FACTORS AFFECTING COLLECTION OF TAXES AMONG REAL ESTATE OWNERS A SURVEY OF LANG’ATA SUB-COUNTY, NAIROBI COUNTY.

ANDREW OTHIENO MULAMA.

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

2020
DECLARATION

I declare that the research project is my original work and it has not been presented for an award of Post Graduate Diploma in any other university, college or institution

Signature: …………………………… Date: ……………………………

ANDREW OTHIENO MULAMA
HDB336-C016/0397/2018

This research project is submitted for examination with my approval as the university supervisor

Signature: …………………………… Date: ……………………………

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DEDICATION
I dedicate this paper to all the amazing people who believed in me and offered me support.
May the almighty God bless them abundantly.
ACKNOWLEDGMENT

I would like to thank my father Joakim, mother Florence, Sister Rose, Brothers Herbert and John, friends my supervisor Dr Michael Muma and all Lecturers at The Kenya School of Revenue Administration for their encouraging and supporting me throughout the entire period of research. The interest they showed motivated me to do my best and achieve what I would not have been able to do on my own. I would also like to thank the staff of the Kenya School of Revenue Administration and Kenya Revenue Authority for providing the necessary resources and information to undertake this research.

God bless you all
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<tr>
<td>ANOVA</td>
<td>Analysis of Variance</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>KNBS</td>
<td>Kenya National Bureau of Statistics</td>
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<td>KRA</td>
<td>Kenya Revenue Authority</td>
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<tr>
<td>PIN</td>
<td>Personal Identification Number</td>
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<tr>
<td>SAS</td>
<td>Self-Assessment System</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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<td>Block Management System</td>
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<td>SIRM</td>
<td>Strategic Innovation and Risk management</td>
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DEFINITION OF TERMS

**Rental Income** - Rental income is any income earned from another's permission to use property owned or owned by another (Waruiru, 2016)

**Real Estate** - Real estate is the property, land, buildings, above-ground air rights and below ground rights (Amadeo, 2018).

**Costs** - Refers to the general worth of something mostly in terms of the Value. EACCMA,( 2004)

**Performance** - Achievement of a result that has been measured in fulfilment of a obligation
ABSTRACT

The topic of tax collection has been of great concern to researchers in developed and developing nations globally. Taxation of the real estate industry has been classified as economic in most third world countries. The Domestic Taxes Department of the Kenya Revenue Authority is responsible for collection of revenue from the real estate owners and the landlord. The ability of the department to meet its objectives is the performance by which it will be judged by. The domestic tax department has several enforcement arms amongst them the rental income unit which are employed to aid in achievement its objectives. This study focused on the factors affecting the collection of taxes among real estate owners in Lang’ata sub-county. The general objective of this study was to determine factors affecting collection of tax in the real estate sector in Lang’ata Sub-County. The Specific objectives of the study were to establish whether data driven approach has enhanced tax collection among real estate owners in Lang’ata sub-county, to determine whether taxpayers knowledge of tax legislation has an effect on collection of taxes in real estate sector in Lang’ata sub-county and to establish whether enforcement measures have an effect on the level of collection of taxes in the real estate sector in Lang’ata sub-county. These objectives are crucial if the domestic tax department and the Kenya Revenue Authority as an organisation are to be considered successful. The theories that are relevant to the study include the institutional theory, resource based and the deterrence theory. The study was descriptive based research on the need to give an elaborate explanation on the factors that affect the collection of rental income tax in Lang’ata sub-county. A research gap of training more officers was identified. A sample size of 40 out of a population of 44 respondents was used in the collection of data. Stratified sampling technique was used in the collection of data. The data analysed was collected using both open ended and closed questionnaires from the respondents. The researcher will then use SPSS version 25 to analyse data and the linear regression model to show the correlation between the independent and dependent variables. From the findings it is evident data driven approach and other variables used in the study affect rental income collection. From the findings it was established that rental unit needs to employ more trained officers. However, from the study findings it was established that majority of the respondents disagreed that the benefits of the rental unit exceeds its operational costs. In addition, the study established that landlords in Langat sub-county are more open in their declarations because of the rental income unit. The study concludes that the enforcement measures is a more cost effective tool compared to other method and the rental unit does not earn domestic tax department a lot of extra revenue. The study recommends that the rental unit should invest more on training to curb tax evasion. Finally, the study recommends that the rental unit should be financially supported since it helps rental officers to easily and efficiently collect taxes.
CHAPTER ONE
INTRODUCTION

1.1 Background information

Taxes play a major role in the management of the economy in developing countries (Lymer and Oats, 2009). Taxation in Kenya is the primary means by which the government generates revenue to fund its expenditure which includes provision of social public amenities, welfare and payment of debts. Statistics have shown that, in Kenya, less property owners and developers meet the tax on rental criteria. The Kenyan government has introduced various legislative and administrative reforms over the years that aim at increasing efficiency in its tax system. The main reason as to why all this reform is reducing the incidents of tax avoidance and leakages in tax system. In 1992 the government introduced a system where all tax payers were required to register with the tax authority which keeps records and makes the filing of returns and payment voluntary, the system was to act as a self-assessment tool. The main objective of this tool is to reduce the tax collection cost, increase efficiency in tax collection, reduce the KRA burden of assessing returns and increase the willingness of voluntary tax compliance (Masinde and Makau, 2010)

