

**FACTORS INFLUENCING REMITTANCE OF RENTAL INCOME TAX BY  
RESIDENTIAL PROPERTY OWNERS IN NAIROBI COUNTY**

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## DECLARATION

This project is my original work and has not been presented for a postgraduate degree in any other academic and non-academic institutions.

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## ACRONYMS

<b>BI</b>	:	Behavioural Intention
<b>EFD</b>	:	Electronic Fiscal Devices
<b>ICT</b>	:	Information and Communication Technology
<b>KESRA</b>	:	Kenya School of Revenue Administration
<b>KRA</b>	:	Kenya Revenue Authority
<b>LAN</b>	:	Local Area Network
<b>MBA</b>	:	Master of Business Administration
<b>n.d.</b>	:	No Date
<b>PEOU</b>	:	Perceived Ease of Use
<b>PIN</b>	:	Personal Identification Number
<b>RIT</b>	:	Rental Income Tax
<b>SAS</b>	:	Self-Assessment System
<b>SPSS</b>	:	Statistical Package for Social Sciences
<b>TAM</b>	:	Technology Acceptance Model

## **DEFINITION OF TERMS**

- Compliance Cost:** costs taxpayers have to bear in order to gather the necessary information, fill out online tax forms, and these can be an additional reason for tax evasion and avoidance (Vihanto, 2000).
- Itax:** An electronic and online tax management system administered by the Kenya Revenue Authority and use by taxpayers to file tax returns and enquiries (KRA, 2015)
- System Coverage:** refers to the areas where the system is available for users. A system with wide geographical coverage ensures that users can access it from anywhere in the country (Seelmann, Lerche, Kiefer and Lucante, 2011).
- Taxpayer Education:** efforts to show how to pay taxes, to explain why taxes should be paid, and to empower citizens to engage in discussions on the use of tax revenue. It covers a range of activities, including government/national revenue authority programmes to encourage tax-compliant behaviour on the part of citizens, efforts by business organizations to mobilize and represent the interests of their members on tax issues, and civil society initiatives to promote the participation of citizens in policy discussions of how taxes are collected and redistributed (OECD, n.d)

## ABSTRACT

The purpose of the study was to examine the factors that influence the remittance of rental income tax in Nairobi County. The study variables included system coverage, taxpayer education, itax technology and compliance cost. The study adopted a descriptive survey design. The target population of the study comprised of 97,801 rental income earners in Nairobi and who are registered rental income taxpayers by the Kenya Revenue Authority.

Cochran's sampling formula  $n_0 = \frac{Z^2 pq}{e^2}$  was used to calculate sample size of 369 respondents.

The collection of primary research data was done using questionnaires that were sent to the selected respondents through their respective email addresses. Prior to being administered to the respondents, the research instrument was pre-tested to determine its reliability and validity. Research data was analyzed using Statistical Package for Social Sciences (SPSS) computer software and findings presented in form of tables and figures. Multiple regression analysis was carried out to establish the relationship between itax technology, system coverage, taxpayer education and compliance with remittance of rental income tax. Majority of the respondents (61%) were property owners who pay rental income tax from the residential properties. The research findings show that majority of respondents strongly agreed that taxpayer education, itax technology, compliance cost and system coverage affect the remittance of rental income tax. Seventy six percent (76%) of respondents strongly agreed that tax workshops and clinics educate taxpayers in Rental Income Tax (RIT). Sixty three percent (63%) of respondents agreed that itax system has enhanced the efficiency and effectiveness of RIT collection. Ninety two percent (92%) of respondents were of the opinion that the tax rate of ten percent on RIT is too high. Eighty four percent (84%) of the respondents indicated that high compliance costs are not a discouragement for taxpayers to be compliant with RIT. On system coverage, 75% of respondents noted that good system coverage promotes the filing of RIT. The regression analysis generated the following regression coefficients; taxpayer education ( $\beta=0.313$ ), itax technology ( $\beta=-0.209$ ), compliance cost ( $\beta= 0.053$ ) and system coverage ( $\beta=0.303$ ). The most significant factor among the four factors was taxpayer education, followed by system coverage and then itax technology. The least significant factor was compliance cost. It is concluded that system coverage, itax technology, compliance cost and taxpayer education have a positive effect on remittance of rental income tax. In order to improve compliance and remittance of rental income tax, taxpayer education must target existing and new property owners in a bid to encourage them to declare and pay rental income tax. The improvement of the itax system can be done if KRA collects feedback from users on the experiences and challenges of using the system to file tax returns. There may be need to reduce the rental income tax rate as a motivator to rental property owners to declare their rental income and remit Rental Income tax (RIT). The reach of the itax system should be made wide so that all potential taxpayers can have access to the itax system. The KRA should also ensure that itax system downtime is eliminated so that the system is available around the clock.

## CHAPTER ONE

### 1.0 INTRODUCTION

#### 1.1 Background of the Study

Kirchler (2007) stated that rental income taxes are important sources of government revenue in the developed as well as developing countries. Willingness of the taxpayers is a key factor that determines the amount of taxes generated from rental incomes. According to Rizal (2011) other factors that influence taxpayers' voluntary compliance with the tax law are fairness/equity, organizational capacity/strength of tax authority and attitude towards government. Tesfaye (2015) noted that the government must cultivate an enabling environment for the taxpayers to remit taxes due from them voluntarily.

In the Asia-Pacific region, the Philippines, Malaysia, Indonesia and Taiwan levy the highest taxes on rental income. In the Philippines, a flat 25% tax is imposed on the gross rental income of non-resident foreigners; in Indonesia and Taiwan, a fixed 20% tax. Malaysia, on the other hand, imposes a 28% tax on net rental income. With costs deducted from the gross income, effective rental income tax is around 22% to 25%. In Egypt, rental income tax is 20%. The maximum deduction allowed to cover operating expenses is 50% of the gross rent, leading to an effective rate of 10%. In Nigeria, gross rental income of non-residents is taxed at a final withholding rate of 10% (Global Property Guide, 2018).

In Kenya, rental income tax is tax payable by resident persons on residential rental income accrued or derived in Kenya where the rent income is between Kshs. 144,000 and Kshs. 10 million per annum. The rate of tax is 10% on the gross rent received and is payable when landlords receive rent from their tenants either monthly, quarterly, semi-annually or annually (KRA, 2018).

Governments in developing countries face great challenges in collecting tax revenues, which result in a gap between what they could collect and what they actually collect. One of these challenges according to Muita (2011), is the embracing of emerging technologies and tax payment methods that are more efficient so as they can eradicate loss of revenue. One of the technologies he argues is electronic tax system that so far has been embraced by the Kenya Revenue Authority.

Kenya Revenue Authority is always under pressure by government to intensify tax collection and meet the parliament-approved budget every financial year. The taxman has launched iTax system in order to simplify taxpayers' registration and as well enable them to file returns from wherever they are. The iTax is a system that is feasible, prolific and sustainable towards financing multi-government expenditures due to its efficiency and transparency (KRA, 2012).

In 2013 KRA shifted to a new paradigm towards e-Filing due to self-assessment System (SAS) and focused more on audit field. The Authority also decided to aim for paperless filing of tax returns. Generally, e-Filing process is more convenience, fast, accurate and secure in terms of payments. There are four steps in e-Filing. First, taxpayers need to enroll and verify a digital signature then, they are required to enter the gross earnings, relief and deductions before the system compute automatically. Finally yet importantly, KRA will receive the tax form electronically and verification of tax form return will be sent to taxpayers via email. Lai, Siti and Kameel (2004) examined the usage intentions, attitudes, perceptions and compliance considerations of Malaysian tax practitioners towards the e-filing system. Mail survey was administered on 600 tax practitioners throughout Malaysia. The results report that the respondents have strong usage intentions; nonetheless, they are wary of the security of the e-filing system. The quest for 'speedy tax refunds' ranked as the most important incentive for

the respondents to embrace the e-filing system. This has been the scenario in Kenya, whereby Kenyans complain of long period it takes to get tax refunds. Others do not believe the refund system even works. At the same time, lack of confidence in the electronic administrative capabilities of the tax authority appears to discourage take-up of the e-filing system. This suggests that e-Filing has a great potential of being accepted and used among the tax agents in the now and in the future if only the authority could convince the taxpayers that the advantages of the online system outweigh the disadvantages.

