parents for their heartfelt, selfless support in all material financial, moral and spiritual aspects that have seen me through to my present level of education. Special dedications shall as well go to my sibling for her dedicated prayers and the trust she have bestowed in me with respect to my academic undertakings.

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My greatest appreciation goes to God for giving me life to pursue a career course in the organization. My appreciation also goes out to my supervisor, Mr.Andrew Sululu, for his guidance and encouragement throughout my entire learning period. To the lecturers who made it possible for me to achieve in tax administration. My classmates who have been dedicated through the discussion groups, their work experience into learning and their continuous moral support to enable each one of us complete the course work.

TABLE OF CONTENTS

LIST OF APPENDICES

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS AND ACRONYMS

CBO	Congressional Budget Office
CGT	Capital Gain Tax
KRA	Kenya Revenue Authority
KNBS	Kenya National Bureau of Statistics
US	United States of America

DEFINITION OF TERMS

Capital Gain Tax - refers to the tax indictable on the gains that accrue to a company or an individual on the transfer of investment shares and property (land, buildings and marketable securities) situated in Kenya (Kenya Revenue Authority, 2015)

Compliance Costs - are those costs sustained by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given structure and tax level (Allingham & Sandmo, 2012).

Lock in Effect - assumes that owners of securities or properties will hold on to them and forgo underlying benefits of transferring due to switching costs incurred (Ricardo & Eros 2011).

Switching Costs - The onetime costs that are incurred while transferring property of securities (Burnham, Frels & Mahajan, 2013)

Tax Knowledge- Taxpayers' capability to comprehend the laws and regulations of taxation, and their ability to conform (Singh, 2013)

ABSTRACT

Globally many countries depend on taxes as a nuclear of revenue generation for economic development and growth. Capital Gain Tax (CGT) refers to the tax chargeable on the gains that accrue to an individual or a company on the transfer of property situated in Kenya. The capital gain tax was first introduced in Kenya in the year 1975. However, in the year 1985, the tax was suspended.The Kenya Finance Act 2014 re-introduced a 5% Capital Gains Tax in Kenya, a move geared towards generating revenue. This tax system has encountered rigid resistance from investors and lawyers among others. Those parties differing with the capital gain taxes talk of its negative impacts to the investors and the overall Kenyan economy. There is need to shed more light on the factors affecting capital gain tax administration. The current study sought to find out the factors affecting capital gain tax administration among taxpayers in Kilifi County. This study was anchored on three theories namely; Lock – in effect theory, Gordon-Li Model and Economic Deterrence Theory; and aimed at achieving the following specific objectives; To examine the effect of switching costs on capital gains tax administration among taxpayers in Kilifi County; To determine the effect of tax knowledge on capital gains tax administration among taxpayers in Kilifi County; and to establish the effect of compliance costs on administration of capital gains tax among taxpayers in Kilifi County. The research used a cross-sectional survey design with a target population consists of 547 taxpayers with the capital gains tax obligation in Kilifi County, with a sample of 164 taxpayers being drawn from the list of taxpayers. Data from the respondents was collected using a questionnaire and analysis undertaken using SPSS v22. Multiple regressions served as the test and metric of the relationship existing between the dependent and independent variable. The research established that switching costs, tax knowledge and compliance costs are positively related, .535 .474, .591, with the capital gains tax administration. The analysis on multiple regressions indicated that the predictor variables chosen for the research were sufficient. Moreover, there is positive influence of the predictor variables on the dependent variable capital gains tax administration. Subsequently, the predictor variables of Switching costs, Tax Knowledge and Compliance costs influenced the Capital gains administration within Kilifi County. The study recommends a reduction in compliance costs and enhancement of tax education campaigns by KRA to grow knowledge among taxpayers.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Globally many countries depend on taxes as a nuclear of revenue generation for economic development and growth. Capital Gain Tax (CGT) refers to the tax actionable on the gains that accrue to a company or an individual on the transferral of property situated in Kenya (Kenya Revenue Authority, 2015). The Income Act of Kenya, in the eighth schedule, describes properties to mean buildings, marketable securities, and land. Ricardo and Erosa (2011) argue that the impact of CGT can be illustrated through the lock in effect and capitalization effect. The lock-in effect concept views the impact of capital gain taxes from the perspective of the seller. The theory discusses the impacts of capital gain taxes on the supply of properties. The lock-in effect measures how the CGT affects the supply of securities in the securities market.

Capital gains tax has beheld various historical metamorphoses over the years, both in magnitude and structurally for example exclusion of gains. Therefore, there is a need to concentrate on capital gains taxation on high-end persons with extensive gains. Various studies state that statutory capital gains tax rate is significantly higher than the true capital gains tax (Chay, Menkhoff, Loh & Evers, (2010); Graham, Rollet, Rice &Piégay., (2012)). Capital gains tax in Australia is only to be paid upon realized capital gains, except for given provisions relating to deferred-interest debt for instance zero coupon bonds. In Malaysia, the government legislated real property gains tax. This is charged on gains rising from the disposal of real property in Malaysia or of interest, options or other rights in or over such land and also the disposal of shares in real property companies. Since 1 January 2012, the gains realized in real property are taxed between 0% and 10% depending on the holding period.

In US, capital gains tax profits are not significant part of the tax income. For instance, between 2002 and 2007, the percentage of realized capital gains in relation to total income continues to surge from 3.67% to somewhat over 10%. A main decline in capital gains is the deductibility of capital losses. Conversely, the tax law enforces restrictions on the total of such losses that persons can decrease by so as to prevent taxpayers from generating artificial losses (Fjeldstad & Moore, 2010; Sikes &

Verrecchia, 2012). Aside from external tax considerations, investors will hasten realization of capital gains with their priorities being for expansion and liquidity (Hong & Stein, 2003); Zeng, 2009).

South Africa's capital gains tax as per the proposed budget of 2019 is as follows: Individuals and Special Trust at 18% ; companies at 22.4%; and other Trusts 36%. The events that trigger a disposal include a sale, donation, exchange, loss, death and emigration. The following are some of the specific exclusions: R2 million gain or loss on the disposal of a primary residence; most personal use assets; retirement benefits; payments in respect of original long-term insurance policies; annual exclusion of R40 000 capital gain or capital loss is granted to individuals and special trusts; small business exclusion of capital gains for individuals (at least 55 years of age) of R1.8 million when a small business with a market value not exceeding R10 million is disposed of; and instead of the annual exclusion, the exclusion granted to individuals is R300 000 for the year of death. (SARS, 2018)

No rate is applicable to capital gain resulting from sale or cession of immovable property in the republic of Burundi. This is because it is taxed together with business profits. The republic of Uganda's capital gains rate is at 30% on gains accrued after 1st of April 1998, anything prior to that date is not taxable. The chargeable assets include non-depreciable business assets, and gains arising from sale of shares in a private limited company - this applies even though such shares are not business assets such as for the individuals (EAC, 2018).

In Rwanda, capital gain resulting from sale or cession of commercial immovable property is charged at the rate of 30%; while capital gain on secondary market transaction on listed security is exempt. Nonetheless, in case of corporate reorganisation, the transferring company is exempt from tax in respect of capital gains and losses realised on reorganisation.. Re-organisation means; a merger of two or more resident companies; The acquisition or takeover of more than 50% or more of shares or voting rights, by number or value, in a resident company in exchange for shares of purchasing company; The contribution of 50% or more of assets and liabilities of a resident company by another resident company solely in exchange of shares in the purchasing company; Splitting of a resident company into two or more resident companies (EAC, 2018).

The Kenya Finance Act 2014 re-introduced a 5% Capital Gains Tax in Kenya since its suspension in 1985 through an amendment to the Eighth Schedule to the Income Tax Act. This action was aimed at encouraging investors in marketable securities and property. The most common capital gains are realized from the sale of stocks, bonds, precious metals and property. For tax purposes, it is important that a distinction be made between realized and unrealized gains. A gain is not realized till the security that has appreciated is sold.

Taxation of capital gains is on a realization basis, which consequently creates lock-in. This is where the individuals delay selling investments which have large unrealized gains so as to avoid the tax to be charged. Thus, people hold assets for an extended period hence forgoing the beneficial diversification prospects. Disputably, the special treatment of capital gains revenue controverts tax equity principle, which suggests that all capital gains and ordinary income should be taxed at similar rates. It becomes noticeable if one studies the tax handling of the 'carried interest' section of the reward package of hedge fund managers. In actual fact, the Congressional Budget Office approximations are that the treasury would make over twenty billion dollars additional tax revenue between 2012 and 2021 when 'carried interest' is treated as ordinary income and taxed at ordinary income rates (CBO, 2011).