1.1.1 Global perspective of Tax Collection.

In 2018 real estate development played a crucial role in the U.S. economy, adding $1.5 trillion to economic performance of the nation. That is 6.2% of the U.S GDP it is more than $1.13 trillion (Kimberly Amadeo, 2017). In United Kingdom real estate is one of the economic fundamentals, It employs more than 1 million people directly and contributes more than 94 billion pounds to UK economy. Every year, the industry adds more than 50 million square feet of space worth about 12 billion pounds and contributes nearly 1% to UK GDP (British Property Federation). According to Jarrod (2012), Australia’s rent tax rate starts at 32.5 percent. A foreign citizen is taxed from the received first dollar unlike Australian resident taxpayers who may earn a fixed amount of tax-free income. The tax rate on the first $87,000 you earn remains at 32.5 per cent and then rises to 37 per cent (2016-17 tax rates).
Of course, Australia, as per Furceri and Karras (2010), with its abundant natural resources and many powerful economic oligopoly sectors receiving location-specific rents on a large scale are truly a country which must protect its income tax source. But this has remained tough. In Canada, revenue taxes exceed property taxes by far on average. On average, homeowners charged 2.9% of their family income in 1998 for property taxes, compared to 21.3% in taxes. (Statistics Canada, 2000) While in most family’s property taxes are usually manageable, approximately 1 in 15 paid 10 percent or more on their property tax income.

1.1.2 Regional perspective of Tax collection.
Real estate in Ethiopia is one of the most profitable, high in demand sectors, the major place being Addis Ababa one of most rapidly growing cities in Africa. Domestic growth of the sector contributed 12.5 per cent in the last 10 years, the income generated by the real estate is growing by 14.1% every year, there is a 37% Increase in the real estate investment and also over 2.7 million square meter of Addis Ababa land was leased to real estate developers between 2004 and 2007. In Ethiopia, an individual deriving income from a casual rental property not connected to a company taxable under Article 17 shall pay the annual gross income tax at a rate of 15% (15%). This tax is a total charge, rather than a net income tax. (Proclamation No. 361/2003). Following the boom cycle characterized by fast and double-digit growth, Real estate sector in Nigeria has been heavily affected by the economic downturn in that country, with development dropping in 2015 and 2016, and remaining sluggish in 2017 and 2018. Data from the National Statistics Bureau (NBS) show that real estate GDP growth in nominal terms grew from 15.1 per cent in the 2013 first quarter to 24.14 per cent in the second quarter of 2013, Real GDP growth across the year reached 20.49 per cent in 2013. The growth was steady until it reached a nominal growth average of 1.76% in the first nine months of 2016.

1.1.3 Local perspective of Tax collection.
According to the KNBS economic survey of 2017, the real estate sector approximately contributes 7.7% to the Gross Domestic Product (GDP) in Kenya. From Kenya 's capital Nairobi to the numerous counties, many still see real estate as an attractive investment. Demand for housing is increasing with increasing urbanization and decentralization, yet the government has been unable to meet the annual housing needs. (Luke Mulunda, 2017).
Over the years the real estate in Kenya has exhibit a positive growth. A research was done by (Linda and Miles, 2019), Kisumu was the major target.

It focuses on factors that form the low level of property tax collection and the key variables are the spatial size of property tax collection and use of funds; limited resources and collection capacity; and tax administrators' own view of the legality of property taxation while the independent variables used are tax enforcements used by the tax administrator. The finding confirms that local tax administrators are not merely tax policy recipients but are active agents in shaping how policies work in practice. In general, improving property taxes requires measures to address alignment, capacity and legitimacy. Instead of attempting top-down reform, however, this research suggests that building on tax administrators' perceptions and practices will provide a more effective way to increase property tax in smaller urban centers in Africa. The National Housing Corporation and private developers in conjunction with the government are continuously developing coming up with new housing projects leading to expansion and growth of the sector.

1.1.4 Real Estate sector in Lang’ata sub-county in Nairobi County.
Real estate sector in the Lang’ata sub-county is experiencing high growth rate driven by an increase in demand for residential housing, business premises and hospitality facilities. This has been attributed the need for an ample living environment and proximity to town the development of good planned infrastructure projects by the government has also increased the rate at which the sector grows in Lang’ata sub-county (Kenya Bankers Association Housing Index)