Geremew (2017) in a study on compliance of rental income taxpayers in Hawassa City, Ethiopia noted that majority of respondents (60.8 %) agreed with understanding as rental income is taxable. The rental income taxpayers strongly felt that rental income tax rate should not be equitable compared to other business taxes. The main reason in the difference between the target tax revenues and actual tax collections is the non-compliance of taxpayers with the tax rules and regulations. One of the causes for non-compliance has been the attitudes of taxpayers towards tax system.

Every year the Kenya Revenue Authority holds tax summits that are used to promote innovative ideas and to engage stakeholders in discussion aimed at improving the tax base. The participatory approach on taxation has resulted in the efficient and improved administration. The Kenya tax authority has welcomed the necessity of an integrated approach in advocating for a more stakeholder driven tax environment. The tax summits are used to educate the public and stakeholders on the importance of taxation and its contribution to the social and economic development of the country. In neighbouring Tanzania, the employees of the revenue authority organize seminars to educate stakeholders about the benefits of voluntary tax compliance. However, due to inadequate staff members at the Tanzanian Tax Authority

(TRA) many people have not attended that tax education seminars. The TRA has now resorted to using technology as a tool for educating the public on the importance of voluntary tax compliance.

## **1.2 Statement of the Problem**

The Rental Income Tax (RIT) was introduced by the Kenya Revenues Authority (KRA) and become effective on 1<sup>st</sup> January 2016. However almost four years after the introduction of rental income tax, compliance by residential property owners is still low and KRA is still struggling to enforce compliance. One strategy that the KRA is employing is to tap into the Kenya Power meter registration to identify property owners (Okoth. 2019). This shows that there are still many residential property owners that still do not remit rental income tax.

A study by Thananga, Wanyoike and Wagoki (2013) in Nakuru Municipality concluded that in general, the perception of landlords on rental income taxation and the taxman was negative and this highly influenced their non-compliance. Taxpayers do not consider the implementation of this taxation in good faith and feel that taxes are not put into good use. To address the negative perception of taxpayers, the researchers recommended that the 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 obligation perspective.

A study by Wathira (2016) explored the determinants of residential income tax by property owners in Thika town, where she asserted that, tax rates and tax knowledge significantly affects tax compliance by property owners. Osebe (2013) researched on factors that affect tax compliance in Kenya real estate sector where he found out that factors like education,

penalties, compliance costs, knowledge of tax and the perceived tax evasion opportunities have a great influence on tax compliance.

Several media reports point to the challenges the KRA faces in collecting tax from rental income. Based on previous researches highlighted above and media reports it is evident that many property owners are still not complying with the requirement to pay rental income tax due to various factors. It is therefore worthwhile to investigate why many landlords and residential property owners still evade or avoid paying tax on their rental income. This research set out to investigate why compliance and remittance of rental income tax is still a challenge to the KRA.

### **1.3 Research Objectives**

- i. To establish the effect of taxpayer education on remittance of rental income tax by property owners in Nairobi.
- ii. To determine the effect of compliance cost on remittance of rental income tax by property owners in Nairobi.
- iii. To establish the effect of itax technology on remittance of rental income tax by property owners in Nairobi.
- iv. To determine the effect of itax system coverage on remittance of rental income tax by property owners in Nairobi.

### **1.4 Research Questions**

- i. What is the effect of taxpayer education on remittance of rental income tax by property owners in Nairobi?
- ii. To what extent does compliance cost affect remittance of rental income tax by property owners in Nairobi?
- iii. What is the effect of itax technology on remittance of rental income tax by property owners in Nairobi?

- iv. To what extent does itax system coverage affect remittance of rental income tax by property owners in Nairobi?

### **1.5 Justification of the Study**

The study would help the Kenya Revenue Authority in formulating policies that encourage taxpayers to be compliant with tax regulations. Other revenue authorities across the globe will also benefit for their own benchmark in policy formation. The study provides a platform for further research in the area of rental income tax and taxpayers' compliance. The findings of the study will be used to the management of Kenya Revenue Authority, as it will assist them in knowing the factors that discourage compliance with rental income tax requirements. It will also help the tax authority in designing the requisite technology that would facilitate the remittance of rental income tax. Rental income taxpayers may get to participate and learn the findings of the research and be more acquainted with the importance of being tax compliant and learn on how to improve their tax compliance. The results of the study will be important to tax consultants and academicians in both the private and public sector by contributing to the existing body of knowledge in the area of rental income tax and tax compliance. Researchers may also use findings for further research as a secondary source of information.

### **1.6 Scope of the Study**

The research focus was restricted to the scope of the study, which was to establish the factors that influence the remittance of rental income tax in Nairobi County. Research data was collected from selected rental income taxpayers in Nairobi. The target population is 97,801 rental income taxpayers in Nairobi and who are two taxpayer categories; commercial rental income and residential rental income. The research was conducted between June and September 2019.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews existing literature on itax system, taxpayer education, system coverage and taxpayer education it highlights the views of different academicians, researchers and scholars that have been advanced on the research variables. The chapter also identifies the various theories put across by various scholars in relation to adoption of technology.

#### **2.2 Theoretical Review**

##### **2.2.1 Technology Acceptance Model (TAM)**

TAM theorizes that an individual's intention towards using a system is jointly determined by perceived usefulness, the user's "subjective probability that using a specific application system will increase his or her job performance" and perceived ease of use (PEOU), "the degree to which the user expects the target system to be free of effort." (Davis, 2003).The effects of external variables on behavioural intention (BI) are mediated by these beliefs. According to TAMthe PEOU also has a direct effect on Perceived usefulness (PU).In predicting usage; TAM models might be useful within and across organizations for evaluating applications or technologies, or to make comparisons between user groups or applications. However, TAM has limitations in being applied beyond the work place because its fundamental constructs do not fully reflect the variety of user task environment and constraints (Davis, 2003).

Paul, John and Colletterte (2003), suggested that TAM is a useful model but has to be integrated into a broader one, which would include variables related to both human and social factors.This theory is relevant to this study as it tries to explain the perceived usefulness of technology to an organization and the determining factors of its acceptance. Taxpayers will

also be inclined to use the itax system if they find it easier to use and it makes the filing of tax returns easier.

### **2.2.2 Consumer Acceptance Theory**

Consumers in general make judgments about new situations, products, or services based on related past attitudes and experiences. Past behaviors are associated with category-based effect, i.e. an effective association related to the category of behaviors. They further propose that when a stimulus matches expectations, it triggers this stored category-based effect (Fiske, 1982 and Sujana, 1985). Such a generalized attitude has been supported empirically in terms of its influence on situations that are new to consumers, yet similar to their prior experiences. In addition, various demographic, psychographic, and socioeconomic factors that might affect consumer attitudes toward technology and their adoption to use the technology.

Attitudes towards using technological products in general may provide insight as to why some consumers do use new technology while others do not. If consumers do not have favourable attitudes toward using technology in general, they will be less likely to have favourable attitudes toward system-based technology. Therefore, consumers might more prefer to contact human agent or will request others help to get the expected service (Wang, 2008). The relevance of this theory to the research is because it points that taxpayers' attitude affect their acceptance to new changes and new systems. This theory is relevant to the study and in particular relates to the taxpayer education. The attitudes of taxpayers towards using it can be shaped in a positive way through educating the taxpaying public. With a positive attitude towards itax system, the rental income taxpayers will be inclined to use the system to file their tax returns.