The consequences of capital gains taxation on equity dealings are twofold: a demand-side capitalization effect and a supply-side lock-in effect. Though some research have shown that the net tax rate change on asset prices is unclear, capital gains tax rate reduction have shown that the switching and capitalization costs affect assets transaction. Dammon, Spatt and Zhang (2009) contended that anticipation of a decrease in capital gains tax rate would prompt a state where capitalization effect would dominate the lock-in effect, as buyers respond to information that there will be lower CGT rates in the future. On contrary, the lock-in effect would dominate the capitalization effect after the rate reduction actually became effective.

Two schools of thoughts have come up with different views on capital gains tax. One states that talks of capitalization effect of taxes where investors demand a lower price to buy the assets if they foresee that they will pay capital gains in later (Landsman & Shackelford, 2008). Other school of thought have argued that, capital gains tax increase prices on both stock price and returns on current stock (Thomas & Hwang, 2007), this

reaction is referred to as lock-in effect where investors call for higher prices to sell assets if they have to pay taxes on selling them. However, Graham, et.al (2012) in his contribution on capital gains tax states that the effects of capital gains tax to an investor is still unclear and continue to gives a conflicting results.

1.2 Statement of the Problem

The capital gain tax was first introduced in Kenya in the year 1975, and then came its suspension in the year 1985 so as to as to attract investment in the securities market and the real estate sector. Various attempts to reintroduce CGT as one of the methods the government wanted to apply with the aim of widening the tax base so as to meet the deficit in the budget. These attempts were however futile (Ernst & Young, 2014). Though the tax system was finally reintroduced in 2015, it still faced rigid resistance from the investors and lawyers among others, their reasons being it would negatively impact the investors and the whole Kenyan economy. According to Ndunyu (2015), the parties opposing this tax system questioned the manner of its reintroduction. There were claims of ambiguity in the enabling Act, lack of proper stakeholders' participation and consultation, and claims of insufficiency of rules and regulations guiding its administration.

Researchers have conducted studies with regards to capital gains tax and its relation to various sectors of the economy. Ngaruiya (2012) conducted a research in Kenya investigating the effect of capital gains tax on investments and securities at Nairobi securities exchange, and he observed a negative correlation between the capital gains tax of the traded shares and the number of traded stock. Rukungu's (2015) study on how asset allocation of investment groups in Nairobi are affected by the capital gains tax concluded that capital gains compliance costs do not affect asset allocation decisions by investment groups. Blair (2014) on the other hand denoted that capital gains tax together with dividend taxes and income tax greatly determines the investors' income after tax.

From the above, it was clear that capital gains tax is a crucial factor in determining the wealth and profit of the investors. This therefore provided a need to conduct a study to find out the factors such as switching costs, tax knowledge and compliance costs influence the administration of the capital gains tax among taxpayers in Kenya, with its focus being Kilifi County in the Southern region of Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to find out the factors affecting capital gains tax administration among taxpayers in Kilifi County.

1.3.2 Specific Objectives

The study aimed to achieve the following specific objectives;

i) To determine the effect of switching costs on capital gains tax administration among taxpayers in Kilifi County
ii) To examine the effect of tax knowledge on the administration of capital gains tax among taxpayers in Kilifi County.
iii) To find outthe effectof compliancecosts oncapital gains tax administration among taxpayers in Kilifi County

1.4 Research Questions

The study was guided by the following research questions;

i) To what extent do switching costs have on the capital gains tax administration among taxpayers in Kilifi County?
ii) Does tax knowledge have an influence on capital gains tax administration among taxpayers in Kilifi County?
iii) How do the compliance costs affectcapital gains tax administration among taxpayers in Kilifi County?

1.5 Significance of the Study

The study would useful to the Kenyan government, Kenya Revenue Authority and Treasury in formulating policies regarding capital gains taxes. These policies would guide and provide avenues for the Kenya Revenue Authority to expand the tax base, consequently increasing revenue that would be used by the national government to fund its projects. The outcomes of this study would be relevant to other agencies such as the Capital Markets Authority and the Nairobi Securities Exchange in making decisions relating to the regulation of the financial services sector and participation in the securities exchange market. Additionally, the investors participating in the securities exchange would gain from the research as it sought to provide depth knowledge of the capital gains tax, hence benefit them in their financial decisions.

This study would also be useful to the taxpayers mostly the property owners since they will be able to understand more on the need of paying taxes when there is transfer of property. In addition the study would benefit to future researchers and scholars by adding content to the existing body of knowledge about the administration of capital gains tax among taxpayers.

1.6 Scope of the Study

The study was confined on examining factors affecting capital gains tax administration among taxpayers. The geographical scope of the study was Kilifi County. The study specifically examined the effect of switching costs, tax knowledge and compliance costs.

1.7 Limitations of the Study

The research was restricted by the factors such as limited time needed to collect data. The researcher however counteracted this by ensuring the data collection instruments are simple, precise and valid so as to ensure efficient and effective data collection process. Another factor was the lack of funds hence a budget was formulated with the intention of fitting the research process within the funds available.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature that will help inform the study as well as shed light on capital gains tax. The main sections included therein are; theoretical framework,conceptual framework, review of factors affecting capital gain tax administration, critique of existing relevant literature, research gap and summary.

2.2 Theoretical Review

Theoretical framework is the basis on which the whole study is based and where there is clarification of theories. Therefore, any hypothesis concerning the type of the occurrences is explained in the theoretical framework. Therefore, this study was based on three theories namely the Lock-in-effect theory, Gordon-Li model and Economic deterrence theory.

2.2.1 Lock In Effect theory

Lock in effect theory assumes that owners of securities or properties will hold on to them and forgo underlying benefits of transferring due to switching costs incurred. The Lock In Effect theory considers the seller as the main decision maker on whether to hold or sell the securities or property. The sales from properties or securities impacts on the capital gain tax of any tax collection authority. Lock-in effect theory is closely related to transaction cost economics. Ricardo and Eros (2011) highlighted that where capital gain taxes were high, people were hesitant to sell their securities because there would be an increase in transfer costs leading to decrease disposable gains from the sale of the securities.

In addition to increase in cost of transfer that contributes to lock in effect, Jones (2010) noted that the CGT also contributed to the increase in cost of portfolio rebalancing. Jones (2010) noted that those who were holding securities were reluctant to sell them and buy other securities since they did not want to incur the high cost of portfolio rebalancing caused by CGT. Therefore, CGT leads to the lock in effect hence reducing the supply of securities in the market.

2.2.2 Gordon-Li Model

Gordon and Wei Li came up with the tax enforcement theory based on 1990s' experiences of the Chinese government. At time, the Chinese government experienced challenges in collecting rational revenue from small and medium sized businesses. Most of the collected taxes were attributed to larger firms which were mostly owned by the state. Due to this reason, a model was formulated to justify the Chinese government failure to collecting reasonable taxes from the small and medium organization (Gordon & Li, 2009).

Cash transactions which create loopholes for tax evasion was most relied mode of payment by small and medium enterprises and this caused a reduction of the tax base. Gordon & Li (2009) stresses that by utilization of financial sector by businesses; taxes can be smoothly administered since there are records on the transactions. The theory also provides that the large sized businesses will value more regarding the use of finance sector because of the expected benefits (Gordon & Li, 2009). The Gordon-Li theory was imperative in the research as it aided in identifying the factors affecting capital gain tax administration since tax is imposed on the taxpayers.

2.2.3 Economic Deterrence Model

Economic Deterrence Model can be attributed to Cesare Beccaria in the year 1762 who came up with deterrence theory, which affirms that violations can be reduced via the employment of deterrents. This model assumes that factors which determine whether someone will pay underlying taxes include the tax rate and penalties for fraud and probability of detection. This in turn establishes the benefit of tax derived from the tax rate while the cost is derived from evasion via fraud. The model assumes that individual taxpayers are rational agent of the economy and therefore, they evaluate the costs versus the benefits of evading taxes. If the costs of noncompliance were lower than its benefit, they choose not to pay (Walsh, 2012).

The economic definition of taxpayer compliance views taxpayers as 'perfectly moral, risk neutral or risk-averse individuals who seek to maximize their utility, and chose to evade tax whenever the expected gain exceeded the cost. This theory is used to explain whether holder of securities or property will pay or evade paying capital gains tax on sale of the properties or securities.

