# DETERMINANTS OF RESIDENTIAL RENTAL INCOME TAX COMPLIANCE BY LANDLORDS IN WEST OF NAIROBI DISTRICT KENYA

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**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 POST GRADUATE DIPLOMA IN TAX ADMINISTRATION AT JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY.**

**2019**

# DECLARATION

## Declaration

This research project is my original work and has not been presented for an award of a degree, diploma or certificate in any other University.

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

**Anne Rita Makena Njiru**

**HDB336-C016-4215/2016**

## Recommendation

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

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

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## DEDICATION

To my family who have been very financially supportive to me. To my friends for their endless encouragements. They have motivated me while doing the project. Thank you, and May the Lord God bless you all.

## ACKNOWLEDGEMENT

I am much thankful to the Almighty God for His goodness upon my life throughout the period of my project for good health and more so understanding. It has just taken His grace and love to me. I wish to give a very special appreciation to my supervisor: Dr. Bruce Ogaga for his continued support, corrections, understanding and encouragement during the project, may God bless you. Lastly, colleagues and friends within my institution. This far it is because of them since their presence has been my great motivator. May God guide and bless you all.

## ABSTRACT

Kenya still faces the challenge of low tax compliance in the real estate sector. Therefore, the primary goal of this research was to study factors determining collection of rental income taxes by Kenya Revenue Authority in west of Nairobi district. The specific objectives were to establish the effect of property owners' perception on monthly residential rental income tax compliance, to find out the effect of tax knowledge on residential rental income tax compliance and finally to determine the effect of technology on residential rental income tax compliance. The theoretical framework was based on the theory of economic deterrence, theory of planned behavior and theory of technological acceptance. The study adopted a descriptive research design. The target population comprised of 19,000 residential property owners who are taxpayers in West of Nairobi district. The study selected a sample of 190 respondents using simple random sampling. Primary data was used where questionnaires were used for primary data collection and for secondary data was obtained from journals which represent academic research. Data analysis was done using descriptive statistical tools and the multiple regression method with the help of statistical package for social sciences (SPSS). The study finding indicated that taxpayer perception, tax knowledge and technology signficantly affects tax compliance in west of Nairobi district. The study concluded that taxpayers' perception, tax knowledge and technology are significant determinants of residential rental income tax compliance by landlords in West of Nairobi district in Kenya. The study recommends that KRA and the government should investment more in technology and also create awareness on technology usage by tax payers to encourage residential rental income tax compliance.

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## DEFINITION OF TERMS

**Taxpayers' perception:** a taxpayer's perception can be defined as the way they interprete or undertand taxation. According to Kirchler (2007), tax evasion depended on interaction between tax authorities and taxpayers. Kircgler also found out that attitudes towards taxation also influence a taxpayers' perception.

**Tax knowledge**: according to Oladipupo and Obazee (2016), tax knowledge is the level of awareness or sensitivity of the taxpayers to tax legislation. They further referred tax knowledge as the process by which taxpayers become aware of tax legislation and other tax-related information.

**Technology:** according to Andarias (2006) electronic filing is dependent on the use of technology. Technology used in e-filing and payment comprise of computers, internet and software applications. In Kenya, the Itax system is used as a e-filing system. Throuth this system, a taxpayer can register, file tax returns, make payments, view ledger records, apply fo tax refunds, apply for tax compliance crtificates and even make follow-ups on audit queries.

**Residential rental income tax compliance**: according to the Finance Act 2015, section 6A in the Income Tax Act Cap 470, residential rental income tax is payable by any resident person from income accrued in or derived from Kenya for the use of residential property and does not exceed ten million shillings during any year of income. Therefore compliance of this tax head means, following what the act says in this section.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

The exact meaning of tax compliance has been defined in various ways. Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes. Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003). Furthermore, tax compliance has also been segregated into two perspectives, namely compliance in terms of administration and compliance in terms of completing (accuracy) the tax returns (Chow, 2004).

According to Gcabo and Robinson (2007), tax collection is critical to any nation even though it is understood or disliked by the citizens. They went on to arguing that, even though the residents acknowledge the necessity to pay taxes and appreciate the welfares offered by the government in the civic service, tax compliance is not liked by the majority. It is critical that the importance of tax compliance is understood because it determines how the government shapes lives of citizens (Oberholzer, 2008).

Goradichenko, Martinez- Vanzquez and Peter (2009) and Vela (2007) stated that tax evasion is a universal and growing phenomenon. Research evidences available have shown that the problems of tax evasion cut across the globe from developing countries to developed countries. For instance, Embaye (2007) also reported that evasion is considerable in U.S with about 16% overall noncompliance for individual income tax.

The concept related to tax evasion is tax avoidance, which is described as creative compliance in McBarnet (2003). However, according to Sandmo (2005) there is conceptual distinction between tax evasion and tax avoidance. The distinction between these two concepts hinges on the legality of taxpayer's actions.

Sandmo (2005) distinguishes the two concepts from legal perspective. He said that tax evasion is carried out in violation of the law, therefore is illegal while tax avoidance is carried out within the legal framework of the tax law in order to reduce one's tax liability, therefore tax avoidance is legal. Everest-Phillip and Sandall (2009) argued that public governance quality is necessary to have good tax system and equally good tax system is essential to achieve public governance quality. Citizens support government in its responsibilities through the provision of finance in form of tax payment. What is happening in government therefore, should matter to the taxpayers because they provide the finance for its sustenance. As a result, governance affairs may have either positive or negative influence on the compliance behaviour of the taxpayers.

Compliance in pure administrational terms therefore includes registering or informing tax authorities of status as a taxpayer, submitting a tax return every year (if required) and following the required payment time frames (Ming Ling, Normala and Meera, 2005). In contrast, the wider perspective of tax compliance requires a degree of honesty, adequate tax knowledge and capability to use this knowledge, timeliness, accuracy, and adequate records in order to complete the tax returns and associated tax documentation (Singh and Bhupalan, 2001).

In line with Singh *et al* (2001); Somasundram (2005) claimed that the wider perspective of compliance becomes a major issue in a self-assessment system since the total amount tax payable is highly dependent on the levels of tax compliance this perspective reveals, although it is inevitable that tax authorities will seek to 'influence' the areas taxpayers have influence over determining to reduce the risks of non-compliant behaviour they face otherwise for example through continuously conducting tax audits of different sorts and other means such as various compliance influencing activities including tax education.

### 1.1.1 Determinants of Residential rental income tax Compliance.

Currently, evasion of taxes by property owners in the real estate sector is becoming common in most countries. There is a growing body of research into taxpayer compliance behaviour that is helping to develop a better understanding of what motivates taxpayers to comply, or not, with requirements of the tax system (Gayer &Mourre, 2012). Several penalties are conferred upon property owners who fail to comply with some of the tax laws, irrespective of the conferment of these penalties; property owners in the real estate continue to evade taxes. According to Mwangi (2014) one of the main tax evasion reason is the high personal income tax rates, which tend to lead taxpayers to evade tax. It is generally believed that a high tax rate is the main cause of tax evasion. Incentives to evade tax depend on the marginal rates of taxation because these govern the gains from evasion as a sum of the tax evaded.

Perception towards tax and its general compliance levels has also been identified as a major factor which influences compliance of tax (Mukabi, 2014). Property owners may respond positively or negatively depending on how they perceive tax. Property owners can actively lean towards avoiding taxes when their perception on residential rental income tax is negative, which has a negative effect on their compliance and the opposite is also true. Thus, a taxpayer with positive attitude toward tax evasion is expected to be less compliant than a taxpayer with negative attitude (Kirchler, Ingrid, Erik, 2008; Nicoleta, 2011)

Social psychologists further express how property owners' awareness to the new rental income regime affects their compliance. Kirchler, *et. al*. (2008) noted that knowledge of tax is crucial since when an individual knows what is supposed to be done they will always comply. A taxpayers' willingness to pay taxes in the real estate sector may possibly be augmented when they are aware about the new rental income regime. While in such a case, if the property owners are aware of the new residential rental income tax regime they may choose to voluntarily comply but if they are not aware they may not voluntarily comply.

Use of Information Technology by the Kenya Revenue Authority has been seen to affect tax compliance. According to Jones (2009) tax compliance is the timely filling and reporting of required tax information, the correct self-assessment of taxes owed, and the timely payment of those taxes without enforcement action. The rapidly increasing pace of technological change will have a significant impact, positive and negative, direct and indirect, on tax compliance. Therefore, the study intends to find out the determinants of monthly residential rental income tax compliance in the real estate sector in Kenya.

### 1.1.2 Taxation of Rental Income.

The Finance Act 2015 introduced a new Section 6A in the Income Tax Act Cap 470 Laws of Kenya, which provides for a simplified tax regime on rental income. The tax to be known as residential rental income tax is payable by any resident person from income which accrued in or was derived from Kenya for the use of residential property and which does not exceed ten million shillings (Kshs. 10 million) during any year of income. The new tax took effect on 1st January 2016 and applied to rental income. The first return for January 2016 was due on 20th February 2016.

Residential rental income tax is charged at a rate of 10% of gross rent received on monthly basis. No expenses are allowed for deduction. The simplified tax at 10% is the final tax. Landlords falling in this regime are not subjected to further taxes on the residential rental income declared. In addition, eligible landlords are not required to file annual returns unless one has other incomes e.g. commercial rent, business income, farm income, etc. The Residential rental income tax rate applies only for persons whose rental income does not exceed Kshs. 10 million during any year of income. The 10% tax on gross rent is payable on monthly basis on or before the 20th day of the month following rent collection. Any tax not paid by the monthly due date attracts penalties and interest as specified in the current Income Tax Act.