## **2.3 Empirical Review**

### **2.3.1 Compliance Cost**

Based on economic theories, taxpayers are unprincipled utility maximizers and are influenced by profit maximization. They consider alternative compliance paths on whether or not to evade the paying of tax. For small and medium enterprises, they see tax as a burden and therefore the cost of compliance to taxation is central in determining the willingness of taxpayers to pay tax. The compliance costs include all the costs incurred by the taxpayer in the process of filing tax returns (Vihanto, 2000). If taxpayers perceive the compliance costs as excessive, they might be inclined to evade and avoid tax.

A study by Atawodi and Ojeka (2012) on the factors that affect tax compliance among small and medium enterprises (SMEs) in North Central Nigeria found out that tax rates are a major challenge facing micro and small enterprises. Despite the fact that they face other tax related issues, the problem of high tax rate mostly promotes non-compliance and pushes most SMEs to remain in the informal sector. This concurs with another study by Carroll (2011) in Ghana, who found out that the impact tax payments had on women's businesses and livelihoods was varied. Thirty-seven per cent of women surveyed reported that these had no impact on their livelihoods, while in the focus group discussions, some said it had a positive impact on their livelihoods as their taxes pay for hospitals, schools and so on. Others who formed majority reported a reduction in profits because of paying tax, and some said their ability to provide for their families was negatively impacted by the amount of tax they had to pay.

The World Bank's (2008) world development indicator for "time to prepare and pay taxes" shows that while preparing and paying taxes requires 210 hours on average in high income OECD countries, the required time extends to 1080 hours in Bolivia and Vietnam and even

2600 hours in Brazil. In Kenya, the time for preparing and paying taxes amount to 417 hours in a year. In countries where compliance costs are very high, the probability of the taxpayer complying with such a great variety of taxes is low. This study conceptualizes that, compliance to tax policies implies that, one has to honor their tax payments, fines and penalties. In addition, one has the responsibility to provide accurate information to the tax authority for the purposes of tax calculations and finally, do tax filling.

Costs are incurred in acquiring and organizing information, hiring internal auditors and purchase of materials and stationeries. A lot of time is spent in calculation and filing of taxes, an average of 210 hours in a year (OECD, 2009). In most cases, this requires hiring of professional services. All these amounts to compliance costs in addition to the tax payable and which may discourage property owners from complying with rental income tax.

Wenzel (2004) stated that while many taxpayers comply, some do not. Individual factors influencing behavior include gender, age, education level, moral compass, industry, personality, circumstances, and personal assessment of risk. Taxpayers who believe 'the system' is unfair or who have personal experiences of 'unfair' treatment are less likely to comply. If a taxpayer has the opportunity not to comply and thinks that the risk of detection is minimal, he or she will take the risk. This presumably accounts for the greater under-reporting of certain types of income and resistance to the use of online system. For example, salary and wage income is usually highly 'visible' to a tax authority because of third party reporting. Some people view tax avoidance as a game to be played and won: they like to test their skill in avoiding their obligations and avoiding being caught.

### **2.3.2 Itax System**

Braithwaite (2009) carried out a research on Attitudes to tax policy: Politics, self-interest and social values, in Australia. In his study, he tried to explain variation in attitudes to tax policy e.g. Goods and Services Tax. The attitudes that the community hold to taxation policy and reforms are commonly understood from the perspective of self- interest. The analysis of his study suggested that if there are values underlying tax reform processes operate through party politics and not through considerate debate about the best options of achieving both specific and broader goals. The study concluded that tax policy and reforms may not arouse public interest to the same extent as the environment reform or health reform or security reform, but it is not the case that the processes by which individuals evaluate policies and reforms in these other areas are different from the processes involved in evaluating tax policy and reform. The result after evaluation of any reform by an individual taxpayer determines his/her of such reform.

Alm and Martinez-Vazquez (2007) acknowledged that most people evade revenue enhancements and therefore, it is difficult for revenue enhancement authorities to impose and accumulate revenue enhancements anywhere and anytime. This study was carried out to examine taxation and tax compliance in Latin America and Caribbean (LAC) countries and beyond. Their approach relied upon the economic science of crime methodology pioneered applied to revenue enhancement abidance. The findings were that the impact of social norms on compliance behavior is a ground for understanding why people evade paying taxes.

The Electronic tax system endeavours to provide the balance between quality service delivery and enforcement to enhance voluntary compliance (Waweru, 2013). KRA was formed to develop and improve on financial collection measures as well as making sure that all

financial leakages are closed. It was also to ensure that it expedites trade by putting in place those measures that allow digital controlled movement of goods and services. KRA therefore have put in place those measures to reduce the leakages. The invariably include segregation of duties, custody of assets, strict authorization procedures, internal audit, and the use of passwords, proper record digital controls and management supervision.

On filing, scholars and researchers have looked on the relationship between electronic filing and other factors in taxation including efficiency, revenue collection, workload reduction and many more. For instance, Kuznetsova (2010) investigated the factors that affect diffusion of tax return filing online (e-return) in Finland. Basing their studies on the Diffusion of Innovations theory, Bass Diffusion Model and Service Process Analysis he discovered that the diffusion of e-return is dependent on such variables as perceived attributes of e-return system, interpersonal communication channels, performance of related services, and extent of Tax Administration's promotion efforts.

Another study by Anna and Yusniza (2009) looked at the relationship of perceived risk and its facets within the technology acceptance model (TAM) within the tax e-filing context in Malaysia. They based their study on the argument that e-government is becoming increasingly more important in today's world due to its effectiveness and applicability in various areas. Tax e-filing is one of the e-government services that have been adopted by many developed countries today where the public has to discharge their responsibility to the government via online tax filing. And that despite the rapid adoption of tax e-filing in many countries, researchers have argued that it is yet to establish an integrated system that is reliable, especially in developing countries due to high perceived risk by the public. They concluded that many of these risk facets would be significant.

In his study, titled *Influencing Tax Compliance in SMEs using ICT*, Lubua (2014) argued that Revenue collection is an important determinant of the economy of any country. The adequacy of government revenues allows the government to support its operations ranging from administrative activities, infrastructure constructions and service provision. The study aimed to show how e-transparent services address the challenge of voluntary tax compliance by SMEs in the republic of Tanzania. The study observed the following factors to influence voluntary compliance: Awareness of tax laws, business experience, the integrity of employees, low frequency of visitation by tax officers and training needs. The recommendations made were that the revenue authority must use relevant ICT tools to positively promote these factors; as the result, the position of taxpayers to voluntarily file their tax returns will be enhanced.

Amitabh, Sahu and Gupta (2009) did a study on the antecedents of paperless income tax filing by young professionals in India. The objective of this study was to study how young Indian professionals will adopt or behave towards paperless or online filing of tax returns with the aim of enhancing compliance. The regression analysis carried out found that the antecedents of young Indian professionals depended on the perceived ease of the tax system, personal innovativeness in information technology, relative advantage, performance of filing service, and compatibility. The implication of the findings to the current study is that for any online system to succeed whether for small, medium or large taxpayers' category there must be the ease of use, innovativeness and accessibility.

Wamathu (2013) studied the effects of electronic taxation on financial performance of audit firms in Kenya. From the finding the study found that there has been timely filing of returns since inception of I-tax, there has been a reduction in audit period due to introduction of iTax,

respondents were quite knowledgeable. , system failure when login was less, iTax was user manual friendly, I-tax system was reliable and that I-tax was not user friendly, iTax system cost effective, I-tax system was cost effective and respondent were aware of that iTax system was electronic cash register and electronic signature device. She recommended that there is need for the Kenya Revenue Authority to invest on technology in order to reduce the system failure as the study revealed that system failure affects system logins. System failure discourages use of technology.

Muita (2010) in her MBA thesis has also done a related study on the factors that influence adoption and use of e-filing system among Large Taxpayers in Kenya. The study examined the skills required by the users of e-filing, the technology required and the tax authority's preparedness in enhancing the adoption of tax compliance based technology. The study found that for e-filing to effectively take off in Kenya skills, infrastructure and a conducive business environment is needed.