2.3 Conceptual Framework

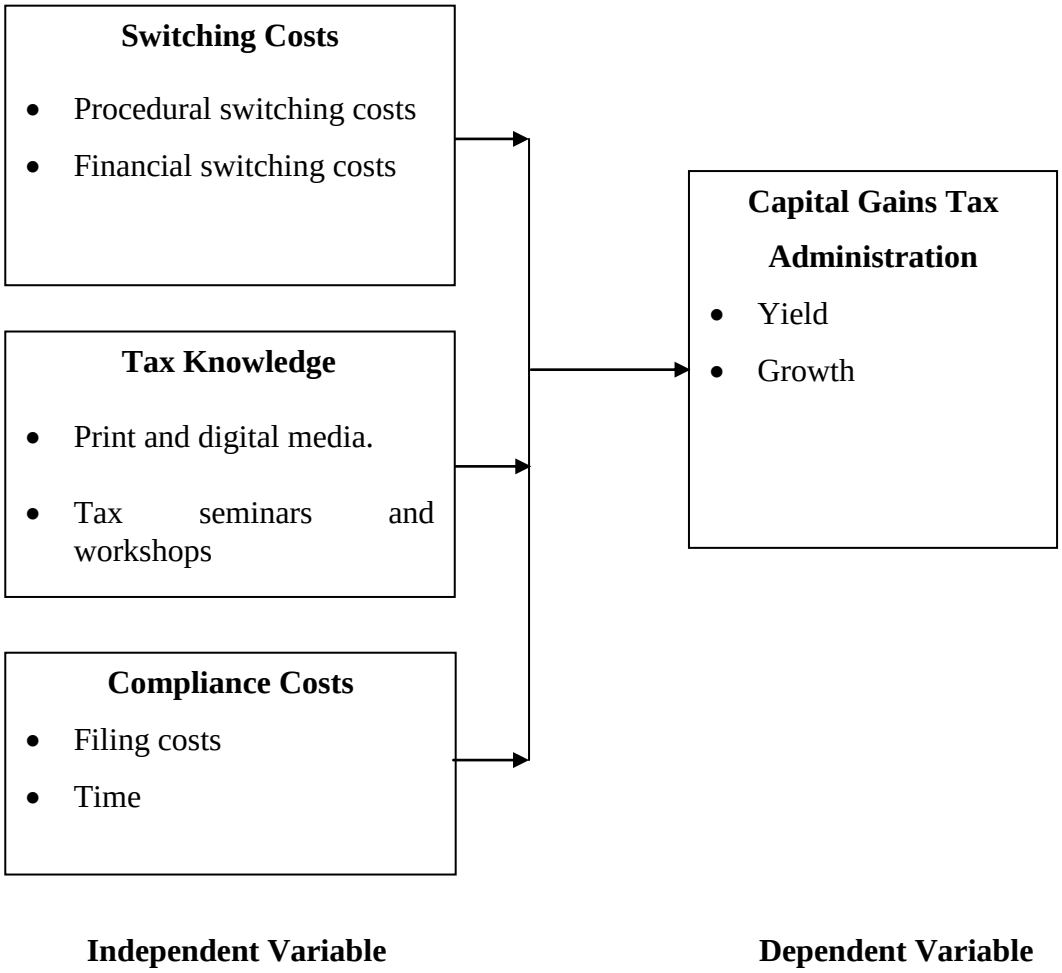

Figure 2.1 Conceptual Framework

2.4 Review of the Variables

2.4.1 Switching Costs

The switching costs are the onetime costs that are incurred while transferring property of securities. According to Burnham, Frels and Mahajan (2013), there are three types of switching costs namely procedural, financial and relational switching costs. Procedural switching costs include the expenditures of effort and time and comprise of economic risk such as performance, financial and convenience risks, learning and set up costs. Financial switching costs involve the loss of financial quantifiable resources such as benefit loss costs and monetary loss costs. Lastly, the relational switching costs include loss of identity and breaking of relationship bonds (Burnham, Frels& Mahajan, 2013).

These costs may cause the lock in effect which occurs when the sellers or owners of a property are reluctant to sell their securities or assets, in that the tax payers or investors delay selling their assets or securities that have accrued gains as a way of avoiding the payment of the taxes. They end up holding on these assets for long and foregoing any opportunities that would have resulted from the transferring of the assets or investments. Some of the taxpayers might unconsciously decide to not transfer their assets while avoiding the capital gains tax. Ricardo & Eros (2011) observed that the lock in effect reduces growth in economy as well as blocking the shifting of resources. The lock in effect also hinders the amount of revenue collected from the transferred assets between the taxpayers. The switching costs such as increased transactional costs due to the taxes to be paid causes the lock in effect in that when there is higher cost incurred to transfer an asset, the traders or investors will hold on since it reduces their profits.

2.4.2 Tax Knowledge

Tax knowledge can be defined as taxpayer's level of knowledge towards tax law and regulations. Level of taxpayer's knowledge is determined by knowledge in relation to issues of rebate, relief, tax returns and deduction from different taxpayer category of joint assessment, business and self-employed (Susanti, 2007). Taxpayer knowledge is concerned with the taxpayers' ability in understanding tax laws, the willingness to comply and the role of taxes in national development (how tax collected by the government is utilized) (Palil, 2012). Taxpayer education activities are meant to enhance the level of taxpayer understanding of the tax systems and empower taxpayers in fulfilling their tax obligations.

The aspect of tax understanding which is knowledge of the tax system, awareness of tax obligation and availability of information, in relation to tax compliance is the understanding about tax laws and opportunity available for tax evasion (Kasipillai et. al., 2010). Being a key determinant in tax compliance, knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply (Singh, 2013).

On compliance opportunities may be readily available to educated taxpayers but because of their better understanding of the tax system contributes towards positive attitudes hence promoting tax compliance. Education programs create awareness of laws, procedures, motivates taxpayers to voluntarily comply, report correct income, and

maintain a close relation between the revenue authority & the taxpayer and instil confidence in the tax system, teaching tax courses should be emphasized because of their impact on compliance (Hasseldine & Hite, 2011).

Taxpayer knowledge has influence on compliance and various researches support this argument. Knowledge is categorized on the basis ordinary or official education received and knowledge towards the opportunity to evade tax. Tax knowledge as one of the key factor in tax compliance has a very close relationship with the taxpayers' ability to understand the tax law & regulations, and their ability to comply (Singh, 2013). Taxpayer education exists to encourage voluntary compliance through service delivery to taxpayers. Low levels of voluntary tax compliance will compel revenue authority to use costly and coercive methods to enforce compliance (Fjeldstad & Moore, 2010). Hasseldine and Hite (2011) says that the education component will deal with compliance matters in the informal sector. This is premised on the possibility that non-compliance being unintentional due to the ignorance of the law.

2.4.3 Compliance Costs

These are costs incurred by taxpayers while meeting the requirements of the capital gain tax. Since Capital Gain Tax is the tax chargeable on the gains that accrue to an individual or a company on the transfer of property situated in Kenya. The capital gain tax was reintroduced in Kenya in 2015 after 30 years since it was scrapped, therefore knowledge and practice of this tax to many taxpayers, CGT was reintroduced at a rate of 5% in 2015, being lower than the rate initially contemplated in 1985.

Compliance costs are those costs sustained by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a certain structure and tax level (Allingham & Sandmo,2012). Some of the cost that is termed as compliance cost has been established as main challenge costs that are without doubt form part of the compliance costs with taxation conditions. Generally, they will include the costs of labour /time incurred to complete tax exercises like the time taken by a business owner to attain sufficient knowledge to deal with tax obligations, the expertise costs which are fees paid to professional tax advisers and miscellaneous expenses incurred in completion of tax requirements, including computer software, postage, travel (Holtzblatt, & McGuire, 2016).

2.4.4 Capital Gains Tax Administration

To enhance prompt administration and collection of C.G.T, enforcement which includes the use of fines and penalties is applied. A fine is a punishment or penalty imposed on an individual for any violation of law, (Radhakrishnan, 2013). In circumstances where a taxpayer fails to; settle the tax liability and keep proper records will be penalized. Effective application of fines and penalties can minimize cases of tax noncompliance.

Tax evasion is affected among other things by enforcement policies, such policies vary widely across countries. Empirical studies on the impact of fines on tax compliance do not provide a clear picture on the relation between fines and tax compliance (Fischer, Wartick, & Mark, 2009). Retributory penalties make tax evasion more costly for the taxpayer thereby leading to a decrease in tax evasion.