### 1.1.3 Tax Compliance in Kenya

The goal of a Revenue authority is to collect a country's taxes.  According to Grampert (2001) the authority should sustain confidence in the tax system and understand taxpayer's attitude on the rise in demand by the public for quality services from tax authorities over the years in Kenya. This was achieved in April 2000 through the creation of taxpayer services unit to ensure that KRA attains increased demand for quality taxpayer services. The revenue authority allows taxpayers to visit their offices for information related to tax and registration as taxpayers. A Revenue authority is therefore required to provide worthy service to the taxpayers by meeting the characteristics of quality services including; urgency, promptness, precision, clarity, and tax knowledge. Revenue officers should have the right attitude in provision of quality taxpayer service by being decisive and avoiding arrogance, unreceptive, impatience and appearing bored (Surrey, 1974).

Tax compliance is defined as the full payment of all taxes due (Braithwaite, 2009). Tax non-compliance is referred to as any difference between the actual amount of taxes paid and the amount of taxes due. This difference occurs because of overstating expenses or deductions and understating income. Non-compliance in the real estate sector comprises both intentional evasion and unintentional non-compliance, which is due to calculation errors and an inadequate understanding of tax laws (Robben *et al.*, 1990 and Webley, 2004).

Tax compliance in the real estate sector is mainly achieved when majority of property owners voluntarily file their tax returns and pay resultant tax liabilities as stipulated in the tax laws, without the intervention of the tax authorities through enforcement. However, if the voluntary compliance is low, then enforcement measures like audit and collection are resorted to, hence the research gap is to be covered in this study.

### 1.1.4 West of Nairobi District

Kenya Revenue Authority (KRA) has divided taxpayers into tax districts for ease of tax Administration and efficient service delivery to taxpayers. The current Domestic Taxes Districts are three: Large Tax Payers Office (DTD - LTO), Medium Taxpayers Office (DTD –MTO) and small taxpayers. Under the last categories there are other several tax districts. Nairobi County alone is divided into four tax districts which are East of Nairobi (EON) covering Eastlands, West of Nairobi tax District (WON) covering Westlands, North of Nairobi (NON) tax District and South of Nairobi Tax District (SON) covering Southlands.

The West of Nairobi Tax Service Office consists the following districts; Chiromo, Highridge, Kabete, Kangemi, Kitisuru, Kilimani, Lavington and Westlands (iTax, 2019). The West of Nairobi TSO has 722,005 taxpayers. Among the 722,005 taxpayers, 19,000 have the residential rental income tax obligation (KRA, 2019).

## 1.2 Statement of the Problem

Taxation patterns around the world today reveal large cross-country differences, especially between developed and developing countries. In particular, developed countries today collect a much larger share of their national output in taxes than do developing countries; and they tend to rely more on income taxation to do so. Developing countries, in contrast, rely more heavily on trade taxes, as well as taxes on consumption (Ortiz-Ospina and Roser, 2019). Ortiz-Ospina *et al*. (2019) established that cross-country differences in tax revenues are linked to the capacity of countries to implement efficient tax collection systems.

The real estate sector has high growth potential with building and construction sector having grown by 7.3%, 8.2%, 12.7%, 4.5% and 4.3% in 2007, 2008, 2009, 2010 and 2011 respectively (KRA, 2012). For the past two decades, the Kenyan real estate market has grown exponentially as evidenced by its contribution to the country's GDP which grew from 10.5% in 2000 to 12.6% in 2012 and 13.8% in 2016 (Cytonn, 2019).This indicates the growth experienced in the real estate sector over the years. Despite this significant growth, there has been no corresponding tax increase in the sector.

KRA has not met its targets in revenue collection for the past few years especially in the monthly residential rental income tax obligation. In the WON District, in the 2016-2017 financial year when the monthly rental income obligation was introduced, the revenue collection was Kshs. 923,261,860. During the 2017-2018 financial year, the revenue collection from monthly rental income was Kshs. 894,857,680 against a target of Kshs. 1,009,632,750. There was a decline in revenue collection in 2017-2018 from 2016-2017 of Kshs. 28,404,180.

This study ideally sought to find out what really determines monthly residential rental income tax compliance despite the fast growth in the sector. Despite the numerous researches that have been done on tax compliance in the other sectors of the economy, a few researches have been done on tax compliance in the real estate sector in Kenya. This is because the residential rental income tax was introduced in Kenya in the year 2016. This research will explore this gap by finding out the determinants of monthly residential rental income tax compliance.

## 1.3 Objectives of the Study

### 1.3.1 General objective

The general objective of the study was to establish the factors determining residential rental income tax compliance in the real estate sector in Kenya.

### 1.3.2 Specific Objectives

This study sought to address the following specific objectives which form the inference for the research questions.

i) To establish the effect of taxpayers' perception on residential rental income tax compliance.
ii) To find out the effect of tax knowledge on residential rental income tax compliance.
iii) To determine the effect of technology on residential rental income tax compliance.

## 1.4 Research Questions

This research sought to address the following research questions;

i) What is the effect of taxpayers' perception on residential rental income tax compliance?
ii) What is the effect of tax knowledge on residential rental income tax compliance in the real estate sector?
iii) What is the effect of technology on residential rental income tax compliance in the real estate sector?

## 1.5 Significance of the Study

The research sought to establish residential rental income tax compliance in the real estate sector with a specific focus on Nairobi City.

### 1.5.1 Contribution to Researchers

The impact of tax compliance on the operations of Kenya Revenue Authority in Kenya and indeed the economy at large is of interest to researchers and industry practitioners. This study can serve as a stepping stone for new research on taxation. Besides, researchers and students who want to know more about taxation, its causes and possible ways of preventing it can also find the study beneficial. Hence, it serves as a reference point for future researchers and a blue-print for policy makers.

### 1.5.2 Contribution to Policy Makers

The findings of this study will assist various policy makers including the Kenya Revenue authority, the government of Kenya and other line ministries in developing effective policies to enhance residential rental income tax compliance by property owners and to reduce tax non-compliance to acceptable levels. It will also aid the government in realization of the targeted vision 2030 through growth and development because the real estate is a rising sector and a major indicator of growth and development.

### 1.5.3 Contribution to Management

This research is expected to be of benefit to Revenue managers who are saddled with the responsibility of ensuring that taxpayers are not negligent in paying their taxes. It will also assist in knowing why taxes are evaded. The outcome of this research will enable them to have a better understanding of why taxpayers evade taxes. Therefore, when these reasons are adequately appraised, it is expected that it will in turn translate to the provision of necessary infrastructure for the society when the resources are judiciously utilized. This research will provide better understanding of tax compliance as an important concept not only for tax purposes but also for the growth of real estate in Kenya.

## 1.6 The Scope of the Study

The research aimed at evaluating the residential rental income tax compliance and its effects on tax collection in the real estate sector. There are many real estate firms in the country but the research sought to concentrate on those real estate firms in Nairobi City. It was assumed that the real estate firms in the City give a reflection of what is happening in other parts of the country. The population of the study consisted of taxpayers in West of Nairobi district who have the residential rental income tax obligation. The time scope of the study was the 2016-2017 financial year and the 2017-2018 financial year.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter presents a review of literature. A methodological review of past literature is a crucial endeavour for any academic research. The need to uncover what is already known in the body of knowledge prior to initiating any research study should not be underestimated. This chapter reviews literature on tax compliance on various sectors of the economy and tried to relate it to the rental tax compliance in the real estate sector and its effects on tax collection.

## 2.2 Theoretical Literature Review

Considerable amounts of interest have been shown in studying people's reaction towards taxes, especially in the fields of public finance, law and economics. It is apparent that discussions about taxation are incomplete without a mention of some form of tax reduction behaviour. The following are some theories that seek to explain tax compliance;

### 2.2.1 The Economic Deterrence Theory

The Allingham-Sandmo (AS) theory is also known as the economic deterrence theory emanated from the seminal work of Allingham and Sandmo (1972). This model assumes that behaviour is influenced by factors such as tax rate, which determine the benefits of tax evasion and penalties for fraud and probability of detection, which determine costs (Allingham and Sandmo, 1972).

It has developed to the Fiscal Exchange theory over the years. The economic deterrence model in its basic form views the individual tax payer as a rational economic agent, who assesses the costs on one side which are determined by probability of detection and penalties for fraud and on the other side benefits of evading taxes and thus choose not to pay, if benefits of non-compliance outweigh the cost (Walsh, 2012).

The model thus reduces the problem to that of rational decision making under uncertainty whereby tax evasion pays off either in terms of lower taxes or subject one to sanctions (Fjeldstad, schule-Herenberg and Sjursen, 2012). The implication of this assumption is that when there are low penalties, the tendency for detection is high and penalties for evasion are severe, fewer people will be non-complaint.

This theory concludes that tax compliance depends more on tax audit and the penalties or fines. This implies that, all taxpayers only pay their taxes because they fear being sanctioned. Thus, an increase in sanctions or fines and penalties will increase tax revenue (Awa &Ikpor, 2015). It is on the basis of this assumption that the model advocates stricter audit and heavy penalties for offenders as a basis for reducing non-compliance (Fjeldstad, *et al* 2012). This theory is trying to link benefits property owners will accrue when they evade tax or the losses they will incur when they are found to be non-complaint and penalties imposed on them.