Dowe (2008) argued that the basic prerequisites for implementing successful e-filing and e-payment systems are: (1) a reliable and accessible internet service; (2) cooperative financial institutions; (3) an IT oriented public; and (4) adequate financing to set up the appropriate infrastructure in tax offices. Ideally, the setting of an e-filing and e-payment system should form part of a comprehensive IT design, development and implementation strategy. The electronic filing process still confuses many people because the web portal has many features and yet most people cannot understand some tax terms. Sheikh (2015) explains that as with any new system, there have been numerous teething problems with the electronic system. First, there are two concurrent tax systems, manual and iTax systems without either system recognizing the other.

Taxpayers are also receiving demand emails from the Integrated Tax Management System. This is bound to create discrepancies in taxpayers' records, especially concerning payment of tax obligations as well as submitting returns. For instance, in the current setup, if a taxpayer pays taxes manually, the iTax system will not recognize the payment. Instead, the system automatically calculates penalties and interest on the perceived "missed" tax payments thereby leading to potential disputes between the KRA and the taxpayer. Second, the iTax system lacks historical records of taxpayers. Its record keeping is a "going forward" type in that it only stores tax records of taxpayers from the time of registering for iTax onwards (Sheikh, 2015) According to Lubua (2014), employees play a vital role in ensuring that the revenue authority collects its tax from clients at the right time.

Makanga (2010) did a study on the adoption of technology as a strategic tool for enhancing tax compliance in Kenya. The case study was based on Large Taxpayers which included companies with a turn over Kshs. 750 million and above, or government ministries and corporations. The objective of the study was to evaluate the role Technology would play in Kenya to enhance tax compliance among large taxpayers. The study found that in the fast changing business world, technology has become part and parcel of any business growth. Either KRA or Large Taxpayers must embrace modern technology to enhance efficiency in tax compliance.

### **2.3.3 Taxpayer Education**

KRA commissioner for strategy, innovation and risk management noted that the KRA has put in place a robust stakeholder engagement structure that allows for continuous dialogue on tax matters. The installation of a Customer Relationship Management System forms part of KRA's service delivery model redesigning that places the customer at the forefront. *iSupport*,

an enterprise resource planning system has also been rolled out to enhance operational efficiency (Tumo, 2017).

KRA Annual Tax Summits are the prime events to innovate ideas, engage in fruitful discussions and have better methodologies for enhancing the tax base. A participatory approach in the tax environment leads to a better and efficient tax administration. KRA has embraced the need to have an integrated approach to advocate for a more stakeholder need driven tax environment. The tax summit aim is the strengthening of relationships with stakeholders, demystifying taxation and its role in socio-economic development of a country. It also aligns tax policies to emerging trends and innovations while creating a platform for sharing research outputs, experiences and knowledge on taxation.

Training is essential because it provides clients with the skills necessary in raising their attitude of voluntarily complying with taxation systems. In the Tanzanian revenue authority, employees organize seminars to educate stakeholders about the benefits of voluntary tax compliance. However, many respondents admitted that they never received training from tax officers. This is partly due to inadequate members of staff. The mobile technologies can be useful in providing trainings (Lubua, 2014). They also ensure that clients have the right knowledge of business taxation. Low integrity to employees is reported to significantly affect efforts by the revenue authority toward improving revenue collection.

The use of ICTs by the Tanzanian Revenue Authority has largely addressed the challenge of corruptive behaviour by employees. In areas such as custom department, clients are able to conduct own assessments. However, in domestic revenue there is a low usage of ICTs. Clients depend on employees for assessment and this assessment depends on employees'

rational ability and integrity. The use of ICTs for self-assessment addresses the challenge of the integrity of employees and promotes voluntary compliance (Sheikh, 2015).

#### **2.3.4 System Coverage**

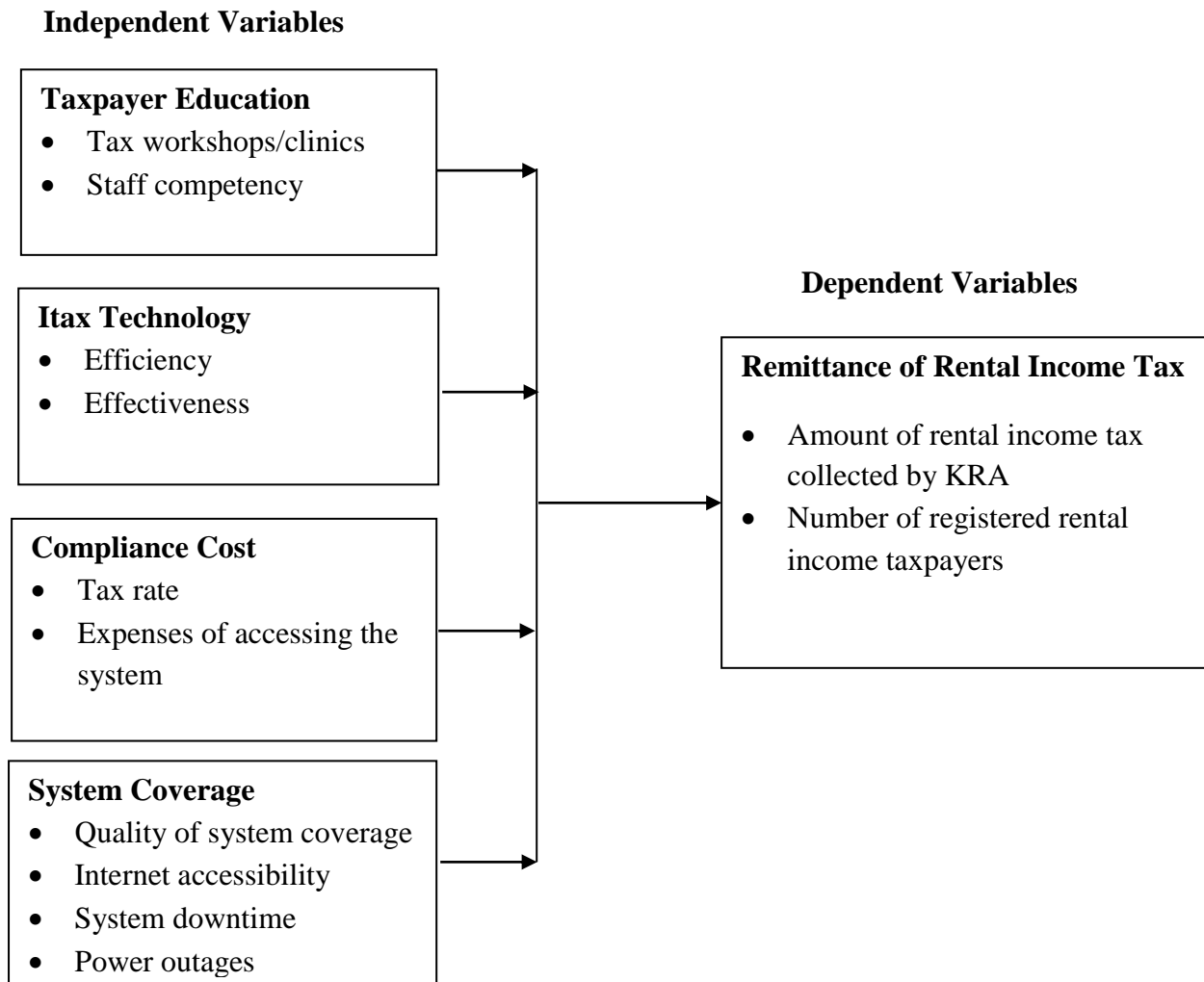
In Uganda, Akello (2014) reported that there are challenges such as intermittent power supply and Internet outages but says the tax body has made contingency plans to ensure that the system is operational 24/7. First, the e-Tax is hosted on a central server at their Kampala headquarters, which means that it is not affected by power or network outages even when power or the Internet is off in some parts of the country.