Some of the findings suggest that a policy based on deterrence is effective only in combination with frequent Audits (Kirchler, 2007) since it was observed that the effects were weaker than expected and some researches actually suggest that penalties increase could have adverse outcome resulting to tax avoidance (Kirchler, 2007).

As a behaviour issue, tax compliance depends on the cooperation of the public. From the tax administration viewpoint, researchers have determined that compliance could be swayed by enlightening taxpayers of their social responsibilities to pay and thus their intent would be to conform. There are larger gains in helping compliant taxpayers meet their fiscal obligations rather than spending more resources pursuing the minority of no-compliers.

Assisting tax payers by improving the flow and quality of information or education them for instance through media campaigns, so as to become more accountable citizens has the likelihood to return more revenue rather than spending on prosecution undertakings (Kirchler, 2007). Allingham and Sandmo's (2012) economic model has evidently shown that penalties and audit probability have an effect on tax compliance hence greater generation of revenue. The advanced the penalty and the probable audit, the more the hindrance for possible tax evasion.

2.5 Empirical Review

Aside from external tax considerations, investors will hasten realization of capital gains with their priorities being for expansion and liquidity (Zeng, 2009). Taxation of capital gains is on a realization basis, which consequently creates lock-in. This is where the individuals delay selling investments which have large unrealized gains so as to avoid

the tax to be charged. Thus, people hold assets for an extended period hence forgoing the beneficial diversification prospects. Disputably, the special treatment of capital gains revenue controverts tax equity principle, which suggests that all capital gains and ordinary income should be taxed at similar rates. It becomes noticeable if one studies the tax handling of the 'carried interest' section of the reward package of hedge fund managers.

Ngaruiya (2012) conducted a research in Kenya while investigating effect of capital gains tax on investments and securities at Nairobi securities exchange, and he observed a negative correlation between the capital gains tax of the traded shares and the number of traded stock.Rukungu (2015) did a study to investigate how asset allocation of investment groups in Nairobi are affected by the capital gains tax and concluded that capital gains compliance costs do not affect asset allocation decisions by investment groups. Blair (2014) on the other hand denoted that capital gains tax together with dividend taxes and income tax greatly determines the investors income after tax, therefore it is crucial for an individual to enhance his/ her own tax portfolio efficiency in asset allocation strategy.

2.6 Critique of Existing Literature Relevant to the Study

Studies done on taxation of capital gains have taken various approaches in terms of content scope, geographical scope and the research blueprint. Rukungu (2015) did a study to how asset allocation of investment groups in Nairobi are affected by the capital gains tax. The study adopted the modern portfolio theory, utility theory and prospect theory to investigate the effects of the newer capital gains tax in Kenya. It also adopted a descriptive design, having a sampled 32 respondents out of 108 incorporated investment groups. This resulted in the findings being that, capital gains compliance costs don't affect asset allocation decisions by investment groups. Further, the researcher noted existence of inverse relation capital gain tax liability and asset allocation decisions by investment groups.

Blair (2014) denoted that capital gains tax together with dividend taxes and income tax greatly determines the investors' income after tax, therefore it is crucial for an individual to enhance one's tax portfolio efficiency in asset allocation strategy. Ngaruiya(2012) investigated the influence that tax on capital gains had on securities and investments. This study adopted a comparative study whereby the researcher targeted a

population of 63 companies' shares listed on NSE. The study also relied on the secondary data and the researcher observed a negative correlation between the capital gains tax of the traded shares and the number of traded stock. Lau and Berlin (2014) investigated the capital gains tax effects on the Asset Pricing Model in Germany. The study focussed on investment companies and revealed from the study that the there was an inverse link between the demand of the securities and the capital gains taxation.

2.7 Research Gap

From the review of literature, majority of the researchers have studied the capital gains tax administration, internationally and locally. It is therefore evident that most of the studies conducted by the researchers focus on the effects of the CGT on the economy, investment or performance of a company. A report by ICPAK identifies Kenya to having a 5% implementation on the capital gains tax being the lowest in the East African Community partner states. Rukungu (2015) investigated to how asset allocation of investment groups in Nairobi are affected by the capital gains tax, while Ngaruiya (2012) investigated the effect of capital gains tax on investments and securities at NSE. Therefore, very few researches have been conducted to identify the factors that affect the Capital Gain Tax Administration. This research therefore aimed to bridge the gap from previous studies by investigating the factors that affect the capital gain tax administration among taxpayers in Kilifi County.

2.8 Summary

The review of the literature demonstrated in this chapter delivers a suitable foundation for the current study on factors affecting capital gain tax. The chapter discloses a range of important features that affects collection of capital gain tax. The analysis also pinpoints the major literature on factors affecting capital gains tax administration. The limitations of the existing literature in this field present an opportunity for this study to come up with possible beneficial knowledge of demographic and psychological factors, how they relate or affect capital gain tax.

The chapter closes with a commentary on the propositions of the current literature. This chapter develops a conceptual framework covering the criteria for an effective accommodation between switching costs, tax knowledge, compliance costs and administration of capital gain tax. The framework comprises of criteria required for the

achievement of capital gain tax in terms of tax base and the tax rate. These criteria will be used in the analysis and discussion of the research findings.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section describes the design of the study, target population, sampling outline, sampling design, methods of collecting data and information, pilot testing and analysis which is employed to achieve the research aims and objectives of this study.

3.2 Research Design

The research used a cross-sectional survey technique. A survey is a process of collecting data that represents the views of the whole community or group. This method was suitable because the population targeted is quite big and taxpayers with the capital gains tax obligation are scattered in different zones of the region. The cross-sectional survey method ensures the samples studied represent the whole population (KNBS, 2012). The survey allowed the collection of quantitative information, and well analyzed by descriptive statistics. The application of this survey was appropriate because it was fast, inexpensive and the response rates higher. (Kothari & Garg, 2014)

3.3 Population of the Study

The study population was made up of the taxpayers in Kilifi County. According to Mugenda and Mugenda (2008), says that the target population out to have features which can be described in order to make the researcher easily generalize the observations made. Therefore, the target population in this case was 547 taxpayers in the specified county, as these were the taxpayers who had submitted returns with regards to the capital gains tax.

3.4 Sampling Frame

A sampling outline, according to the DiGaetano (2013), is a combination of all the chosen participants of a population used as basis of selection for this study; the sampling frame was from a list of taxpayers in Kilifi County obtained from the KRA Malindi office.

3.5 Sample Size and Sampling Technique

Sampling entails the selection of part of the population that represents the characteristics of the entire group. Sampling is strategic in the sense that it saves on

time and cost since it is easier to deal with the small group (sample) that represents an entire population than analysing the whole group of interest. A section of 164 taxpayers will be drawn from the list of taxpayers with the capital gains tax obligation. This sample size will represent target population. According to Saunders (2009), a sample size of 30% is adequate for societal science study. The derivation of the sample is depicted in the table 3.1.

Table 3.1 Sample Size

Target Population	Sample Percentage	Sample Size
547 Taxpayers	30%	**164**Taxpayers

3.6 Data Collection Instrument

For this study, primary data was used. Questionnaires were administered to obtain the data on the following factors on the CGT administration; switching costs, tax understanding and compliance costs. The use of questionnaires in this study was resourceful as they assisted the researcher in getting first-hand information from the respondents in a timely manner. Additionally, this data collection instrument was relevant in helping maintain objectivity while at the same time covering a larger scope in the questions to be asked.

3.7 Data Collection Procedure

The researcher personally administered the questionnaires using the drop and pick method whereby the questionnaires were given out to the respondents for them to fill out. The researcher collected them at a later time for data analysis. This method enabled the researcher ensure that there was efficiency during data collection as it gave the respondents time to answer the questions.

3.8 Pilot Testing

Pilot testing refers to a minor study which is carried out so as to find out the most suitable data collection instrument , the cost of carrying out the study and the amount of time it can possibly take during the whole study and it is done right before the overall project.(Hulley, 2007).

3.8.1 Validity

The researcher examined the validity of the instruments, by issuing questionnaires to 16 taxpayers so as to check the questions measured what they were truly intended to measure. The number of taxpayers was based on Connelly' (2008) research on pilot studies that suggests that a 10% of the sample size is adequate.

3.8.2 Reliability

The reliability of the data collection tools were tested by applying the Cronbach's alpha (α) test. This was done to ensure that the indicators that made up the scale were consistent.