The relevance of this theory in residential rental income tax compliance is that when there is low probability of audit and penalties, tendency for evasion by property owners will be higher, while if there is a high tendency for detection and penalties are severe, fewer property owners will evade residential rental income tax. This theory therefore highlights that the knowledge a taxpayer has on taxation influences their ability to comply or not.

### 2.2.2 Theory of Planned Behaviour

Theory of planned behaviour is an important theory which presents within the scope of the social psychology and tries to explain human behaviours. This theory was developed by Ajzen (1991) and it is just the improved form of the Theory of Reason Action suggested by Ajzen and Fishbein (1980) in order to explain conscious behaviours. According to this theory, behaviours of the individuals within the society are under the influence of definite factors, originate from certain reasons and emerge in a planned way (Erten, 2002). Nevertheless, the ability to perform a particular behaviour depends on the fact that the individual has a purpose towards that behaviour.

This theory has been extensively utilized in research to study factors (attitude, subjective norm and perceived behavioural control) that influence intentions to engage in a particular behaviour. Attitude includes the evaluations made by the individual who will perform the behaviour regarding the act of that behaviour. Subjective norm refers to the opinions of the other individuals who are important for individuals that will perform the behaviour or are taken as reference with regards to this behaviour. Finally, perceived behaviour control specifies the difficulty level of the performance displayed by an individual. Regarding the theory of planned behaviour, someone will consider attitudes, subjective norm, and control perceived behaviour in constructing their intention to comply with the rule (Azjen 1991;Nurwanah, Sutrisno, Rosidi & Roekhudin. 2018)

As a conclusion, the Theory of Planned Behaviour explains that individuals' intentions together with their perceived control over the behaviour, determine whether or not they will actually engage in the behaviour. Therefore, this theory highlights how a taxpayers' perception influences their tax compliance behaviour.

### 2.2.3 Theory of Technology Acceptance

This is an information system theory that models how users come to accept and use a technology. This theory was developed from the Theory of Reasoned Action (TRA) by Azjen and Fisbein (1980). There are so many researches trying to compare between Theory of Reasoned Action (TRA) and Technology Acceptance Model (TAM) with the Theory of Planned Behaviour (TPB). Davis, Bagozzi & Warshaw (1989) found that TAM is better in explaining the desire to receive technology compared to TRA.

The Technology Acceptance Model (Davis *et al*, 1989), one of the most researched and accepted models that explains individual IT use at the acceptance stage, has identified two salient beliefs that predict information technology use: perceived usefulness and perceived ease-of-use. Perceived usefulness (PU) - This was defined as "the degree to which a person believes that using a particular system would enhance his or her job performance". Perceived ease-of-use (PEOU) - Davis defined this as "the degree to which a person believes that using a particular system would be free from effort" (Davis *et al*, 1989).

This theory develops a framework to establish the effects of external variables on the system usage. According to this model, individuals accept a particular system if they believe in the system (Jullie, 2017). When taxpayers understand or learn the on-line tax filing system quicker, the filing efficiency and accuracy will be increased. Taxpayers can complete tax filing quicker (perceived usefulness) when they perceive the ease of use of the system is higher (Fu, Cheng, and Wen 2006).

The goal of TAM is to provide an explanation of the determinants of computer acceptance that is general, capable of explaining user behaviour across abroad range of end-user computing technologies and user population, while at the same time being both parsimonious and theoretically justified.

**2.3 Conceptual Framework**

A conceptual framework is a diagram research tool, which is intended to assist the researcher to categorize and describe concepts relevant to the study and map relationships among them (Cooper& Schindler, 2011). The dependent variable was residential rental income tax compliance whereas the independent variable will be perception, knowledge and technology. Perception was measured using accountability and attitude. Knowledge was measured using awareness and taxpayer education. Lastly, technology was measured using e-filing and e-payment. The conceptual framework for this study is depicted in Figure 2.1.

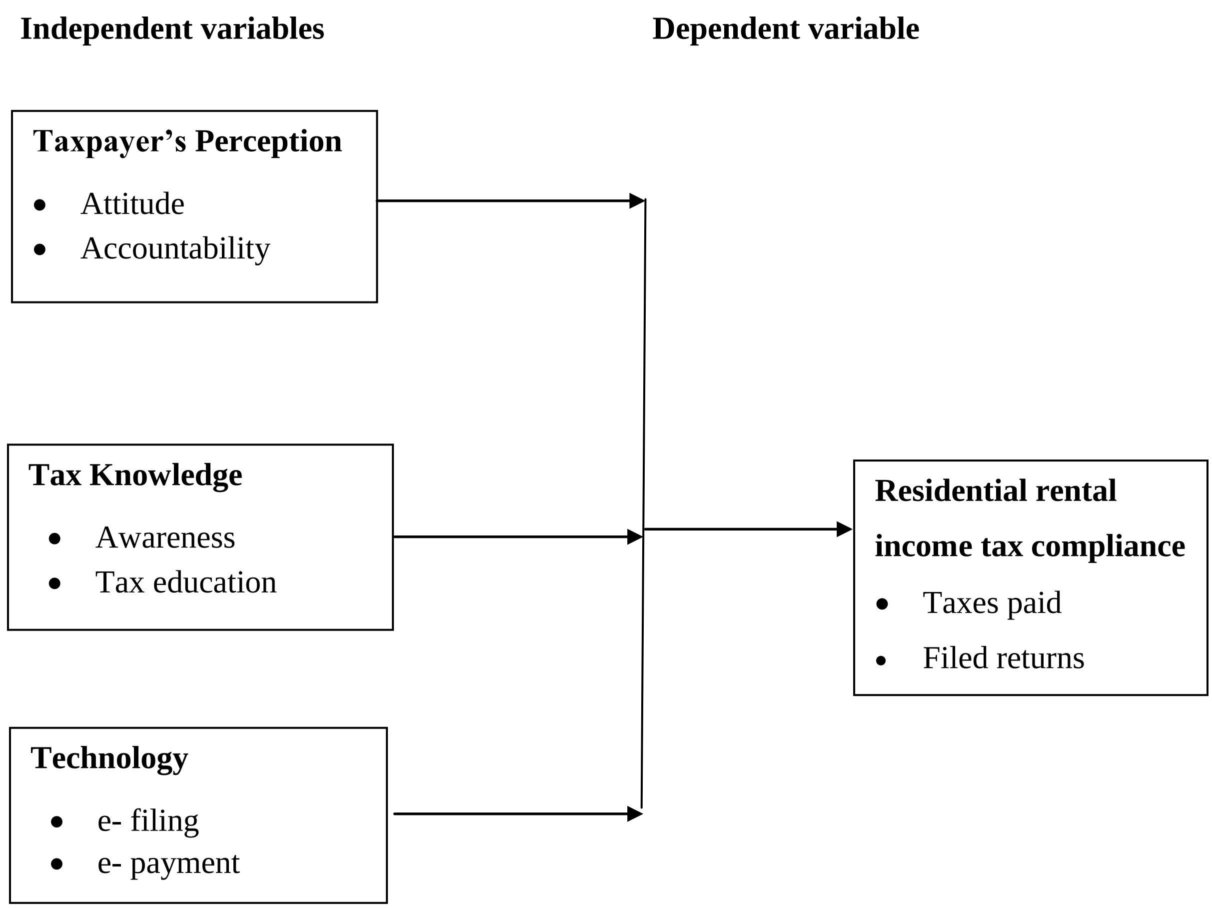


**Figure 2.1: Conceptual framework**

### 2.4 Empirical Literature Review

This section discusses literature from various sources regarding tax compliance and also brings out gaps in literature that this study sought to address. The variables that will be highlighted in this section are perception and its effect on compliance, knowledge and its effect on compliance and also technology and its effect on compliance.

#### 2.4.1 Taxpayer's Perception and Compliance.

Kirchler (2007), the economy psychology of tax behavior, Cambridge. In this book, Erick Kirchler starts by describing tax evasion as a complex phenomenon, which is influenced not just by economic motives but by psychological factors as well. He assembles research on tax compliance, with a focus on tax evasion and integrates the findings into a model based on the interaction climate between tax authorities and taxpayers. The interaction climate is defined by citizen's trust in authorities and the power of authorities to control taxpayers effectively; depending on trust and power, voluntary compliance, enforced compliance or no compliance are likely outcomes. Therefore, in this case, if the property owners do not trust in the government, they will not comply with tax payment and if they do trust in the government, they will comply.

Attitudes represent the positive and negative evaluations that an individual holds on objects. It is assumed that attitudes encourage individuals to act according to them. Thus, a taxpayer with positive attitudes toward tax evasion is expected to be less compliant than a taxpayer with negative attitudes. Attitudes towards tax evasion are often found to be quite positive (Kirchler *et al*, 2008). Many studies on tax evasion found significant, but weak relationships between attitudes and self-reported tax evasion (Trivedi, Shehata, and Mestelman, 2004).

A model of tax evasion behaviour developed by Weigel, Hessing and Elffers, (1987) consider social and psychological conditions, including attitudes and moral beliefs about tax evasion's propriety, as antecedents of tax compliance. Data collected from fined tax evaders and honest tax payers showed that attitudes explain in part self-reported tax evasion, but are insignificant predictors of actual behaviour. However, the correlations between self-reported tax non-compliance and attitudes are significant but fairly weak. These findings suggest a rather complicated relationship between tax evasion and attitudes, nevertheless we can be confident in our general prediction that if tax attitudes become worse, tax evasion will increase (Lewis, 2002).