Another limitation is the available telecommunication bandwidth, limited band-width will increase the response time of the system, and thus adversely affect its functioning. There may be large differences as to available network technology between tax offices of the national revenue and the regional/local system. National tax offices might be connected internally already through a Local Area Network (LAN), but this should not be expected among Local Government Units. Taking into account the severe problems with connectivity and bandwidth, the original position of iTax is that tax revenue authorities in developing countries should opt for 'classical' Client/Server solutions. The data are stored locally while the central database is only updated periodically to minimize the need for prolonged connections and communications between the local client and the central server (Seelmann, Lerche, Kiefer and Lucante, 2011).

### **2.4 Conceptual Framework**

The conceptual framework components comprise of dependent and independent variables. It depicts the relationship among the research variables and which are the influencing factors as well as the direction of the influence. In this case, the independent variables are taxpayer

education, itax technology, compliance cost and system coverage. The dependent variable is remittance of rental income tax, which is affected by the independent variables.



**Figure 2.1: Conceptual Framework**

### 2.5 Critique of Existing Literature

The research by Akello (2014) in Uganda highlighted the main challenges of online tax system are power supply outages and internet outages. He went on to state that the tax authority in Uganda has taken contingency measures to ensure that the online system is available around the clock. Although the research was conducted in Uganda, the researcher observations are also true in Kenya where the itax system is often affected by internet downtime and power failures across the country.

Lubua (2014) observed that the Tanzanian Revenue Authority (TRA) has used tax seminars to educate the tax paying public on the benefits of voluntary tax compliance. He further observed that the TRA's effort to educate taxpayers have been hampered by the inadequacy of staff members. It might also be interesting to find out the taxpayer training efforts instituted by the Kenya Revenue Authority and how successful these trainings have been.

Waweru (2013) noted that the Electronic tax system was introduced by the KRA to provide the balance between quality service delivery and enforcement to enhance voluntary compliance. While it is true that the electronic tax system succeeded in improve tax revenues, it is still unclear whether the electronic system has improve the remittance of rental income tax and this is the task that this research seeks to determine.

A World Bank (2008) report noted that in countries where compliance costs are high, compliance costs are low and taxpayers are inclined to avoid paying taxes. None of the researches on compliance costs has focussed on the Kenyan context where compliance costs are high.

## **2.6 Summary**

The second chapter has reviewed literature that is relevant to this research. The sections included in this chapter included theoretical review, empirical review, conceptual framework, critique and research gap. In the theoretical review, two theories (technology acceptance model and consumer acceptance theory) were highlighted, the empirical review highlighted previous research studies that are closely related to the topic under study.

The conceptual framework is an illustration that shows the interrelationships among the research variables (independent and dependent). The research gap shows the areas overlooked by previous research studies, while the critique presented the critical analysis of the reviewed literature.

## **2.7 Research Gap**

In the foregoing literature review, many studies conducted within and without Kenya have been reviewed, but most of them have been on taxation in general and none of them has looked at out compliance costs, taxpayer education, system coverage and itax technology affected the remittance of rental income tax in Kenya. A study that is closely related to the research was by Wathira (2016) in Thika Town, but it only focused on the effect of tax rates and tax knowledge on compliance by property owners. While it is common knowledge many residential property owners have not complied the Finance Act (2015) that introduced the rental income tax, there is no previous research in Kenya that has looked at how system coverage, taxpayers education, itax technology and compliance cost affect remittance of rental income tax. This research was therefore for the purpose of filling the identified gap and provide answers to the research questions that the Kenya Revenue Authority can used to find solutions to the non-compliance by residential property owners.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter explains the research methodology that the researcher adopted in conducting the research. This includes the research design, target population, sampling technique and procedure, data collection instruments as well as data collection method.

#### **3.2 Research Design**

The research used the descriptive research design in order to establish factors affecting the eradication of corruption cases. Descriptive research determines and reports the way things are, it describes data and characteristics about the population and phenomenon being studied. Descriptive survey design includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research design is description of the state of affairs as it exists at present (Kothari, 2004). The justification of this design is because it is normally the best method for collecting information that demonstrates relationships and describe the relationships between different elements as they are. The case chosen for the study is Kenya Revenue Authority Head office at the Times Tower in Nairobi CBD.

#### **3.3 Target Population**

Burns and Grove (2003) describe population as all the elements that meet the criteria for inclusion in a study. Population refers to the entire group of people, events or things of interest that the researcher wishes to investigate. The population of interest for this study comprised of 97,801 rental income taxpayers in Nairobi County as per the KRA records.

### 3.4 Sampling Frame

According to the KRA records there are 97,801 registered rental income taxpayers in Nairobi. This is the pool of taxpayers from which a sample was drawn from as explained in the next section.

### 3.5 Sample Size and Sampling Technique

Sampling is the process of selecting units (people, organizations) from a target population of interest so that by studying the sample we may fairly generalize our results back to the population from which they it was chosen. Determining sample size is a very important issue because samples that are too large may waste time, resources and money, while samples that are too small may lead to inaccurate results, (Kothari, 2004). Cochran's sampling formula was used to calculate the sample size as indicated hereunder.

$$n_0 = \frac{Z^2 pq}{e^2}$$

Where  $n_0$ =sample size,  $Z$ =Zvalue (for 95% confidence level is 1.96),  $p$ =percentage of population with characteristics desired by the researcher (in this case 50% expressed as a decimal 0.5,  $q$  is  $(1-p)$ )

In this research, with a population of 97,801, the desired population is 50% and the sample size was 369 respondents as calculated hereunder.

$$n = \frac{1.96^2 \times 0.6 \times 0.4}{(0.05)^2}$$

$$n = \frac{0.92184}{0.0025} = 368.7936$$

$n$ , (sample size) = 369.

### **3.6 Data Collection Instruments**

A questionnaire was the primary data collection instrument for this research. The questionnaire comprised of questions derived from the research objectives. It had one section with general questions about the respondents and another likert-scale type questions that specifically address the research objectives. The likert measures the level of respondents' agreement or disagreement with the questions/statements. Likert scale is good in measuring perception, attitude, values and behaviour. The likert scale has scales that assist in converting the qualitative responses into quantitative values (Upagade & Shende, 2012).

#### **3.6.1 Instrument Validity**

Validity is the degree to which an instrument measures what it is supposed to measure (Kothari, 2004). Therefore, the term refers to the extent to which an instrument asks the right questions in terms of accuracy. The content validity of the research instrument for this study will be determined through piloting, where the responses of the subjects were checked against the research objectives.

#### **3.6.2 Instrument Reliability**

Mugenda and Mugenda (2003) defined reliability as a measure of the degree in which a research instrument yields consistent results after repeated trials. Reliability is a measure of the degree to which a research yields consistent results or data after repeated trials. Reliability is the degree of consistency that the research instruments or procedures demonstrate; it is the reproducibility of a measurement. It is qualified by taking several measurements on the same subjects. Poor reliability degrades the precision of a single measurement and reduces the ability to track changes in measurement studies. To assess the reliability of the instrument for this study, test-retest technique was used in which the questionnaires were administered to a

group of randomly selected KRA staff, the same was repeated three more times over a period of three weeks. The scores from the pre-test were correlated using *Pearson Product-Moment Correlation*( $r$ ) to obtain the coefficient of reliability or stability, using the formula below. For the research tool to be considered reliable the coefficient must exceed 0.6 (Buley, 2000).

### **3.7 Data Collection Procedure**

The questionnaires were sent to the respondents through their respective email addresses. The respondents were given two weeks within which to fill in the questionnaire and return them back to the researcher by email.

### **3.8 Pilot Testing**

The questionnaires were subjected to a pilot test prior to being administered to the respondents. The pilot test involved issuing 10 questionnaires to rental income taxpayers to fill them. The taxpayers that took part in the pilot test did not participate in the actual data collection. The responses from the pilot test aided the researcher in detecting and correcting errors in the questionnaire.