3.9 Data Analysis and Presentation

Edition for completeness and uniformity of received questionnaires was done. Both quantitative and qualitative data were generated. The descriptive analysis was used. A summary of the data collected was taken using frequencies and percentages under the descriptive statistics data and in the presentation of the study finding.

The SPSS version 22 was utilized to investigate the connection between the autonomous and reliant factors, considering the formula:

$$\mathbf{Y= B_0 + B_1X_I + B_2X_2+ B_3X_3+ Ɛ}$$

Where; Y = Capital Gains Tax Collection

$\mathbf{B_0}$ = Constant $\quad$ $\mathbf{Ɛ}$ = error term

$\mathbf{B_1}$ = Coefficient of variable 1 $\quad$ $\mathbf{X_1}$ = Switching Costs

$\mathbf{B_2}$ = Coefficient of variable 2 $\quad$ $\mathbf{X_2}$ = Tax Knowledge

$\mathbf{B_3}$ = Coefficient of variable 3 $\quad$ $\mathbf{X_3}$ = Compliance Costs

$\mathbf{B_0}$**, Y –** intercepts the constant the levels of social media when $\mathbf{X_1X_2X_3 = 0}$

$\mathbf{B_1B_2B_3}$ **-**Coefficients determining the levels of $\mathbf{X_1X_2X_3}$ on how they affect **Y**

Ɛ -Other factors not considered in this model but can affect the **Y** (tax administration)

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This section of the paper presents analysis of the collected data that seeks to find out the factors that affect capital gains tax administration among taxpayers in the County of Kilifi. Discussions of the analysis of variables are presented and the corresponding models after the analysis.

4.2 Response Rate

The response rate refers to the proportion of respondents who agreed to be part of the study and filled the provided questionnaires. The response rate is expressed as percentage of the total number of individuals in the sample. In the current study a total of 164 questionnaires were administered to the sample population and 151 questionnaires were filled and returned to the researcher giving a response rate of 92.1%. The minimum rate of response that is acceptable is 50% as discussed by Mugenda and Mugenda (2008) for a study to be sufficient. Such a response rate is acceptable for analysis and publication.

Table 4. 1 Response Rate for the Questionnaire

	Questionnaires Administered	**Questionnaires filled & Returned**	**Percentage**
Respondents	164	151	92.1 %

External research is limited in terms of response since the individuals sampled may be against such study or are not interested in taking part. Subsequently, the response rate cannot be 100%.

4.2.1 Reliability

The research instrument needs to be consistent in terms of production of results especially when subjected to a similar measurement criterion. The results of the data collected were tested using Cronbach alpha metric with an alpha value of 0.7 or beyond deemed sufficient as explained by Mugenda and Mugenda (2008).

Table 4. 2 Reliability Analysis

Variable	Test Items	Alpha Values
Switching costs	4	0.827
Tax Knowledge	4	0.789
Compliance costs	4	0.703
Capital gains tax administration	4	0.716

A pilot study was undertaken with a view of determining the reliability of the research instrument. The test study involved a section of respondents from Kilifi county taxpayers. Using cronbach alpha, the researcher was able to measure the internal consistency of the instrument. The table 4.2 shows that Switching costs had the highest alpha value (α= 0.827), followed by tax knowledge (α= 0.789), capital gains tax administration (α= 0.716), while compliance costs had the lowest at (α= 0.703). The values indicate that the study variables chosen are reliable since the alpha value exceeds 0.7.

4.3 Demographic Characteristics of the Respondents

A demographic analysis of the study respondents provides information on the gender, age, experience and occupation.

4.3.1 Gender

This segment illustrates the distribution of gender of the study respondents.

Table 4. 3 Distribution of Respondents by Gender Category

	Frequency	Percentage
Male	98	64.9
Female	53	35.1
Total	**151**	**100.0**

The data findings indicate that 64.9% of the study respondents were male while female respondents constituted 35.1%. The data indicates that most taxpayers in Kilifi County are male.

4.3.2 Age

The study sought to establish the age of the respondents and the findings were as illustrated below.

Table 4. 4 Spread of Respondents by Age

	Frequency	**Percentage**
18 - 25 Years	41	27.0
26 - 35 Years	65	43.2
35-45 Years	37	24.3
Above 45 Years	8	5.4
Total	**151**	**100.0**

It was observed that a significant majority of the respondents were between the ages 26 to 35 with those below 25 years of age representing the second largest population at 27%. The respondents of age 35 to 45 constituted 24.3% while those above 45 years were 5.4% of the respondents.

4.3.3 Length of Business Operations

The study sought to find out the length of time respondents businesses had been in operation.

Table 4. 5 Length of Business Operations of the Respondents

	Frequency	**Percentage**
0-5 Years	98	64.9
6-10 Years	33	21.6
11-15 Years	12	8.1
16 Years and above	8	5.4
Total	**151**	**100.0**

The findings illustrate that a majority of businesses have been in operations for the past 5 years. The second category is for the businesses that have been operating for 6 to 10 years while the least number of years for any business is 16 years and above.

4.3.4 Level of Education

The questionnaire posed the question of level of education of the respondents and the findings are presented in the table below.

Table 4. 6 Level of Education

	Frequency	**Percentage**
College Diploma	29	18.9
Degree	106	70.3
Postgraduate	16	10.8
Total	**151**	**100.0**

The findings indicate that a majority of the respondents are degree holders at 70.3%. College diploma holders are the second populous while postgraduate taxpayers are few.

4.4 Descriptive Findings and Discussions

This section of the research provides the perspective and opinion of the study respondents in regards to switching costs, tax knowledge, compliance costs and capital gains tax administration.

4.4.1 Effect of Switching Costs on Capital Gains Tax Administration

Table 4. 7 Descriptive Statistics for Switching Costs

	n	**Min**	**Max**	**Mean**	**Std. Dev**
Increased transfer and evaluation costs due to taxes affect the capital gains tax administration	151	2	5	4.49	.69
Benefit loss costs cause taxpayers to hold onto their property.	151	1	5	4.10	.965
Monetary loss costs cause a reduction in the revenue collected from Capital Gains Tax	151	1	5	3.51	1.07

Switching costs include performance and financial risk costs which cause a reduction of the taxpayers' profits	151	1	5	3.12	1.17

The table 4.7 shows that the respondents were in agreement with the statements increased transfer and evaluation costs due to taxes affect the capital gains tax administration; benefit loss costs cause taxpayers to hold onto their property; and Monetary loss costs cause a reduction in the revenue collected from Capital Gains Tax (mean ≈ 4.00; std dev ≈ 1.000). On the other hand, the respondents disagreed with the statement 'Switching costs include performance and financial risk costs which cause a reduction of the taxpayers' profits.' The findings correlate with the research undertaken by [Ricardo & Eros, 2011; Burnham , et al., 2013). Switching costs affect the taxpayers behaviour towards capital gains tax administration.

4.4.2 Tax Knowledge

The study sought to find out the effect of tax knowledge on capital gains tax administration.

Table 4. 8 Descriptive Statistics for Tax Knowledge

	n	Min	Max	Mean	Std. Dev
I attended various sessions of tax training organized by the Kenya Revenue Authority	151	1	5	3.76	1.01
Access to information regarding capital gains tax is challenging	151	1	5	3.41	1.12
I obtain information from the KRA website and offices	151	2	5	4.11	.61
Practical information on brochures and tax Acts that I fail to understand	151	1	5	4.19	.81

The illustrated data shows that the respondents concurred (mean ≈ 4.00; std dev ≈ 1.000) with the section statements that I attended various sessions of tax training organized by the Kenya Revenue Authority; I obtain information from the KRA website and offices and Practical information on brochures and tax Acts that I fail to

understand. On the other hand, the respondents disagreed with the statement access to information regarding capital gains tax is challenging. The findings correlate with those of Hasseldine and Hite (2011) in regards to the role of tax education programs in enhancing knowledge of tax laws and obligations by taxpayer.

4.4.3 Compliance Costs

The respondents' opinion on compliance costs was sought and the data findings presented in the table 4.9.

Table 4. 9 Descriptive Statistics for Compliance Costs

	n	Min	Max	Mean	Std. Dev
I keep proper records and file my returns as per the law	151	1	5	3.59	1.01
I remit my taxes in a timely manner	151	1	5	2.86	1.06
Increased charges by tax professionals and other experts on services poses a challenge in filing capital gains tax	151	1	5	3.37	1.13
The online tax system will enhance compliance on tax tolerantly	151	1	5	3.57	.90

The respondents indicated agreement with the statements (mean ≈ 3.5; std dev ≈ 1.000) I keep proper records and file my returns as per the law; Increased charges by tax professionals and other experts on services poses a challenge in filing capital gains tax, and that the online tax system will enhance compliance on tax tolerantly. On the other hand, the respondents disagreed with the statement I remit my taxes in a timely manner (mean = 2.86; std dev = 1.06). The results correlate with the findings of Holtzblatt, and McGuire (2016) on the important influence of compliance costs such as expertise costs and their significant impact on taxpayer behaviour.