The attitudes are important for both the power and the trust dimension. On the one hand, favourable attitudes will contribute to trust in authorities and consequently will enhance voluntary tax compliance. On the other hand, attitudes towards the authorities will be relevant for the interpretation of the use of power as benevolent or malicious. Tax attitudes in general also depend on the perceived use of the money collected and therefore are connected to knowledge. (Kirchler *et al*., 2008) compliance, this view of individual choices within a social environment is missing, only the threat of external sanction e.g. audits and penalties generate compliance. The fact that informal institutions can affect compliance has been excluded from the model.

### 2.4.2 Tax Knowledge and Compliance.

In the past, rental businesses in the country have been operating as underground businesses in that majority of property owners have been renting out and collecting monthly income but not providing enough documentation for purposes of taxation. The property owners base the current study on the fact that there has been non-compliance on taxation and little education on rental tax from the KRA. The property owners may be seeing a possibility of profit reduction once they start to comply with the residential rental income tax hence may consider remaining non-compliant.

Thananga, Wanyoike and Wagoki (2013) while carrying out a research on factors affecting compliance on residential rental income tax policy concluded that generally the perception of landlords on rental income taxation and KRA was negative. This highly influenced their non-compliance. They further state that taxpayers do not consider the implementation of this taxation in good faith and feel that taxes are not put into good use. Therefore, they only pay tax only when necessary and are ready to use any alternative to evade or underpay taxes. This highly influences their compliance. They recommend that KRA should embark on public awareness campaigns to educate the public on their role and responsibilities in taxation rather than approaching the matter from a legal perspective. This will create a sense of responsibility in compliance rather than fear for non-compliance.

Eriksen and Fallan (1996) claimed that 'knowledge about tax law is assumed to be important for preferences and attitudes towards taxation. There is little research that explicitly considers how attitude towards taxation is influenced by specific knowledge of tax regulations'. The research done by Eriksen *et al* (1996) has illustrated the importance of tax education in a tax system. They suggested that fiscal knowledge correlates with attitudes towards taxation and tax behaviour can be improved by a better understanding of tax laws (Eriksen *et al* 1996).

### 2.4.3 Technology and Compliance.

The use of automated systems has been proven to be capable of introducing massive efficiencies to business processes at a minimal cost (Wasao, 2014). Due to the bureaucratic structure of government which is costly to manage with little or no result, tax authorities as an agency of government are turning to e-government led solutions like electronic tax filing (e-filing) and payment (Ambali, 2009).

Electronic filing and payment in Kenya was introduced in the year 2007, initially on a voluntary usage basis for all categories of income tax payers, through an online system called KRA Online. But in the year 2013, a new online system called iTax was introduced with improved qualities. Through this system, a taxpayer is able to register as a taxpayer, file tax returns, make payments (through generation of payment receipt numbers PRNS), view ones ledger record, apply for and receive tax refunds, apply for and obtain through e-mail Tax Compliance Certificate (TCC), and even make follow-up on KRA audit queries (Wasao, 2014).

Electronic taxation is the modern way that tax authorities interacting with taxpayers. According to Andarias (2006), electronic filing is dependent on the use of technology. Technology used in e-filing and payment comprise of computer, internet and software applications. Electronic filing can be measured when the desired outputs are realized. Andarias in his research inferred that technology in tax administration means integrated software with a one-stop-shop implementation; comprehensive work flow systems where every document or form is included in the information system; easy-to-use internet websites with online information and payment options; customer service network connected by fast lines; mobility to allow service in remote areas and real-time process monitoring.

Lack of ICT knowledge may complicate the implementation of any tax law no matter how simple the law is. Kenya taxes are automated hence ICT skills are necessary for all taxpayers. Jullie (2017) concluded that perceived usefulness and perceived ease of use would affect an individual's attitude. If a taxpayer's attitude towards technology is negative, there is a likely chance they might not comply in filing returns and paying taxes online. It is therefore important for the taxpayers and general public to be educated on how to use the online tax system to enhance tax compliance.

## 2.5 Critique of Existing Literature

Having looked at past literature on tax compliance, in Kenya a little has been done on determinants of tax compliance in the real estate sector as the residential rental income tax was introduced in January by the Finance Act 2016, section 6A Chapter 470, Laws of Kenya. This is because the real estate sector was previously not taxed; it was considered an underground economy, which does not pay tax.

The study by Awa *et al* (2015) on factors that affect tax compliance among small and medium enterprises in Enugu, South-Eastern Nigeria was done on SMEs. A similar study was done by Mwangi (2014) on factors influencing tax compliance in small and medium enterprises in Nairobi's Industrial Area. These studies focused on tax compliance in SMEs whereas this study focuses on residential rental income tax compliance.

Owino (2014) did a thesis on tax knowledge and tax compliance determinants in self-assessment systems in Malaysia. Owino's research was carried out in a developed country (Malaysia) whereas this study was done in Kenya, a developing country. Thananga *et al* (2013) did a research on factors affecting compliance on residential rental income tax policy by landlords in Nakuru municipality. This study was done in one of the cities in Kenya i.e. Nakuru, while this study was done in Kenya's capital city Nairobi where the bulk of property owners are in Kenya as it is its capital.

### 2.6 Summary of Previous Studies

In summary, the empirical literature has explained reasons for tax non-compliance. Several researches into other sectors of the economy for example small-scale enterprises have been outlined and a link created between this sector and the real estate sector. For instance, Kirchler (2007) assembled research on tax compliance with a focus on tax evasion. Weigel *et al*. (1987) considered social and psychological conditions to explain perception. Lewis (2002) highlighted worse tax attitudes will increase tax evasion.

Thananga *et al* (2013) recommended the use of public awareness campaigns by KRA to educate the public. They were seconded by Eriksen *et al* (1996) who illustrated the importance of tax education in a tax system. Wasao (2014) explains the efficiency of use of automated systems to a business process. Ambali (2009) stated that tax authorities are turning to e-government led solutions to cub bureaucracy in governments.

Irrespective of all these theories and past researches, a little is known about rental tax compliance because this type of tax was introduced recently in Kenya. Again, the real estate sector was previously not taxed because they were considered an underground economy, which does not pay tax. This therefore formed the basis of the research.

### 2.7 Research Gaps

There exists conceptual, contextual and methodological research gaps. In the study by Wasao (2014) on effect of online tax system on tax compliance among small taxpayers, there exists a conceptual gap since there were different variables of choice although the study was conducted in Kenya. Other studies that presented a conceptual gap are by Mwangi (2014) and also Thananga *et al*. (2013).

Other studies presented a contextual research gap since the focus was outside Kenya therefore their variables cannot be generalized to Kenya. Such studies include Awa *et al* (2015) Factors that affect tax compliance among small and medium enterprises in Enugu, South-Eastern Nigeria which was conducted in Nigeria; Fjeldstad *et al*. (2001) conducted in Tanzania and also Ming *et al* (2005) that was conducted in Malaysia.

Methodological research gaps also exist in different studies in comparison to this research. The research by Nurwanah *et al* (2018) uses the Partial Least Squares as a method of analysis whereas this study uses regression modelling. Another study where a methodological gap exists is the one by Singh (2003) where the quantitative research design was adopted in contrast with the descriptive design used in this research.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter entails the research methodology that was applied throughout the study in achieving the research objectives. Research methodology is the systematic theoretical analysis of the methods applied to a field of study. It comprises the theoretical analysis of body of methods and principles associated with a branch of knowledge. Typically, it encompassed concepts such as paradigm theoretical model, phases and quantitative or qualitative techniques (Irny and Rose, 2005). It presented the research design, population, sampling frame, sample and sampling techniques, research instruments, data collection procedure, pilot test, data processing and analysis.

## 3.2 Research Design

The research adopted a descriptive research design. This design enabled an analysis of the relationship between the determinants of income tax compliance and the overall tax compliance in the real estate sector. Descriptive research is a research steered to elucidate the features of certain spectacles to solve a particular problem. The descriptive sort of research designates the circumstances as they happen at a certain time. Descriptive research provides a systematic description which is factual and accurate (Cooper *et al.*, 2011). The research adopted a descriptive study as this design depicts participants in an accurate way and should enable collection of data from taxpayers, landlords and agencies such as tax agents and auditing firms and accounting firms.

### 3.3 Target Population

Population of a study is the active set of individuals or items that are of interest in the area of study which the researcher is trying to observe their characteristics or behavior (Kothari, 2006). The target population of the study consisted of taxpayers in the West of Nairobi district who had a residential rental income tax obligation. These taxpayers were 19,000.

### 3.4 Sampling and Sampling Technique

According to Thornhill and Surrey (2003), the sampling frame for any probability sampling is a whole list of entire cases in population from which sample is derived. There was a need to carry out sampling during the study due to the large size of the target population. Sample size refers to the sampling units nominated from a particular population for study (Khana, 2010).

The study population was 19,000 taxpayers in WON. According to Cooper and Schindler, (2008), a sample should be a function of the variation in the population parameters under study and the estimating precision needed by the researcher. According to Rose, Spinks and Canhoto (2015), to estimate the minimum sample size with approximate 95% confidence level, the following formula is used.

$$n = \frac{4pq}{d^2}$$

Where n = required sample size, p = proportion of the population having the characteristic, q = 1-p and d=acceptable margin of error. This study was estimated to have 6% margin of error and 50%: 50% proportion. Therefore, the estimated sample size was,

$n = \frac{4*0.5*0.5}{0.06^2}$ This gave minimum sample size of 190.