### **3.9 Data Analysis**

Data Analysis is the processing of data to make meaningful information (Sounders, Lewis & Thornbill, 2009). Data processing involves translating the answers on a questionnaire into a form that can be manipulated to produce statistics. This involves coding, editing, data entry, and monitoring the whole data processing procedure (Hyndman, 2008). The filled questionnaires were checked for completeness. The researcher then coded the respective responses as per the research questions using the Statistical Package for Social Sciences (SPSS). For descriptive statistics, the researcher used frequencies and percentages to capture the characteristics of the variables under study. Multiple Regression analysis was undertaken

to establish the relationship between the independent variables and the dependent variable.

The regression model was:-

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where Y is the dependent variable,  $\beta_1, \beta_2, \beta_3, \beta_4$  are the regression coefficients,  $X_1, X_2, X_3, X_4$  are the independent variables (taxpayer education, itax technology, compliance cost and system coverage) and e is the error.

## CHAPTER FOUR

### DATA ANALYSIS AND PRESENTATION OF FINDINGS

#### 4.1 Introduction

The presentation and discussion of the findings are contained in the fourth chapter. The data analysis results presented in form of tables and charts with brief explanations.

#### 4.2 Response Rate

Table 4.1 show the response rate attained.

**Table 4.1 Response Rate**

Category	Frequency	Percentage
Response	232	63
Non Response	137	37
Total	369	100

The researcher did analysis of the responses received from the respondents in order to determine the response rate as depicted in Table 4.1. From three hundred and sixty nine (369) questionnaires that were issued to respondents, 232 questionnaires representing 63% were returned. Thirty seven percent (37%) of the questionnaires were unreturned. The response rate was 63%, which was considered a high response rate. High response rates are necessary in research as it helps in validating the research findings. Richardson (2005) suggested that response rates of 60% or more are desirable.

### 4.3 Demographic Statistics

#### 4.3.1 Gender

The study sought the gender of the respondents. The results are shown in Table 4.2.

**Table 4.2 Gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	144	62
Female	88	38
Total	232	100

The results in Table 4.2 show that male respondents represented 62% of the respondents while 38% were female respondents. From the findings, it was evident that the majority of the respondents were men. This might be an indicator that most landlords registered with the KRA as rental income taxpayers are men.

#### 4.3.2 Age

Findings of the age composition of the respondents was undertaken and the results are presented in Table 4.3.

**Table 4.3 Age**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Below 20 years	0	0
21-35 years	37	16
36-50 years	74	32
51 years & above	121	52
Total	232	100

Many of the respondents were aged over 50 years of age at 52%. Respondents are aged between the ages of 21-35 years were 16%. Those aged between 36 and 50 years were 32%. None of the respondents was aged below 20 years. The analysis show that respondents aged

between above 50 years were the majority at 52%. This is an indication that most the registered rental income taxpayers are aged above 36 years.

### 4.3.3 Highest Level of Education

The highest education level of the respondents is shown in Table 4.4.

**Table 4.4 Highest Level of Education**

Category	Frequency	Percentage
Certificate Level	79	34
Diploma Level	88	38
Degree Level	42	18
Post Graduate Level	23	10
Total	232	100

Many of the respondents (38%) had Diploma level education. Respondents with degree qualification made up 18% of the respondents. Respondents with certificate qualifications made up 34% of respondents, postgraduate degree holders comprised of 10% of respondents. The findings show that 66% of respondents have a minimum of college level education.

### 4.4 Category of Rental Income Taxpayer

The researcher was also interested in establishing the category of each respondent and the findings are as shown in table 4.5.

**Table 4.5 Mode of PIN Registration**

Category	Frequency	Percentage
Commercial Rental Income	39	17
Residential Income	142	61
Both	51	22
Total	232	100

The findings above show that majority of the respondents (61%) were residential rental income taxpayers. Seventeen percent (17%) of the respondents were commercial rental income taxpayers, with the other twenty two percent (22%) being both commercial and residential income taxpayers. The findings imply that most the registered rental income taxpayers own residential properties for which they pay the rental income tax due from them every year.

#### **4.5 How long have you been a rental income taxpayer?**

The respondents were required to indicate how many years they had been registered as rental income taxpayers. The findings were as shown in Table 4.6.

**Table 4.6 How long have you been a Rental Income taxpayer**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 3 years	93	40
4-6 years	104	45
7-9 years	35	15
Over 10 years	0	0
<b>Total</b>	<b>232</b>	<b>100</b>

Table 4.6 shows the responses from the respondents on how long they have been registered as rental income taxpayers. The analysis of the responses show that many of respondents (45%) had been taxpayers for over four and six years. This was followed by respondents who have been taxpayers for less than three years at 40%. Respondents who have been taxpayers for between 7 and 9 years represented 15%. The results show that most taxpayers registered as rental income taxpayers in the last six years.

#### 4.6 Taxpayer Education

To assess the effect of taxpayer education on remittance of rental income tax, descriptive analysis as conducted. The descriptive statistics were as analysed in Table 4.7.

**Table 4.7 Taxpayer Education**

	Descriptive Statistics				
	N	Minimu m	Maximu m	Mean	Std. Deviation
Tax workshops and clinics educate taxpayers on RIT	232	4.00	5.00	4.7759	.41791
Competent staff can facilitate an effective taxpayer education	232	3.00	5.00	4.4698	.61647
Taxpayers can be encouraged to comply with rental income tax	232	2.00	5.00	4.4440	.91942
Valid N (listwise)	232				

Do tax workshops and clinics give education to taxpayers on rental income tax? Majority of respondents strongly agreed that tax workshops can be used to give the much need awareness on rental income tax as shown by a mean of 4.7759 and standard deviation of 0.41791. On the question of whether competent staff can facilitate an effective taxpayer education, majority of respondents agreed. The mean was 4.4698 and standard deviation was 0.61647. The respondents were required to indicate if they agree that the compliance of taxpayers with rental income tax can be enhanced through tax seminars and clinics. Majority of respondents strongly agreed, the mean was 4.4440 and standard deviation was 0.91942.

#### 4.7 Itax Technology

To measure the level of technology suitability descriptive analysis was conducted. The descriptive results are presented in Table 4.8.

**Table 4.8 Itax Technology**

<b>Descriptive Statistics</b>					
	N	Minimu m	Maximu m	Mean	Std. Deviation
The technology used on iTax is easy to adopt and is accessible	232	4.00	5.00	4.6724	.47035
Considerable time and money is saved because of use of iTax to file RIT	232	1.00	5.00	4.1250	1.22982
Itax system has improved the efficiency and effectiveness of RIT collection	232	1.00	4.00	3.4871	.78944
The itax system has made it easier to file returns and remit RIT	232	4.00	5.00	4.1121	.31613
Valid N (listwise)	232				

Table 4.8 shows the analysis of the responses on itax technology. Majority of respondents agreed that the itax technology is easy to adopt and is accessible. The mean was 4.6724 and the standard deviation was 0.47035. Majority of respondents were of the view that they save considerable amount of money and time when the use itax to file rental income tax as indicated with a mean of 4.1250 and standard deviation of 1.22982. On whether itax has improved the efficiency and effectiveness of rental income tax collection, majority of respondents agreed while almost twenty-five percent of respondents neither agreed nor disagreed. The mean was 3.4871 and standard deviation was 0.78944. The itax system has

made it easier for taxpayers to file and remit rental income tax. This was the opinion of all the respondents, the mean was 4.1121 and standard deviation was 0.31613.

#### 4.8 Compliance Cost

To measure the level of System Security descriptive analysis was conducted and the results are presented in Table 4.9.