4.4.4 Capital Gains Tax Administration

In regards to the statements on capital gains tax administration, the respondents agreed (mean ≈ 4.00; std dev ≈ 1.000) with statements there has been growth in the capital gains tax collection; There has been improvement in the administration of the capital

gains tax; Collection rate of the capital gains tax is higher than that of other taxes and Fines and Penalties are applied if one fails to remit the tax.

Table 4. 10 Descriptive Statistics for Capital Gains Tax Administration

	n	Min	Max	Mean	Std. Dev
There has been growth in the capital gains tax collection	151	2	5	4.24	.76
There has been improvement in the administration of the capital gains tax	151	1	5	3.54	.84
Collection rate of the capital gains tax is higher than that of other taxes	151	2	5	3.81	.70
Fines and Penalties are applied if I fail to remit the tax	151	1	5	3.56	.87

4.5 Correlation Analysis

A correlation analysis was undertaken with a view of establishing the association of independent variables and the dependent variable. The analysis involves coefficient of correlation and determination.

4.5.1 Coefficient of Correlation

The correlation coefficient aids in determining the association between identified study variables. In the current study the Pearson's coefficient of correlation –r- is used and the findings tabulated in the table 4.11.

Table 4. 11 Coefficient of Correlation

	Switching costs	Tax Knowledge	Compliance costs	Capital gains tax
Switching costs	1			
Sig. (2-tailed)				
Tax Knowledge	.689**	1		
Sig. (2-tailed)	.000			
Compliance costs	.691**	.616**	1	
Sig. (2-tailed)	.000	.000	.000	
Capital gains tax	.535**	.474**	.591**	1
Sig. (2-tailed)	.000	.000	.000	

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

According to table 4.11, there is a positive correlation that exists between the study independent variables; switching costs, tax knowledge, compliance costs and the dependent variable capital gains tax administration. The positive findings are based on the 'r' value of 0.535, .474, .591 for switching costs, tax knowledge and compliance costs. The results imply that switching costs has a strong positive influence on capital gains tax administration. Tax knowledge has a moderate positive influence on capital gains tax administration. Finally, Compliance costs have a strong positive influence on capital gains tax administration within Kilifi County.

4.5.2 Model Summary (Coefficient of Determination)

The study used the SPSS software to compute a multiple regression analysis whose aim was to check the influence or effect of the predictor variables. Subsequently, the findings are presented in table 4.12

Table 4. 12 Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.774a	.600	.591	2.304

a. Predictors: (Constant), switching costs, Tax knowledge, Compliance costs.

Table 4.13 shows the correlation existing between the study independent variables and the dependent variable was strong at (R= 0.774). The adjusted R^2 indicates that 59.1% variation of the dependent variable is as a result of the study independent variables switching costs, tax knowledge and compliance costs. The remaining 40.9% variation can be explained by other variables not under the current study. Cooper and Schindler (2013) posit that R^2 of values 0.1- 0.2 is sufficient when undertaking a study.

Table 4. 13 ANOVA

Model		Sum of Squares	Mean Square	F	Sig.
1	Regression	1168.383	389.461	73.351	.000b
	Residual	780.505	5.310		
	Total	1948.887			

a. Dependent Variable: Capital gains tax administration

b. Predictors: (Constant) switching costs, Tax knowledge, Compliance costs.

Table 4.13 illustrates the study findings on analysis of variance and the indication is that switching costs, tax knowledge, compliance costs have a significant influence on the capital gains tax administration (F= 73.351) with the p-value 0.000. The p-value obtained from the model is lower than 0.05 and this implies that there is statistical significance with the model in terms of predicting capital gains tax administration. The ANOVA results indicate that the independent variables Switching costs, Tax knowledge

and Compliance costs are statistically significant in determining the behaviour of capital gains administration within Kilifi.

4.6 Multiple Regressions

Multiple regressions analysis was undertaken with a view of determining the association between capital gains tax administration and the three independent variables switching costs, tax knowledge, and compliance costs.

Table 4. 14 Multiple Regression Analysis Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.526	1.240		2.036	.043
	Switching costs	.442	.074	.401	5.961	.000
	Tax knowledge	.364	.072	.369	5.031	.000
	Compliance costs	.088	.046	.127	1.930	.056

a Dependent Variable: Capital Gains

Table 4.14 illustrates the results obtained from the multiple regression analysis. The model adopted is presented below:

$Y= B_0 + B_1X_I + B_2X_2+ B_3X_3+ Ɛ$ Where

Where; Y = Capital Gains Tax Administration

B_0 = Constant $Ɛ$ = error term

B_1 = Coefficient of variable 1 X_1 = Switching Costs

B_2 = Coefficient of variable 2 X_2 = Tax Knowledge

B_3 = Coefficient of variable 3 X_3 = Compliance Costs

Subsequently based on the findings Capital gains tax collection = $2.526+0.442X_1 +0.364X_2 + 0.088X_3 + \varepsilon$ therefore, Capital gains tax collection = 2.526+0.442 Switching Costs +0.364 Tax Knowledge + 0.088 Compliance Costs + ε

According to the multiple regression, when one takes all the independent variables value to be zero then capital gains tax collection will increase by a factor of .442 due to switching costs; .364 increase due to tax knowledge; and .088 increase due to compliance costs. Moreover, the independent variable coefficients are statistically significant considering that the p-values are lower than alpha 0.05 except for compliance costs variable with p-value 0.056. The analysis on multiple regressions indicates that the predictor variables chosen for the research are sufficient. Moreover, there is positive influence of the predictor variables on the dependent variable capital gains tax administration. Subsequently, the predictor variables of Switching costs, Tax Knowledge and Compliance costs influence the Capital gains administration within Kilifi County.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents a summary of findings following the data collection and analysis process undertaken. The descriptive and inferential statistical findings will guide the process. The objective of the process was to find out the factors that affect capital gains tax administration among the population of taxpayers in Kilifi County.

5.2 Summary of the Findings

In order to gather relevant and reliable data the researcher used closed ended questionnaire to gather data from the respondents. The data collected was a reflection of the opinions of the taxpayers and was analysed using the SPSS software tool. The study established a positive correlation between the independent variables and the dependent.

5.2.1 Switching Costs

The study findings indicate that switching costs has a positive effect on the capital gains tax administration due to the correlation coefficient value of 0.689. Respondents concurred with all the questions asked (mean ≈ 4.00; std dev ≈ 1.000) except for the question Switching costs include performance and financial risk costs which cause a reduction of the taxpayers' profits. The findings correlate with the findings by Ricardo & Eros (2011) who state that switching costs contribute to lock in effect that stifles the growth of the economy.

5.2.2 Tax Knowledge

Tax knowledge was observed to have a significant correlation with capital gains tax administration with a correlation coefficient of 0.691. The respondents were in agreement with the statements posed in the questionnaire (mean ≈ 4.00; std dev ≈ 1.000) except for the statement access to information regarding capital gains tax is challenging. The findings indicate that taxpayer education efforts by KRA are bearing fruit since respondents knew the information for capital gains tax. Moreover, the findings correspond with Singh (2013) assertions that tax compliance is associated with the level of tax knowledge among the taxpayers. Tax knowledge is prevalent in the County of Kilifi and the tax payers understand the regulations.

5.2.3 Compliance Costs

The predictor variable compliance cost was found to be positively associated with capital gains tax administration dependent variable. The correlation coefficient (r) for the variables was found to be 0.535 indicating a mild positive correlation. The p-value 0.056 exceeded the alpha value of 0.05 indicating that the variable was less significant in the model compared to the other predictor variables. On the other hand, the respondents concurred with all questions posed but disagreed with the question on whether they remit taxes in a timely manner. The disagreement corresponds with the behaviour of all tax payers who dislike paying taxes. The findings correspond with Allingham and Sandmo (2012) who stated that compliance costs are incurred by taxpayers and businesses with a view of complying with the regulations.