### 3.5 Research Instruments

Data was collected using questionnaires which were well structured to suit proper data collection. Questionnaires are the most appropriate for this study work because they are the typical method through which descriptive data is collected. In addition, questionnaires were used because they offered considerable advantages in their administration (Kothari, 2004). Their use provides a high degree of standardizations and adoption of the generalized information amongst any population. In addition, secondary data was also be used to compliment the primary data. The secondary data was derived from KRA employees, the KRA website and the Itax platform.

### 3.6 Data Collection Procedure

Questionnaires were used to collect primary data. The questionnaires had a structured open-ended questions and were hand delivered to the respondents. The questions were clearly phrased to make clear dimensions along which the respondents respond. A questionnaire is the quickest and efficient way to obtain data from a large number of respondents especially in the bank institution. The questionnaires had well-structured questions which covered the case of the study. Each study aspect was described in terms of features such as importance, difficulty, frequency and relationship to perform.

### 3.7 Pilot Study

A pilot study was carried out in the different real estate investments as part of the main study. This is a kind of research that happens prior to the main study. Piloting helped in improving reliability and the validity of the data collection tools as well as in familiarizing with the data collection process (Mugenda & Mugenda, 2005). It was undertaken to test logistics and gather information in order to improve the quality of questionnaires and efficiency of data collection procedures to be applied in the research work.

#### 3.7.1 Reliability

To assess the reliability of study instrument Cronbach Alpha Coefficient test was employed in the study. The results were as follows

**Table 3.1: Reliability Results**

| Variable | Alpha | No of Items |
| --- | --- | --- |
| Perception | .705 | 7 |
| Knowledge | .863 | 7 |
| Technology | .725 | 5 |
| Residential rental income tax compliance | .854 | 5 |
| Overall | .820 | 24 |

The reliability results on table 4.2 shows that the Cronbach Alpha values for perception, knowledge, technology and residential rental income tax compliance were 0.705, 0.863, 0.725 and 0.854 respectively and more than the recommended value of 0.7. In addition, the overall Cronbach Alpha was 0.820 thus an indication that the study instrument was reliable as all the Cronbach Alpha coefficients were more than the recommended threshold value of 0.7.

### 3.7.2 Validity

Validity test is used in determination of a measurement if it really reflects the concept under the study. To ensure validity of data collection instrument, expert opinion was sought from other scholars who were familiar with the topic. Diagnostic tests were also carried out to test validity of the statistical assumptions.

## 3.8 Data Processing and Analysis

The study adopted descriptive statistics and inferential statistics to analyze data. Before processing of the responses, the completed questionnaires were edited for completeness and consistency. The findings were presented using tables, percentages, and tabulations. Tables were used to summarize responses for further analysis and facilitate comparison. For this study, the researcher was interested in establishing the determinants of residential rental income tax compliance in real estate sector in Kenya. The model used in the study took the following form:

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

Where

$Y$ = Residential rental income tax compliance

$X_1$ = Perception

$X_2$ = Knowledge

$X_3$ = Technology

$\varepsilon$ =Error term

$\beta_O, \beta_1, \beta_2, \beta_3$-These are regression coefficients

**Table 3.2: Operationalization and Measurement of Study Variables**

| Variables | Source/ Authors | Data collection instruments | Measurement scale | Data Analysis |
|---|---|---|---|---|
| **Independent variable Measurable indicators** | | | | |
| Perception | Kirchler (2007), Kirchler *et al* (2008) | Questionnaire | 5-Point Likert scale | Quantitative Multiple regression |
| Knowledge | Cyan *et al* (2017), Eriksen *et al* (2006) | Questionnaire | 5-Point Likert scale | Quantitative Multiple regression |
| Technology | Jullie (2017) | Questionnaire | 5-Point Likert scale | Quantitative Multiple regression |
| **Dependent variable** | | | | |
| Measurable indicators | Grampert (2001) | | | |
| Returns filed and Taxes paid | Income Tax Act Cap 470 | Questionnaire | 5-Point Likert scale | Quantitative Multiple regression |

# CHAPTER FOUR

# RESEARCH FINDINGS AND DISCUSSION

## 4.1 Introduction

This section depicts the response rate results, the demographic analysis results, descriptive statistics results on the study variables and finally the results of the binary logistic regression.

## 4.2 Response Rate

The study sample was 190 taxpayers from the WON District who had a rental income obligation but complete data was obtained from 137respondents. The 137respondents made up a response rate of 72%, as indicated by Mugenda and Mugenda (2013) in his studies 50 per cent of reaction rate of above 70% rated is very good. This means that a response of 72% was very good for data analysis. Based on these assertions, this implies that the response rate for this study was adequate. Figure below illustrate the level of response rate.

**Table 4.1: Response Rate**

| Response | Frequency | Percent |
|---|---|---|
| Returned questionnaires | 137 | 72 |
| Unreturned questionnaires | 53 | 28 |
| Total | 190 | 100.0 |

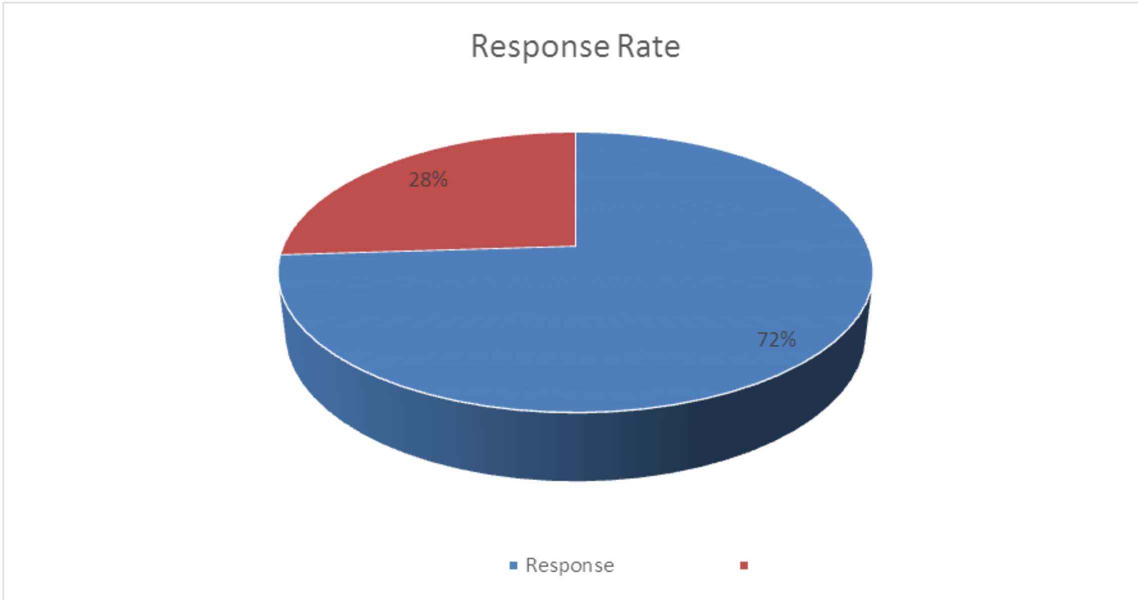


**Figure 4.1: Response Rate**

Survey Data (2019)

### 4.3 Respondents Gender

The table below shows the findings. Respondents' Gender This area of the study, the researcher sought to know the gender of the respondents. Table below shows that the study findings. The findings below show that majority 74% of the respondents were Male, and 26% were female. From these findings, most of the respondents were Male.

**Table 4.2 : Respondent Gender**

| Gender | Frequency | Percentage |
|---|---|---|
| Male | 102 | 74 |
| Female | 35 | 26 |
| **Total** | **137** | **100** |

### 4.3.1 Education Levels

Table 4.3 shows the results of the respondents' education levels The table below shows that majority 51.1% of the respondents were in college level, this was followed by 21.9% who had other qualification, 17.5% were university graduates, while9.5%were secondary level. Generally, tax compliance of west of Nairobi district has at least attained college level and these signify the importance of such skills in tax compliance.

**Table 4.3: Education Levels**

| Level | Frequency | Percent |
|---|---|---|
| Secondary education | 13 | 9.5 |
| College | 70 | 51.1 |
| University | 24 | 17.5 |
| Others | 30 | 21.9 |
| Total | 137 | 100.0 |

### 4.3.2 Years as a Property Owner

Table above shows that the highest had 42.3% of the respondents had had been property owners for a period of 6-10 years whereas 21.8% had been property owners for 11-15 respectively. The results also indicate that 18.2% of the respondents had been property owners for over 16 years, while 17.5% had been property owners for less than 5 years. This indicates most of the respondents had owned rental property for more than 5 years hence they had knowledge on the operations of the sector.

**Table 4.4: Years as a property owner**

| Years | Frequency | Percentage |
|---|---|---|
| Less 5years | 24 | 17.5 |
| 6 – 10years | 58 | 42.3 |
| 11 – 15years | 30 | 21.8 |
| Over 16years | 25 | 18.2 |
| **Total** | **137** | **100** |

### 4.3.3 Residential rental income tax Compliance

This sought to assess whether the property owners complied with rental income taxes. The findings on table below shows that 51.9% of the respondents indicated that complied with the payment and filing of rental income taxes while 48.1% indicated that they did not comply. The results thus indicate there was no 100% residential rental income tax compliance in the study area.