**Table 4.9 Compliance Cost**

<b>Descriptive Statistics</b>					
	N	Minimu m	Maximu m	Mean	Std. Deviation
High compliance costs discourage taxpayers from being complaint with RIT	232	1.00	5.00	2.1034	1.06401
The tax rate of ten percent on rental income is high	232	4.00	5.00	4.0776	.26810
Expenses of using the system are part of the compliance costs	232	4.00	5.00	4.7026	.45811
Valid N (listwise)	232				

Table 4.9 shows the analysis of the responses relating to the questions on compliance costs. It was the opinion of most respondents that compliance costs do no discourage taxpayers from filing returns and remitting rental income tax. The mean was 2.1034 and the standard deviation was 1.06401. The ten percent (10%) rental income tax rate is high according to majority of respondents as indicated with a mean of 4.0776 and standard deviation of 0.26810. Most of the respondents indicated that the expenses they incur while using the itax system to file rental income tax returns form part of the compliance costs. The compliance

costs also include the cost of internet access, using cyber cafe services and also hiring tax experts to assist in calculating the due tax

#### 4.9 System Coverage

To measure the effect of system coverage on remittance of rental income tax, descriptive analysis was conducted and the results are presented in Table 4.10.

**Table 4.10 System Coverage**

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
Good system coverage promotes the filing of RIT returns	232	2.00	5.00	4.6207	.79124
Internet access promotes the usage of itax system for filing returns	232	3.00	5.00	4.6724	.57774
System downtime of itax system affects the remittance of rental income tax	232	4.00	5.00	4.5948	.49199
Power outages affect the use of itax system by rental income taxpayers	232	3.00	5.00	3.9526	.54447
Valid N (listwise)	232				

Table 4.10 above show the findings of the responses to questions on the effect of system coverage on the remittance of rental income tax. Good system coverage facilitated the filing of rental income tax returns according to most of the respondents. The mean was 4.6207 and the standard deviation was 0.79124. Majority of respondents were in agreement that internet access promotes the usage of itax system for filing rental income tax returns as indicated with a mean of 4.6724 and standard deviation of 0.57774. The remittance of rental income tax is

negatively affected by the itax system downtime, the mean was 4.5948 and standard deviation was 0.49199. During system downtime, the itax system is unavailable and rental income taxpayers cannot remit income tax because they cannot file returns. Power outages also affect the use of the itax system by taxpayers to file their returns. This power outages can affect the taxpayers as well as the Kenya Revenue Authority

#### 4.10 Remittance of Rental Income Tax

The analysis of the responses to question on remittance of rental income tax is shown below using descriptive statistics.

**Table 4.11 Remittance of Rental Income Tax**

	N	Minimu m	Maximu m	Mean	Std. Deviation
Remittance of RIT is dependent upon registration of landlords as taxpayers	232	3.00	5.00	4.6681	.57149
Remittance of RIT can be improved through education of taxpayers	232	1.00	5.00	4.5172	.98897
iTax greatly simplifies and facilitates filing of RIT returns	232	4.00	5.00	4.2931	.45617
Valid N (listwise)	232				

On the question of whether the remittance of rental income tax is dependent upon the registration of landlords, most the respondents strongly agreed as indicated with a mean of 4.6681 and standard deviation of 0.57149. Majority of respondents strongly agreed that the remittance of rental income tax can be improved through the education of taxpayers. The mean was 4.5172 and standard deviation was 0.98897. The respondents were asked to indicate if they believe that itax has greatly simplified and facilitated the filing of rental income tax

returns. Majority of respondents agreed with a mean of 4.2931 and standard deviation of 0.45617

#### 4.11 Results of the Regression Analysis

Multiple regression analysis was conducted in order to determine the relationship between the independent variables and the dependent variable. The regression results are given in the following tables 4.11, 4.12 and 4.13.

**Table 4.12: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.944 <sup>a</sup>	.891	.889	.19048

a. Predictors: (Constant), Systemcoverage, Compliance costs, Taxpayer education, Itax Technology.

**Table 4.13: ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	67.208	4	16.802	463.071	.000 <sup>b</sup>
	Residual	8.236	227	.036		
	Total	75.444	231			

a. Dependent Variable: Remittance of Rental Income tax

b. Predictors: (Constant), system coverage, compliance costs, Taxpayer education, Itax technology

**Table 4.14: Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.932	.175		5.317	.000
	Taxpayers Education	.313	.055	.229	5.733	.000
	Itax technology	.209	.035	.288	5.992	.000
	Compliance cost	.053	.015	.099	3.541	.000
	System coverage	.303	.037	.420	8.184	.000

a. Dependent Variable: RemittanceofRental Income Tax

The results of the regression analysis are given on tables 4.12, 4.13 and 4.14 above the final regression equation with the coefficients substituted is:-

$$Y = 0.932 + 0.313X_1 + 0.209X_2 + 0.053X_3 + 0.303X_4 + 0.175$$

According to the equation, taking all factors (taxpayer education, itax technology, compliance cost and system coverage) constant at zero, remittance of rental income tax will be 0.932. The regression results also show that a unit increase taxpayer education will result in an increase of 0.313 (31.3%) in remittance of rental income tax. A unit increase in itax technology will result in an increase of 0.209 (20.9%) in remittance of rental income tax, a unit increase in compliance cost will lead to a 0.053 (5.3%) drop in remittance of rental income tax, and a unit increase in system coverage will result in increase of 0.303 (30.3%) in remittance of rental income tax. In terms of significance of the independent variables, the most significant among the four variables was taxpayer Education ( $\beta=0.313$ ), followed by system coverage ( $\beta=0.303$ ). The third was Itax technology ( $\beta=0.209$ ) and the least significant factor was compliance cost ( $\beta= 0.053$ ).

## **CHAPTER FIVE**

### **SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS**

#### **5.1. Introduction**

The fifth chapter summarizes the findings in relation to the research objectives. The conclusion, recommendations and suggestion for further research are also included in this chapter.

#### **5.2 Summary of Findings**

The following section gives the summary of the research findings based on the research objectives.

##### **5.2.1 Influence of the taxpayer education on remittance of rental income tax.**

The study has established that taxpayer education through tax seminars and tax clinics promote the remittance of rental income tax. This is according to majority of respondents who strongly agreed that taxpayer education is critical to the improvement of rental income tax remittance. Potential rental income taxpayers can be educated and encouraged to declare the rental income they earn and remit the tax to the KRA. The tax clinics and seminars carried out by the KRA can only be successful if the competent staff are used to conducts the tax seminars. An effective tax seminars and workshops can motivate non-compliant taxpayers to be compliant.

##### **5.2.2 Influence of iTax technology on remittance of rental income tax.**

Majority of respondents agreed that the itax system influences the remittance of rental income tax. The itax system is easy to adapt, use and is accessible. Another advantage of using the itax technology is that it saves time and money that would have been used to do manual filing. Taxpayers do not doubt the security and confidentiality of their tax information when using iTax to file returns. The itax system has also improved the efficiency and

effectiveness of the rental income tax collection by the KRA. For rental income taxpayers, the itax system simplified the filing of tax returns and the subsequent payments of the tax.

### **5.2.3 Influence of compliance cost on remittance of rental income tax.**

The findings have shown that most of the respondents compliance costs affect the remittance of rental income tax. If the compliance costs are high, it will lead to the taxpayers being discouraged to file their rental income tax returns. It was the view of most respondents that the income tax set at ten percent was high. The compliance costs included internet access costs like costs incurred while using the cyber café to file return.

### **5.2.4 Influence of system coverage on remittance of rental income tax**

The findings also show that itax system coverage affects the remittance of rental income tax. For any system to be accepted and successfully implemented, it must prove to be reliable in the sense that it is always available to the users. According to most respondents the system coverage is usually affected by power outages and system downtime during which the itax system becomes unavailable. For the itax system to be properly used the taxpayers must have good internet access.

## **5.3 Discussion of Findings**

### **5.3.1 Taxpayer Education**

The research findings show that taxpayer education plays a key role in promoting the voluntary remittance of rental income tax. Non-compliant rental income taxpayers can be encouraged to pay rental income tax voluntarily if they are educated about the importance of declaring and remitting rental income tax. The education is best delivered through tax clinics and seminars conducted by the KRA in various parts of the country. A well-formulated tax education program is necessary and should be undertaken by competent KRA staff. Once the

taxpayers have been made aware of the importance of filing rental income returns and pay the due tax, the forceful and coercive means employed by the KRA can be done away with as it may no longer be necessary. The findings are in line with Lubua (2014) who noted that the Tanzanian Revenue Authority uses its employees to train and educate taxpayers on the importance of voluntary tax compliance. The trainings by the TRA employees have however not reached many taxpayers because of shortage of employees on the part of the tax authority.