5.2.4 Capital Gains Tax Administration

The respondents agreed with the statements posed in the research instrument (mean ≈ 4.00; std dev ≈ 1.000). The findings indicate that there has been a rise in collection of capital gains tax. Moreover, there has been some improvement in the administration of capital gains tax. The findings correspond with the level of tax knowledge present among the taxpayer population. The findings correlate with those of (Kirchler, 2007) who stated that educating taxpayers through television ads and campaigns creates responsible citizens who pay taxes thereby heightening tax collection.

5.3 Conclusion

The study's conclusions are provided below based on the analysis undertaken:

The findings show that there is significant positive correlation between Switching costs and capital gains tax. This is explained from the analysis done by the Pearson coefficient value of 0.535.

The predictor variable Tax knowledge has moderate positive influence on capital gains administration in the County of Kilifi. The Pearson coefficient value for Tax Knowledge stands at 0.474 implying a positive association.

Compliance costs have a strong positive (r=0.591) influence on capital gains tax administration within the county of Kilifi. Moreover, the p-value 0.00 obtained for the overall model is lower than alpha 0.05 indicating that the study variables are significant.

5.4 Recommendation

5.4.1 Switching Costs

The study recommends that switching costs for taxpayers be reduced in order to avail more benefits to the taxpayer and encourage tax remittance. The respondents stated that 'increased transfer and evaluation costs due to taxes affect the capital gains tax administration' mean= 4.49. Moreover, the respondents agreed with the statement 'benefit loss costs cause taxpayers to hold onto their property' mean= 4.10. Subsequently, it is imperative to assess the issue of switching costs and the constraints it imposes on capital gains tax administration.

5.4.2 Tax Knowledge

Tax knowledge should be heightened in the County of Kilifi in order to have more compliance by the taxpayers. Respondents felt that it was challenging to obtain information on capital gains tax mean= 3.41. Tax knowledge is the main avenue that KRA can use to improve the administration of capital gains tax. It is imperative that tax knowledge is disseminated regularly among the taxpayers and other stakeholders to ensure that all are conversant with their obligations in regards to capital gains.

5.4.3 Compliance Costs

Compliance costs can be minimised for the taxpayer through the use of technological platforms that help them keep proper records. There is a large population of young taxpayers that are conversant with information technology. Subsequently, KRA can improve their record keeping by availing a taxpayer platform independent from the current tax collection databases. Moreover, the respondents agreed that 'The online tax system will enhance compliance on tax tolerantly' mean= 3.57. It is imperative that the organisation evolves its administration processes to align with the needs of the taxpayer and therefore heighten compliance.

5.5 Suggestions for Further Studies

The current research predictor variables have a 60% influence on the dependent variable; therefore, there is need for more research to identify all factors. Further research should be undertaken on the role of the tax administration organs ability to evolve in tandem with the taxpayers' behaviour in regards to capital gain tax administration. The taxpayers behaviour continues to change especially with the use of

technology and information gathering. Subsequently, tax collection organizations such as KRA should evolve their processes with the objective of attaining efficiency in capital gains tax administration.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Kenya School of Revenue Administration

KENYA REVENUE AUTHORITY

ISO 9001:2015 CERTIFIED

KRA/KESRA/MSA/002 **29th November, 2018**

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: KELVIN KIPLANGAT (ADM NO. HDB336–C016–2400/2016)

This is to certify that Mr. Kelvin Kiplangat of admission number HDB336–C016–2400/2016 is a bona fide student of the Kenya School of Revenue Administration (KESRA), Mombasa Campus, pursuing a Postgraduate diploma in Tax Administration.

Mr. Kiplangat is in his final year of study and is conducting a research project titled ***"Factors Affecting Collection of Capital Gains Tax Among Taxpayers of Kilifi County"***. He is in the process of gathering data and thereafter, compile a report that will strictly be used for academic purposes only.

The School would therefore like to seek your permission to allow him collect information that relates to his research from your organization.

Thank you in advance for your support and cooperation.

Yours sincerely,

Antonina Matundura
Research Coordinator – KESRA, Mombasa Campus

APPENDIX II: QUESTIONNAIRE

The role of this study is to review the **Factors Affecting Capital Gains Tax Administration among Taxpayers in Kilifi County**. The data provided will be treated with highest confidentially and it is only meant for academic purposes. You are kindly requested to contribute by completing this questionnaire quantitatively.

Section A: Demographic Information

1. Gender of the respondent

   Male [ ] Female [ ]

2. Length of service in the organization

   0-5 years [ ] 6-10 years [ ]

   11-15 years [ ] 16 years and above [ ]

3. Kindly state the category of your age

   18 - 25 Years [ ] 35 – 45 Years [ ]

   26 – 35 Years [ ] Above 45 Years [ ]

4. Level of education

   College diploma [ ] Degree [ ] Postgraduate [ ]

Section B: Switching Costs and Capital Gains Tax Administration

Kindly tick where applicable [SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA =Strongly Agree]

No.	Switching Costs	SD	D	N	A	SA
1	Increased transferand evaluation costs due to taxes affect the capital gains tax administration					
2	Benefit loss costs cause taxpayers to hold onto their property					
3	Monetary loss costs cause a reduction in the revenue collected from Capital Gains Tax					
4	Switching costs include performance and financial risk costs which cause a reduction of the taxpayers' profits					

Section C: Tax Knowledge and Capital Gains Tax Administration

Kindly tick where applicable [SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA =Strongly Agree]

No.	Tax Understanding	SD	D	N	A	SA
1	I attended various sessions of tax training organized by the Kenya Revenue Authority					
2	Access to information regarding capital gains tax is challenging					
3	I obtain information from the KRA website and offices					
4	Practical information on brochures and tax Acts that I fail to understand					

Section D: Compliance Costs and Capital Gains Tax Administration

Kindly tick where applicable [SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA =Strongly Agree]

No.	Compliance Costs	SD	D	N	A	SA
1	I keep proper records and file my returns as per the law					
2	I remit my taxes in a timely manner					
3	Increased charges by tax professionals and other experts on services poses a challenge in filing capital gains tax					
4	The online tax system will enhance compliance on tax tolerantly					

Section E: Capital Gains Tax Administration

Kindly tick where applicable [SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA =Strongly Agree]

No.	Capital Gains Tax Administration	SD	D	N	A	SA
1	There has been growth in the capital gains tax collection					
2	There has been improvement in the administration of the capital gains tax					
3	Collection rate of the capital gains tax is higher than that of other taxes					
4	Fines and Penalties are applied if I fail to remit the tax					

APPENDIX III: LIST OF TAXPAYERS

Susan Pato Mulwa	INCOME TAX-CGT
Swaleh Kombo Mvumbo	INCOME TAX-CGT
Yahya Mwabuzi Swalehe	INCOME TAX-CGT
Amina Diwani Darusi	INCOME TAX-CGT
Wilson Ndambuki John	INCOME TAX-CGT
Mary Mwikali James	INCOME TAX-CGT
Ali Juma Bomu	INCOME TAX-CGT
Mwidan Subira Mohamed	INCOME TAX-CGT
Lilian Akoth Ogol	INCOME TAX-CGT
Shadrack Mugoiya Oyugi	INCOME TAX-CGT
Hassan Hussein Bule	INCOME TAX-CGT
Doris Titia Makorani	INCOME TAX-CGT
Emmaculate Anyango Opiyo	INCOME TAX-CGT
Kimutai Ramsy Kemboi	INCOME TAX-CGT
Brian Mutia Nyamai	INCOME TAX-CGT
Aden Abdi Harun	INCOME TAX-CGT
Thomas Wamalicha Mabwi	INCOME TAX-CGT
Sammy Joseph Ndaru	INCOME TAX-CGT
Solomon Muneeni Kimwele	INCOME TAX-CGT
Oliver Barasa Mauka	INCOME TAX-CGT
Joseph Wambua Kavwia	INCOME TAX-CGT
Njama Lewa Nyoha	INCOME TAX-CGT
Hassan Hussein Shughuli	INCOME TAX-CGT
Mwangongo Mwero	INCOME TAX-