**Table 4.5: Residential rental income tax Compliance**

| Registration for PAYE | Frequency | Percentage |
|---|---|---|
| Yes | 70 | 51.9 |
| No | 67 | 48.1 |
| **Total** | **137** | **100** |

## 4.4 Statistical Assumptions

Statistical tests rely upon certain assumptions about the variables used in the analysis. Osborne and Waters (2014), opine that when these assumptions are not met the results may not be valid. They further argue that this may result in a type I or type II error, or over or under-estimation of significance or effect size(s). It is therefore important to pretest for these assumptions for validity of their results.

Osborne, Christensen, and Gunter (2001) observed that few articles report having tested assumptions of the statistical tests they rely on for drawing their conclusions. Testing for assumptions is beneficial as it ensures that an analysis meets the associated assumptions and helps avoid type I and II errors (Osborne and Waters, 2014; Owino, 2014). Prior to data analysis, assumptions for linear regression were checked together with multicollinearity and normality.

### 4.4.1 Test of Normality

Parametric statistics by definition assume that the data under test is normally distributed, hence the use of the measure of central tendency (Zikmund, 2010). A number of statistical procedures including correlation, regression, t-test and f-tests are based on the assumption that the data follows a normal distribution (Ghasemi & Zahediasl, 2012). There are several ways of testing normality such as Shapiro-Wilk, Kolmogorov-Smirnov, Lilliefors and Anderson Darling.

According to Razali and Wah (2011) Shapiro-Wilk is the most powerful normality test. This study adopted it. The findings of the tests are presented in Table below. Shapiro-Wilk test of less than 0.05 implies that there is significant deviation of data from a normal distribution. The study's data set was subjected to a normality test and the results are shown in Table below.

**Table 4.6: Tests of Normality**

| | Kolmogorov smirnow | | Shapiro-Wilk | |
|---|---|---|---|---|
| | **Statistics** | **sig** | **Statistics** | **sig** |
| Perception | 0.510 | 0.200 | 0.721 | 0.38 |
| Tax knowledge | 0.465 | 0.003 | 0.765 | 0.31 |
| Technology | 0.387 | 0.002 | 0.814 | 0.21 |
| Tax Compliance | 0.129 | 0.004 | 0.9540.51 | |

### 4.4.2 Multicollinearity Test

Multicollinearity is the undesirable situation where the correlation among the independent are strong. It increases the standard errors of the coefficients using collinearity statistics to get tolerance and variance inflation factor (VIF). In order to test for multicollinearity, VIF was computed using statistical packages for social science (SPSS). Multicollinearity increases the standard errors of the coefficients and thus makes some variables statistically not significant while they should otherwise be significant (Osborne and Waters, 2014).  Tolerance is the amount of variance in independent variable that that is not explained by the other independent variable.

Bowerman and Connell (2006) stated that lower levels of VIF are better while higher levels of VIF are known to affect adversely the result associated with a multiple regression analyses. The authors argued that VIF above 2.50 start to indicate relatively high levels of multicollinearity. The Variance Inflation Factor test in the study regression model ranged between 1.284 and 1.554.

These values were lower than the 2.5 level suggested by Allison (2009) as an indicator of mulitcollinearity; therefore, multicollinearity was not a problem on this analysis. Thus the study findings were able to fulfil the threshold mainly because Table shows that the VIF of the study were all less than 2.

**Table 4.6: Multicollinearity Test**

**Coefficients[a]**

| Model | Collinearity Statistics | |
|---|---|---|
| | Tolerance | VIF |
| (Constant) | | |
| Perception | 0.755 | 1.365 |
| Tax knowledge | 0.816 | 1.284 |
| Technology | 0.502 | 1.554 |

a. Dependent Variable: Tax compliance

## 4.5 Descriptive Statistics

### 4.5.1 Taxpayer's Perception

This section assessed various statements on taxpayers' perception towards residential rental income tax compliance on a scale of 1 to 5 where 1 was strongly disagree, 2 denoted disagree, 3 indicated neutral, 4 denoted agree and 5 indicated strongly agree. The results on table below shows that the respondents agreed that fair distribution of public resources encourage property owners to be tax compliant and that the relationship between the taxpayers and tax authorities influences the willingness of taxpayers to comply as indicated by mean values of 4.12. The respondents also agreed that KRA is perceived to be efficient in tax administration and therefore likely to catch up with tax evaders with a mean score 2.80. It was followed by relationship between the taxpayers and tax authorities influences the willingness of tax payers to comply with a mean score 4.18, respondent also were in agreement that Property owners have a negative attitude towards tax evasion with a mean score of 3.14. The improvement of government spending encourage property owners to be tax compliant with a mean score 4.21 while Payment of taxes is perceived by property owners as a contribution to economic growth with mean score of 4.17. Lastly, negative attitude towards tax leads to tax evasion with a mean score of 4.07.

**Table 4.7: Taxpayer's Perception**

| Statement | Mean | Std. Deviation |
|---|---|---|
| Fair distribution of public resources encourage property owners to be tax compliant | 4.12 | .892 |
| KRA is perceived to be efficient in tax administration and therefore likely to catch up with tax evaders. | 2.80 | 1.079 |
| Relationship between the taxpayers and tax authorities influences the willingness of tax payers to comply | 4.18 | .868 |
| Property owners have a negative attitude towards tax evasion | 3.14 | .917 |
| The improvement of government spending encourage property owners to be tax compliant | 4.21 | .907 |
| Payment of taxes is perceived by property owners as a contribution to economic growth. | 4.17 | .862 |
| Negative attitude towards tax leads to tax evasion | 4.07 | .964 |
| **Mean** | **3.81** | |

### 4.5.2 Tax Knowledge

This section evaluated various statements on how taxation knowledge affects residential rental income tax compliance on a scale of 1 to 5 where 1 was strongly disagree, 2 denoted disagree, 3 indicated neutral, 4 denoted agree and 5 indicated strongly agree. The results on table below shows that the respondents agreed that Property owners have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime mean values of 2.40. The respondents also agreed that Lack of proper records on expenses incurred greatly contributed to non-compliance by property owners in the previous regime with a mean score 3.90.it was followed by Knowledge about tax laws plays a major role in determining property owners' tax compliance with a mean score 3.99, respondent also were in agreement that Effective taxpayer education can change the attitude and perception of property owner towards tax compliance with a mean score of 4.10.Majority of taxpayers are familiar with the iTax system with a mean score 3.13 while KRA has created a lot of public awareness on residential rental income tax with mean score of 2.83,LastlyI recommend more taxpayer education campaigns from the KRA and the government at large with a mean score of 4.22

**Table 4.8: Tax Knowledge**

| Statement | Mean | Std. Deviation |
|---|---|---|
| Property owners have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential residential rental income tax regime | 2.40 | 1.020 |
| Lack of proper records on expenses incurred greatly contributed to non-compliance by property owners in the previous regime | 3.90 | .854 |
| Knowledge about tax laws plays a major role in determining property owners' tax compliance | 3.99 | 1.018 |
| Effective taxpayer education can change the attitude and perception of property owner towards tax compliance | 4.10 | .860 |
| Majority of taxpayers are familiar with the iTax system | 3.13 | .775 |
| KRA has created a lot of public awareness on residential rental income tax | 2.83 | .800 |
| I recommend more taxpayer education campaigns from the KRA and the government at large. | 4.22 | .77 |
| **Mean** | **3.51** | |

### 4.5.3 Technology

This section evaluated various statement on how technology influences residential rental income tax compliance on a scale of 1 to 5 where 1 was strongly disagree, 2 denoted disagree, 3 indicated neutral, 4 denoted agree and 5 indicated strongly agree. The results on table below show that the respondents agreed that I have basic IT skills mean values of 4.38. The respondents also agreed that I have access to internet on a daily basis with a mean score 4.02.it was followed by I understand how to use the iTax system with a mean score 2.45, respondent also were in agreement that I file my own tax returns with a mean score of 3.34LastlyI know how to generate a PRN with a mean score of 2.09

**Table 4.9: Technology**

| Statement | Mean | Std. Deviation |
|---|---|---|
| I have basic IT skills. | 4.38 | 1.207 |
| I have access to internet on a daily basis. | 4.02 | .951 |
| I understand how to use the iTax system. | 2.45 | 1.131 |
| I file my own tax returns. | 3.34 | 1.308 |
| I know how to generate a PRN | 2.09 | 1.191 |
| **Mean 3.25** | | |

### 4.5.4 Tax Compliance

The compliance section evaluated various statement on residential rental income tax compliance on a scale of 1 to 5 where 1 was strongly disagree, 2 denoted disagree, 3 indicated neutral, 4 denoted agree and 5 indicated strongly agree. The results on table below show that I have little information on filing taxes mean values of 3.57. The respondents also agreed that I always file my own tax return with a mean score 2.41.it was followed by MRI return filing through iTax is very complicated with a mean score 3.00, respondent also were in agreement that I pay taxes because there is a possibility of detection of non-compliance with a mean score of 3.74.Lastly, the MRI tax rate is too high and should be reviewed with a mean score of 3.66

**Table 4.10: Tax Compliance**

| Statement | Mean | Std. Deviation |
|---|---|---|
| I have little information on filing taxes. | 3.57 | 1.439 |
| I always file my own tax return. | 2.41 | 1.308 |
| MRI return filing through iTax is very complicated. | 3.00 | .804 |
| I pay taxes because there is a possibility of detection of non-compliance. | 3.74 | .779 |
| The MRI tax rate is too high and should be reviewed. | 3.66 | .700 |
| **Mean** | **3.27** | |

### 4.6 Correlation Analysis

A correlation coefficient enables the researcher to quantify the strength of the linear relationship between two ranked or numerical variables (Smith, 2010). Pearson correlation analysis was done to determine the relationship between study variables. A correlation coefficient value (r) in the range of 0.1 to 0.29 is considered weak, 0.3 to 0.49 is considered moderate while 0.5 to 1.0 is considered strong extracts from O'Brien, 2007. Table below indicate that perception is positively correlated with tax compliance (r= 0.386), tax knowledge is positively correlated with tax compliance (r= 0.418), technology had the highest correlation with tax compliance (r= 0.537)

**Table 4.11 : Summary of Correlations Statistics of Independent and Dependent Variables**

| | Tax compliance | Perception | Tax knowledge | Technology |
|---|---|---|---|---|
| Tax compliance | 1 | | | |
| Taxpayer Perception | 0.386* | 1 | | |
| Tax knowledge | 0.418 | 0 .390 | 1 | |
| Technology | 0.537* | 0.318* | 0 .364* | 1 |

**Correlation is significant at the 0.05 level (2-tailed).**
**Survey Data (2019)**

### 4.7 Regression Analysis

The broad objective of the study was to establish the factors determining of residential rental income tax compliance by landlords in west of Nairobi district. To achieve this objective, three specific objectives (property owner perception, tax knowledge, and technology) and three corresponding questions were set and formulated respectively.