### **5.3.2 Itax technology**

The research established that the itax system is easy to use and accessible to taxpayers. The accessibility and ease of use is a factor that promotes the voluntary compliance to remit rental income tax. The willingness to use the itax system by taxpayers is because it saves time and money as compared to the previous manual tax return filing system. The itax system has made the collection of rental income tax effective and efficient on the part of KRA. On the side of taxpayers, the itax system has made it easier for taxpayers to file returns and remit rental income tax. The findings are in agreement with Makanga (2010) who established that technology has become a key factor contributing to business growth in the rapidly evolving business. He observed that Large Taxpayers and the Tax authority must take up modern technology in order to improve efficiency in tax compliance. The findings are also consistent with the Technology Acceptance Model (TAM) which states that a user's acceptability of a new system is determined by the perceived usefulness of the system and whether the new system will facilitate the user to improve his/her performance.

### **5.3.3 Compliance Cost**

The ten percent (10%) tax rate is among the compliance costs borne by landlords. This is a factor that contributes to non-compliance and many landlords see it as excessive. Other compliance costs associated with using the itax system to file rental income tax returns also

affect the remittance of rental income tax. The expenses that taxpayers incur when using the itax system include internet access charges, cyber cafes charges, electricity cost and cost of hiring tax consultants to work out the rental tax due. All these cost when added to the ten percent tax become a huge expense for the taxpayers. The high compliance costs demotivate taxpayers from paying and also causes landlords to understate the rental income tax due from them. The findings are in agreement with Vihanto (2000) who stated that small and medium enterprises see tax as a burden that they can avoid or evade and the compliance cost included all the costs incurred in the process of filing tax returns.

#### **5.3.4 System Coverage**

Good and wide coverage of the itax system is necessary if taxpayers are to use it effectively to file their rental income tax returns. The research has established that if the itax system coverage is good it goes a long way in promoting the remittance of rental income tax. Since itax is an internet-based system, internet accessibility is a paramount factor for the smooth operation of the system. The itax system is periodically affected by system downtime and power outage, during these times the system is unavailable to taxpayers, and they cannot file and submit their tax returns. The findings support the sentiments of Seelmann et al (2011), that low and limited telecommunication bandwidth increase the response time of the system and affects its functioning. There may be large differences as to available network technology between tax offices of the national revenue and the regional/local system

#### **5.4 Conclusion**

Taxpayer education, itax technology, compliance cost and system coverage affect the remittance of rental income tax. Taxpayer education needs to be sustained in order to create the awareness among taxpayers of the importance of declaring and remitting rental income tax. While itax has made it easier for taxpayers to file tax returns, the technology used in itax

system needs continuous improvement in order to address the challenges taxpayers encounter when using it. Compliance costs associated with rental income tax must be minimal in order to encourage voluntary compliance among property owners. Otherwise, excessive costs will discourage potential rental income taxpayers from declaring and remitting the tax due from them. The iTax system coverage is wide and caters for all cadres of taxpayers in Kenya. Whether is the individual taxpayers, corporate taxpayers or the rental income taxpayers, the iTax system is convenient to all. The wide system coverage of iTax system ensures that all taxpayers have access to the system and can do tax transactions from anywhere and anytime as long they have internet access.

### **5.5 Recommendations**

In order to improve the remittance of rental income tax the following recommendations are put forward. Taxpayer education through tax workshops and tax clinics must target property owners, both existing and new residential property owners. The purpose of the taxpayer education should be to educate the landlords on the importance and the legal requirements regarding rental income tax. The KRA should come up with a system of identifying new property development and owners and target them for the tax workshops. A system of gathering feedback from taxpayers on the challenges of using iTax system is required so that the KRA addresses them by improving and fine-tuning the iTax system. Compliance costs related with the remittance of rental income tax must be kept at minimum to motivate property owners to be compliant with rental income tax regulations. The government should also consider lowering the tax rate in rental income in a bid to motivate property owners to comply and pay rental income tax. The KRA should ensure that the iTax system covers as wide an area as possible, so that property owners can file rental income tax returns anytime and anywhere. The tax authority should ensure that system downtime is avoided and when it occurs, it should last for a short time.

## **5.6 Suggestion for Further Research**

The research focus was on remittance of rental income tax and looked at compliance cost, itax technology, system coverage and taxpayer education as the influencing factors. The same research can be repeated but from the perspective of KRA and with staff of the tax authority as the respondents. It is also possible that property owners are discouraged from paying rental income tax because they already pay several other taxes. Therefore, a research that examines the effect of other taxes like VAT and PAYE on the payment or non-payment of rental income tax is recommended.

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**APPENDIX I: RESEARCH QUESTIONNAIRE**

Kindly respond to the following questions by ticking on the appropriate box [√]. After you complete filling the questionnaire please email it back to [celestinemutinda@yahoo.com](mailto:celestinemutinda@yahoo.com)

**SECTION A: RESPONDENT’S PERSONAL INFORMATION**

**Section A: Demographic Data (Please tick as appropriate)**

1) Please specify your gender

Male

Female

2) Please specify your age

a. Below 20yrs

b. 21 to 35yrs

c. 36-50 years

d. 51 years and above

3) Please indicate your Highest level of education

Certificate

Diploma

Degree

Post Graduate

Other (specify) .....

4) Which is your category of rental income taxpayer?

Commercial Rental Income

Residential Rental Income

Both

6) How long have you been a Rental Income taxpayer?

Less than 3 years  4-6 years

7-9 years  Over 10 years

For the following sections B to F use the following likert scale; Strongly agree=5 Agree=4 Neutral= 3 Disagree=2 Strongly disagree=1. Please tick in the box which best describes your agreement or disagreement with the statements.

**Section B: Taxpayer Education**

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
a)	Tax workshops and clinics educate the taxpayers on rental income tax.					
b)	Competent staff can facilitate an effective taxpayer education.					
c)	Taxpayers can be encouraged to comply with rental income tax through tax seminars and clinics.					
d)						

**Section C: Itax Technology**

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
a)	The technology used on iTax is easy to adopt and accessible					
c)	Considerable time and money is saved because of use of iTax system to file rental income tax					
d)	Itax system has improved the efficiency and effectiveness of rental income tax collection					
	The itax system has made it easier to file and remit rental income tax returns					

### Section D: Compliance Cost

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
a)	High compliance costs discourage taxpayers from being complaint with rental income tax remittance.					
b)	The tax rate of 10% on rental income is high					
c)	Expenses of using the system are part of the compliance costs.					

### Section E: System Coverage

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
b)	Good system coverage facilitates the filing and remittance of rental income tax					
c)	Internet enabled areas promotes the usage of itax system for filing returns					
d)	System downtime of itax system affects the remittance of rental income tax					
e)	Power outages affect the use of itax system by rental income taxpayers					

**Section F: Remittance of Rental Income Tax**

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
a)	Remittance of rental income tax is dependent upon the registration of landlords as taxpayers by KRA					
b)	Remittance of rental income tax can be improved through education of taxpayers					
c)	iTax greatly simplifies and facilitates filing of Rental Income tax returns.					

APPENDIX II:

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APPENDIX III:

Activity	Apr	May	Jun	Jul	Aug	Sep
Topic and Approval of topic						
Proposal Writing						
Literature Review						
Defence of proposal						
Data collection, analysis						
Submission of final report						

APPENDIX IV:

<b>Expense Details</b>	<b>Cost (Ksh)</b>
Printing and Photocopy	4,000
Binding (Spiral and Hard Cover)	4,200
Travelling, Communication and Internet	10,500
Subsistence	7,000
Data Collection (Research Assistant Allowance)	8,000
Data Analysis	18,000
Miscellaneous	4,000
<b>Grand Total</b>	<b>55,700</b>