Mwangongo	CGT
Florence Mwamengi	INCOME TAX-CGT
Peter Mbega Nyondo	INCOME TAX-CGT
Betty Sidi Karisa	INCOME TAX-CGT
Kalimbo Mwero Kalimbo	INCOME TAX-CGT
Jeal Bahati Wambua	INCOME TAX-CGT
Claries Atieno Makokha	INCOME TAX-CGT
Onesmus Nyanje Mauya	INCOME TAX-CGT
ELIZABETH MUENI NDOLO	INCOME TAX-CGT
Elizabeth Atieno Otieno	INCOME TAX-CGT
Dennis Ratemo Twara	INCOME TAX-CGT
Mwachupa Mreje Mwachupa	INCOME TAX-CGT
Purity Ndunge Musyoki	INCOME TAX-CGT
Hadija Jumaa Mwashuhuli	INCOME TAX-CGT
Emmy Abdalla Kitendo	INCOME TAX-CGT
Abdallah Ali Mashamba	INCOME TAX-CGT
Abigail Apadeet Usera	INCOME TAX-CGT
Mesaid Miraj Garashi	INCOME TAX-CGT
Brian Owuor Opiyo	INCOME TAX-CGT
Sidi Mungumi Nyamawi	INCOME TAX-CGT
Halima Vuyaa Bakari	INCOME TAX-CGT
Hassan Mdune Julo	INCOME TAX-CGT
Bakari Kibwana Bakari	INCOME TAX-CGT
Benjamen Mwangangi Ndungwa	INCOME TAX-CGT
Mwainzi Nyawa Mwachiti	INCOME TAX-CGT

Abraham Murefu Wanyonyi	INCOME TAX-CGT
Juma Ali Mwadosho	INCOME TAX-CGT
Kavin Otieno	INCOME TAX-CGT
Mwanamgeni Bakari	INCOME TAX-CGT
Sailina Nzara Chinago	INCOME TAX-CGT
Shume Mwabeja Ngazi	INCOME TAX-CGT
Laurah Wasai Mwakesi	INCOME TAX-CGT
Fatuma Hussein Mwamzuri	INCOME TAX-CGT
Dinah Nafula Namasaka	INCOME TAX-CGT
Mwanamkadi Juma Mwatuano	INCOME TAX-CGT
Aisha Muhamed Mwachausa	INCOME TAX-CGT
Kelvin Mugunda Amiani	INCOME TAX-CGT
Rutuba Sudi Mwariga	INCOME TAX-CGT
Doris Mutete Zakariah	INCOME TAX-CGT
Meshack Wasiche Ngiti	INCOME TAX-CGT
Stevenson Ngatia Thuo	INCOME TAX-CGT
Esther Vaati Kyandi	INCOME TAX-CGT
Sihaba Charo Gowe	INCOME TAX-CGT
Catherine Mwikali Nthuva	INCOME TAX-CGT
Rosaline Wanjiku Muchiri	INCOME TAX-CGT
Rashidi Masudi Mwatamu	INCOME TAX-CGT
Omari Nyamawi Rashid	INCOME TAX-CGT
Njira Ndoro Joto	INCOME TAX-CGT
Salim Hamza Mwajereko	INCOME TAX-CGT
Caroline Muhonja Onyenyi	INCOME TAX-

	CGT
Baby Manyasa	INCOME TAX-CGT
Annita Wali Zenge	INCOME TAX-CGT
Josphat Mutinda Mwalya	INCOME TAX-CGT
Mwajuma Rama Mwajambia	INCOME TAX-CGT
Mlongo Makuto Mwero	INCOME TAX-CGT
Muhunzi Mwijaka Menza	INCOME TAX-CGT
Kennedy Chigiri Geoffrey	INCOME TAX-CGT
Joseph Ouma Madialo	INCOME TAX-CGT
Wambua Masila	INCOME TAX-CGT
Asha Mwatseko Mwakuwanda	INCOME TAX-CGT
Nyawa Chombo Kombo	INCOME TAX-CGT
Chai Wato Chai	INCOME TAX-CGT
Meshack Omwambia Getare	INCOME TAX-CGT
Mwanalima Ali Mwakutunza	INCOME TAX-CGT
Sharifa Mohamed Bakari	INCOME TAX-CGT
Mohamed Kassim Mwakutwaha	INCOME TAX-CGT
Said Athuman Mwakuzimu	INCOME TAX-CGT
Holliness Mukaluma Fete	INCOME TAX-CGT
Michael Kinuthia Njoroge	INCOME TAX-CGT
Hadija Katubu Gona	INCOME TAX-CGT
Binti Musa Ganzala	INCOME TAX-CGT
Damaris Mwikali Muendo	INCOME TAX-CGT
Daniel Kitheka Katunge	INCOME TAX-CGT
Mwanakombo Umazi Tungwa	INCOME TAX-CGT

James Ngugi Gichimu	INCOME TAX-CGT
Christina Mawondo Mwanyagha	INCOME TAX-CGT
George Odido Ojwang	INCOME TAX-CGT
Samwel Mbugua Kinuthia	INCOME TAX-CGT
Nurdin Mwavadu Gwama	INCOME TAX-CGT
Eveline Akoth Ouma	INCOME TAX-CGT
Mwanasiti Umazi Saidi	INCOME TAX-CGT
Hillary Kasuti Kiverenge	INCOME TAX-CGT
Naomi Makena	INCOME TAX-CGT
Mukala Mazera	INCOME TAX-CGT
Mishi Ndegwa Mongo	INCOME TAX-CGT
Matano Beja Mzungu	INCOME TAX-CGT
Kombo Hassan Mwafrika	INCOME TAX-CGT
Elvine Kerubo Okemwa	INCOME TAX-CGT
Charles Voti Kiletu	INCOME TAX-CGT
Juma Mohammed Chapoka	INCOME TAX-CGT
Mwanamkasi Abdalla Baiku	INCOME TAX-CGT
Pascal Ouma Ogutu	INCOME TAX-CGT
Sarah Mwende Richard	INCOME TAX-CGT
Charity Echesa	INCOME TAX-CGT
Anastacia Njeri Wambui	INCOME TAX-CGT
Munga Genya Jefwa	INCOME TAX-CGT
Saidi Salim Baruku	INCOME TAX-CGT
Jamal Islam Salim	INCOME TAX-CGT
Scholar Shighare Mwamburi	INCOME TAX-

	CGT
Mwanapili Chimera Ndago	INCOME TAX-CGT
Peris Wangeshi Njau	INCOME TAX-CGT
Mwambire Joka Nyanje	INCOME TAX-CGT
Lina Mohamed Gubara	INCOME TAX-CGT
Hassan Mangale Mrabu	INCOME TAX-CGT
Ronald Mwandawiro Mwasi	INCOME TAX-CGT
Wilson Lando Titus	INCOME TAX-CGT
Enock Oduor Orori	INCOME TAX-CGT
Gordon Ochieng Oloo	INCOME TAX-CGT
Prince Kiprop	INCOME TAX-CGT
Mwanatumu Mohamed Mbwana	INCOME TAX-CGT
Pamela Alivitsa	INCOME TAX-CGT
Said Nduni Mwanzije	INCOME TAX-CGT
Said Haji Hamadi	INCOME TAX-CGT
Jumapili Ali Chigumba	INCOME TAX-CGT
Mwanamvua Usama Nahodaha	INCOME TAX-CGT
Asha Dzame Ndoro	INCOME TAX-CGT
Abdulrahim Hanif Mohammad	INCOME TAX-CGT
Hassan Omari Tinga	INCOME TAX-CGT
Mariamu Abdalla Kimako	INCOME TAX-CGT
Dama Kalisho Charo	INCOME TAX-CGT
Vincent Alielo Amahwa	INCOME TAX-CGT
Mwinyi Omari Gakucha	INCOME TAX-CGT
Hassan Kavila	INCOME TAX-CGT

Umazi Mwachirumbi Mbui	INCOME TAX-CGT
Mwanamisi Sada Nyale Genya	INCOME TAX-CGT
Stephen Kioko Nzuki	INCOME TAX-CGT
Phoustine Ajiambo Olumbe	INCOME TAX-CGT
Fikirini Katana Charo	INCOME TAX-CGT
John Ogati Otete	INCOME TAX-CGT
Juma Mwarabu Hamadi	INCOME TAX-CGT
Hellen Wanjiru Muriithi	INCOME TAX-CGT
Mohammed Suleiman Mwatsutsa	INCOME TAX-CGT
Saumu Chita Ngoji	INCOME TAX-CGT
Salma Hassan	INCOME TAX-CGT
Jactone Munga Beja	INCOME TAX-CGT
Salim Matano Katana	INCOME TAX-CGT
Stephen Omondi Otieno	INCOME TAX-CGT
Saidi Kambi Bembeyu	INCOME TAX-CGT
Bahati Bakar	INCOME TAX-CGT
Mercy Nyevu Baya	INCOME TAX-CGT
Hamadi Hamadi Mwakufusa	INCOME TAX-CGT