**Model Summary**

The results in Table 4.12, indicated that taxpayer perception had a positive correlation with tax compliance up to 38.6% or (R= 0.386). The results reveal that taxpayer perception caused a variation of 14.8% or ($R^2$=0.148 and adjusted $R^2$ =0.144) on tax compliance. This implies that the remaining 85.2 % of the change was caused by other factors not included in the model. The results also show that the relationship between taxpayer perception and residential rental income compliance are statistically significant at p-value of 0.000 which is less than 0.05. (F value = 30.349, P=0.00 < 0.05).

**Table 4.12 : Effect of Taxpayer Perception on Tax Compliance**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .386[a] | .148 | .144 | .39731 |

a. Predictors: (Constant), TAXPAYER PERCEPTION

**ANOVA[a]**

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 8.264 | 1 | 8.264 | 30.349 | 0.000 |
| 1 Residual | 47.334 | 172 | .242 | | |
| Total | 55.559 | 173 | | | |

a. Dependent Variable: TAX COMPLIANCE

b. Predictors: (Constant), Taxpayer Perception

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2.480 | .368 | | 4.034 | .000 |
| | Taxpayer perception | .579 | .098 | .386 | 5.835 | .000 |

a. Dependent Variable: TAX COMPLIANCE

The results in Table 4.13, indicated that tax knowledge had a positive correlation with tax compliance up to 41.9% or (R= 0.419). The results reveal that tax knowledge caused a variation of 17.5% or ($R^2$=0.175 and adjusted $R^2$ =0.169) on tax compliance. This implies that the remaining 82.5 % of the change was caused by other factors not included in the model. The results also show that the relationship between tax knowledge and residential rental income tax compliance is statistically significant at a p-value of 0.00 which is less than 0.05. (F value = 41.217, P=0.000< 0.05).

**Table 4.13 : Effect of Tax knowledge on Tax Compliance**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .419[a] | .175 | .169 | .48518 |

a. Predictors: (Constant), TAX KNOWLEDGE

**ANOVA[a]**

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 9.700 | 1 | 9.700 | 41.217 | 0.000 |
| Residual | 15.898 | 172 | .235 | | |
| Total | 25.598 | 173 | | | |

a. Dependent Variable: TAX COMPLIANCE
b. Predictors: (Constant), Tax Knowledge

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.896 | .268 | | 7.038 | .000 |
| | Tax knowledge | .470 | .073 | .419 | 6.42 | .000 |

a. Dependent Variable: TAX COMPLIANCE

The results in Table 4.14 indicated that technology had a positive correlation with tax compliance up to 53.6% or (R= 0.536). The results reveals that technology caused a variation of 28.7% or ($R^2$=0.287 and adjusted $R^2$ =0.283) on tax compliance. This implies that the remaining 71.3 % of the change was caused by other factors not included in the model. The results also show that technology and residential rental income tax compliance is statistically significant with a p-value of 0.00 which is less than 0.05. (F value = 78.482, P=0.00 < 0.05).

**Table 4.14 : Effect of Technology on Tax Compliance**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .536[a] | .287 | .283 | .45087 |

a. Predictors: (Constant), TECHNOLOGY

**ANOVA[a]**

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 15.951 | 1 | 15.953 | 78.482 | 0.000 |
| Residual | 38.643 | 172 | .203 | | |
| Total | 55.989 | 173 | | | |

a. Dependent Variable: TAX COMPLIANCE

b. Predictors: (Constant), Taxpayer Perception

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | T | Sig. |
| 1 | (Constant) | 1.580 | .344 | | 1.686 | .001 |
| | Technology | .838 | .095 | .536 | 8.859 | .000 |

a. Dependent Variable: TECHNOLOGY

### 4.7.1 Model Summary

In order to test how well the model works in explaining the relationship between independent variable on tax compliance, regression analysis was conducted. The findings in Table below, revealed that taxpayer perception, tax knowledge and technology correlate with tax compliance up to 55.9% (R=0.559) and accounts for a variation of 31.3% ($R^2$ =0.313). This implies that 68.7% of the change in tax compliance was caused by other factors which were not included in the model. The findings further reveal that even if the results adjust, the model would still account for 29.7% (Adjusted$R^2$, 0. 297) variation of tax compliance.

### 4.7.2 Overall effect on Tax compliance.

**Table 4.15: Overall effect on Tax compliance.**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | t | Sig. |
| | (Constant) | 2.234 | .607 | | 13.571 | .000 |
| 1 | Taxpayer's Perception | .269 | .020 | .243 | 3.347 | .001 |
| | Knowledge | .481 | .086 | .428 | 5.582 | .000 |
| | Technology | .428 | .070 | .467 | 6.136 | .000 |
| R | | 0.559 | | | | |
| R Square | | 0.313 | | | | |
| Adjusted R Square | | 0.297 | | | | |
| F | | 20.168 | | | | |
| Sig | | 0.000 | | | | |

a. Dependent variable: TAX COMPLIANCE
b. Predictors: (constant), Taxpayer Perception, Tax Knowledge, Technology

**Régression Equation**

$Y = 2.234B + .269\mathbf{X_1} + .481\mathbf{X_2} + .428\mathbf{X_3} + e$

The regression equation above implies that at a constant of 2.234, a unit change in taxpayer perception causes an increase of 26.9% on residential rental income tax compliance, whereas a unit change in tax knowledge causes an increase of 48.1% on residential rental income tax compliance. Finally, a unit change in technology causes an increase of 42.8% on residential rental income tax compliance.

### 4.7.3 Analysis of Variance

The ANOVA results on table 4.15, shows that the F statistics value of 20.168 is statistically significant as indicated by the P value of $0.000<0.05$. This indicates that the regression model is fit and statistically significant for the study.

### 4.7.4 Test of Research Questions

The first question was what is the effect of property owner's perception on residential rental income tax compliance by landlords in west of Nairobi district Kenya? Taxpayer perception has a positive relationship effect on tax compliance of west of Nairobi district. The results on Table above revealed that p value was less than 0.05, $\rho=0.001$ which implies that relationship was statistically significant.

The second question was what is the effect of tax knowledge on residential rental income tax compliance by landlords in west of Nairobi district Kenya? Tax knowledge has a positive relationship effect on tax compliance of west of Nairobi district. The results on Table above revealed that p value was less than 0.05, $\rho=0.000$ which implies that relationship was statistically significant.

The third question was what is the effect of technology on residential rental income tax compliance by landlords in west of Nairobi district Kenya? Technology has a positive relationship effect on tax compliance of west of Nairobi district. The results on Table above revealed that p value was less than 0.05, $\rho=0.000$ which implies that relationship was statistically significant.

## 4.8 Discussion of the Findings

This chapter presents discussion of the results of various tests carried out on the study. The results of each of the questions in this study will be discussed.

### 4.8.1 Effect of Taxpayer Perception on Tax Compliance

The first objective of the study was to establish the effect of property owners' perception on residential rental income tax compliance. The objective had a corresponding question which asked what is the effect of property owner's perception on residential rental income tax compliance by landlords in west of Nairobi district Kenya? From the findings of the study they pointed out that taxpayer perception was statistically significant at a p value of 0.001, which is less than 0.05 the convectional probability significance level, p= $0.00 < 0.05$. The findings from the study show that taxpayer perception positively correlates with residential rental income tax compliance. A study done by Kirchler *et al* (2008) on enforced versus voluntary tax compliance. He found out that attitudes towards tax evasion are often found to be positive. It is therefore prudent for KRA to enhance their taxpayer education activities to enable businesses have better understanding of various factors affecting VAT tax compliance.

### 4.8.2 Effect of Tax knowledge on Tax Compliance

The second objective of the study was to find out the effect of tax knowledge on residential rental income tax compliance. The objective had a corresponding question which asked what is the effect of tax knowledge on residential rental income tax compliance by landlords in west of Nairobi district Kenya? From the findings of the study they pointed out that tax knowledge was statistically significant at a p value of 0.001, which is less than 0.05 the convectional probability significance level, p= $0.00 < 0.05$. From the findings, tax knowledge positively correlates with residential rental income tax compliance. Similar findings were revealed by Eriksen et al. (1996) who did a study on tax knowledge and attitudes towards taxation. The study found out that fiscal knowledge correlates with attitudes towards taxation and tax behavior can be improved by a better understanding of tax laws. The conclusion was that sensitization and campaigns can enhance voluntary tax compliance.

### 4.8.3 Effect of Technology on Tax Compliance

The third objective of the study was to determine the effect of technology on residential rental income tax compliance. The objective had a corresponding question which asked what is the effect of technology on residential rental income tax compliance, by landlords in west of Nairobi district Kenya? From the findings of the study they pointed out that technology was statistically significant at a p value of 0.001, which is less than 0.05 the convectional probability significance level, p= $0.00 < 0.05$. From the findings, technology positively correlates with residential residential rental income tax compliance. Similar study was done by Jullie (2017) who concluded that if a taxpayer's attitude towards technology is negative, there is a likely chance they might not comply in filing returns and paying taxes online. The study revealed that, it is important for taxpayers and general public to be educated on how to use the online tax system to enhance tax compliance.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents a summary of the study results, the conclusions as per the research findings, recommendations and the suggestions for further research

## 5.2 Summary of the Study

The overall objective of this study was to establish the factors determining residential rental income tax compliance in the real estate sector in Kenya. In particular the study sought to determine the influence of taxpayer perception, tax knowledge, and technology on tax compliance

### 5.2.1 Effect of Taxpayer Perception on Tax Compliance

The first objective was to determine the effect of taxpayer perception on Tax Compliance. Correlation analysis showed that taxpayer perception and Tax Compliance are positively and significantly associated. Also the Regression analysis shows there was a positive significant relationship between taxpayer perception and Tax Compliances.

### 5.2.2 Effect of Tax knowledge on Tax Compliance

The second objective was to determine the effect of tax knowledge on Tax Compliance. Correlation analysis showed that tax knowledge and Tax Compliance are positively and significantly associated. Also the Regression analysis shows there was a positive significant relationship between tax knowledge and Tax Compliances

### 5.2.3 Effect of Technology on Tax Compliance

The third objective was to determine the effect of technology on Tax Compliance. Correlation analysis showed that technology and Tax Compliance are positively and significantly associated. Also the Regression analysis shows there was a positive significant relationship between technology and Tax Compliances

## 5.3 Conclusion

The study concluded that taxpayer perception had positive significant influence on Tax Compliance by landlords in west of Nairobi district. Also tax knowledge had positive significant influence on Tax Compliance and lastly on technology had positive significant influence on Tax Compliance. The study further concluded that Taxpayer perception variable had the weakness influence among the independent variables on the dependent variable of Tax Compliance.

## 5.4 Limitations of the Study

Respondent had limitation due to the sensitivity of the information the respondent may have had an imaginary fear of giving the information to Kenya Revenue Authority. This limitation was countered by assuring the respondents that information is purely for academic purposes and would be treated with a lot of confidentiality. An introduction letter from the Kenya School of Revenue Administration under Jomo Kenyatta University of Agriculture and Technology was attached to the questionnaires to affirm confidentiality.

### 5.5 Recommendations

Based on the findings on taxpayer perception, the study recommends that the government should ensure fair distribution of public resources to encourage property owners to be tax compliant and that KRA should enhance their relationship with taxpayers to enhance their the willingness to comply with rental income tax. Secondly, based on tax knowledge, the study recommends that KRA and the government should conduct training enhance public awareness on residential rental income tax through taxpayer education campaigns as a training would increase tax knowledge. Finally, the finding on technology, the study recommends that KRA and the government should investment more in technology and also create awareness on technology usage by tax payers to encourage residential rental income tax compliance.

### 5.6 Suggestions for Further Research

The context of this study was landlords in West of Nairobi district in Kenya and the study focused on technology, taxpayer's perception and knowledge. The study therefore did not cover the other areas within Nairobi County thus an additional study is recommended on the determinants of tax compliance in the Eastland parts of Nairobi County. The study model also indicated a small percentage of the variation in residential rental income tax was accounted for by technology, taxpayer's perception and knowledge. This indicates that there were other factors affecting tax compliance by property owners. The study suggests for further research by scholars using different independent variables that affect residential rental income tax.

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## APPENDICES

### Appendix I: Questionnaire

### Part A: General Information

1. Indicate gender:

    Male { }

    Female { }

2. What is your highest level of education?

    Secondary education { }

    College { }

    University { }

    Others (specify) ______________________________

3. Number of years as a property owner

    Less than 5 years { }

    6-10 years { }

    11-15 years { }

    Above 16 years { }

4. Do you comply with the residential rental income tax system?

    Yes { } No { }

**Part B:**

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

**Perception**

| **Statement** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Fair distribution of public resources encourage property owners to be tax compliant | | | | | |
| KRA is perceived to be efficient in tax administration and therefore likely to catch up with tax evaders. | | | | | |
| Relationship between the taxpayers and tax authorities influences the willingness of tax payers to comply | | | | | |
| Property owners have a negative attitude towards tax evasion | | | | | |
| The improvement of government spending encourage property owners to be tax compliant | | | | | |
| Payment of taxes is perceived by property owners as a contribution to economic growth. | | | | | |
| Negative attitude towards tax leads to tax evasion. | | | | | |

**Part C:**

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

**Knowledge**

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

**Part D:**

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

**Technology**

| **Statement** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| I have basic IT skills. | | | | | |
| I have access to internet on a daily basis. | | | | | |
| I understand how to use the iTax system. | | | | | |
| I file my own tax returns. | | | | | |
| I know how to generate a PRN | | | | | |

**Part E:**

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

**Compliance**

| **Statement** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| I have little information on filing taxes. | | | | | |
| I always file my own tax return. | | | | | |
| MRI return filing through iTax is very complicated. | | | | | |
| I pay taxes because there is a possibility of detection of non-compliance. | | | | | |
| The MRI tax rate is too high and should be reviewed. | | | | | |

**Appendix II: List of Respondents**

1. A000167033F
2. A000099937A
3. A002719043Z
4. A001197952X
5. A000152244X
6. A001119458U
7. P051530586I
8. A001548257F
9. P051184910N
10. A002726118R
11. A001161926Z
12. A001657899W
13. A001657899W
14. A001657899W
15. A001184331B
16. A001376217L
17. A001376217L
18. A001376217L
19. A001573166W
20. A001193410T
21. A001113480E
22. A001446412H
23. A000102561Y
24. A000103975K
25. P051138010J
26. P051399166U
27. A000099001F
28. A000127410V
29. A000127410V
30. A000127410V
31. A000127410V
32. A000127410V
33. A001206041D
34. P051323514M
35. A001093054H
36. P051182957D
37. A001225621F
38. A001550176Q
39. A001873811P
40. A000099205L
41. A001091225V
42. A001091225V
43. A001091225V
44. A001091225V
45. A001091225V
46. A000130592E
47. A000159255S
48. A000159255S
49. A000159255S
50. A000159255S
51. A000159255S
52. A001943868K
53. A001798339L
54. A001170364D
55. A002467495K
56. A001740886C
57. A000150789N
58. A001548257F
59. A001250989V
60. A000104535Y
61. A001200621R
62. A001119458U
63. A001121863B
64. A001121863B
65. A001121863B
66. A001121863B
67. A001121863B
68. A001503025D
69. A001873811P
70. A000159730M
71. A004212819E
72. A002417632Q
73. A000129161M
74. A001503025D
75. A000122731U
76. A002873695N
77. A000152640X
78. A001445616L
79. A001653756A
80. A001307060M
81. A001307060M
82. A001307060M
83. A001307060M
84. A001307060M

85. P051243644W
86. A000130347V
87. A001244005X
88. A001116328F
89. A001289850C
90. A004031319S
91. A002019886E
92. A000129161M
93. A000093162H
94. P051322896K
95. A000092576P
96. A003713673A
97. A001097174W
98. A001791392Z
99. A004909980U
100. P051422886K
101. A000168824O
102. A002019886E
103. A002019886E
104. A001136018Z
105. A001136018Z
106. A003191926E
107. A003191926E
108. A001113525W
109. A000120294C
110. A002552776B
111. A003375815P
112. A004391485U
113. A000126299V
114. A000131130J
115. A000134457I
116. A001379863I
117. A000113149Z
118. A001215683U
119. P0511730442Z
120. A001925241V
121. A001812282V
122. A001274342I
123. A000110184Y
124. A001167533L
125. A000134977R
126. A000113149Z
127. P051422886K
128. A004397712S
129. A000141534S
130. A001469627B
131. A002807637E
132. A000137694X
133. A001361751H
134. A000141534S
135. A001117866U
136. A003781226N
137. A001126042B
138. A001126042B
139. A001126042B
140. A001126042B
141. A001126042B
142. A001218320G
143. A000094623F
144. A002733646W
145. A001746720V
146. A001337010A
147. A000159240J
148. A003301561D
149. P000599394T
150. A001226915J
151. A000160753C
152. A003167354S
153. A000093711X
154. A000120135O
155. A000110415J
156. A001278458D
157. A003566023R
158. A000110415J
159. A000152539D
160. A000149987G
161. P000614189C
162. A001574427S
163. A004031319S
164. A001222949M
165. A003474468B
166. A001608829D
167. A000167357S
168. A002599947Q
169. A004031319S
170. A001345611E
171. A001213389R
172. P051230168U
173. A001108087S
174. A001397530S

175. A000164295P
176. A001687542D
177. A000144213Q
178. A007740423N
179. A000114190E
180. A003105435E
181. A001116719F
182. A002479944H
183. A001277283A
184. A001269946D
185. A001692865E
186. A001682222K
187. A001113921W
188. P051138911T
189. A002618369K
190. A002476530R