1.2 Statement of the problem.

Globally, tax collection has been a key issue to researchers. In developing countries, taxation on rental income is classified as being economic in that the monies collected are used to develop the country. (Tilahum & Yidersal, 2014, 2010). Just like other systems of taxation real estate has been dealt by a multitude of challenges on both taxpayers and revenue collection authorities (Berhane & Yesuf, 2013). According to the Data from the Kenya National Bureau of Statistics the real Estate sector in Kenya is growing over the years. This was in part due to the suspension of the Capital Gains Tax from 1985 to 2015,(Cytonn, 2018) thus the government should endeavor to capitalize on this growth to increase its revenue collection (KNBS, 2017) this can be done by ensuring total compliance to the Tax laws governing the sector.
Tax collection has been a major concern of all governments. It is hard to persuade all the taxpayers to meet all their obligations (James and Alley 2004). In the last few years, the government has had a difficult task of imposing and raising rental income tax, especially in the rural areas. Rental income has not always been subject to tax and how the Kenya Revenue Authority (KRA) can collect it effectively has been (and continues to be) a challenge. Monthly rental income tax was introduced in 2016 According to KRA, (KRA 2018) tax compliance on rental income has been so low despite all the effort that are being put in place to create awareness about the obligations of the real estate owners through tax payers’ education drive and other mass media communications. This is why the Kenya Revenue Authority introduced a special project based at the Sameer Tax Service office known as The Block Management System which works in tandem with Kenya Power to collect information on landlords and real estate projects in the country. KRA however facilitates compliance through trust and facilitation and therefore gives real estate owners a chance to do self-assessment and make the payments.

Low tax compliance always leads to unachieved tax collection targets needed for the government to finance its activities, it also leads to overreliance on borrowing which can eventually lead to a budgetary crisis (Flynn, 2013). Most of the developing nations are facing the challenges of enhancing tax compliance. It is because tax authorities in these countries operate with very minimal resources and low capacity that is not enough to monitor and ensure compliance among the rental tax payers (Tanzi, 1992). Kenya is a developing country it therefore experiences many challenges in enforcing compliance to the Income tax law to the required level so as to raise enough revenue that will promote economic growth. Tax studies on non-compliance have been studied in different place an example being Mohani (2001). More researches have been done on the residential income in the urban areas, but very few researches have been done in the sub-counties especially in Lang’ata sub-county. Therefore, this calls for a study to determine effects of enforcement measures on collection of rental income in Nairobi County. This study therefore targeted a different geographical location and a different economic sector. Therefore, while there have been prior studies done on tax collection, the topic can merit further development. This study therefore aimed at identifying factors that hinder compliance particularly in the real estate rental sector.
1.3 Objectives of the Study
The study was guided by general and specific objectives.

1.3.1 General Objectives
The general objective of this study was to determine factors affecting collection of tax in the real estate sector in Lang’ata Sub County.

1.3.2 Specific Objectives.  
The study was guided by the following specific objectives.

i. To establish whether data driven approach has enhanced tax collection among real estate owners in Lang’ata sub county.

ii. To determine whether taxpayers’ knowledge of tax legislation has an effect on collection of taxes in real estate sector in Lang’ata sub-county.

iii. To establish whether enforcement measures have an effect on level of collection of taxes in the real estate sector in Lang’ata sub-county.

1.4 Research Questions
The following study questions were used as guidance.

i. What is the effect of data driven approach in enhancing tax collection among the real estate sector in Lang’ata sub-county?

ii. What is the effect of taxpayer knowledge in enhancing tax collection among the real estate sector in Lang’ata sub-county?

iii. What are the effects of enforcement measures on the level of tax collection in Lang’ata sub-county?

1.5 Significance of the study
The study will benefit the following parties.

1.5.1 Kenya Revenue Authority Management and Policy Makers.
Outcomes of the study will help KRA management and policy makers to develop policies that will seal loopholes that make it hard to collect rental income by identifying the factors that results to tax avoidance and evasion. This will at the end enhance compliance leading to an increase in revenue. The outcome will also assist policy makers identify the challenges taxpayers in the real estate sector face when complying with the rental income tax law it will also propose some possible solutions that will help overcome this challenges.
1.5.2 Landlords and Real Estate Owners
Conclusions after the study will help the landlords and real estate owners, it will educate them to know the value and importance of compliance and also provide easier way in which they can make sure that they are compliance in all factors relating to tax laws.

1.5.3 Researchers and Scholars
The study will help Researchers and scholars since the results will be used as a point of reference basis for future studies both in Taxation and other economic sectors.

1.6 Scope of the study
The major objective of the study focused on collection of rental tax in Lang’ata sub-county. The target population for the study is the landlords and real estate owners in Lang’ata sub-county and KRA real estate officers based at Wilson Airport office. It seeks to establish how revenue collection in the real estate sector can be enhanced. The study was done in a period of three months.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter outlines the theoretical literature review which focuses on various theories underlining the study which includes the resource based theory, the institutional theory and the economic deterrence theory. Review of study variables, the empirical literature review, Critique of the literature available relevant to the study, a summary of the literature review and Research gaps.

2.2 Theoretical literature review
Abao (2017), states that literature review is an attempt by a writer to summarize state of the research on a topic. The researcher looks up current views that are relevant to the current stand of the area of study. Such views include among others; people working in a field, major advances and discoveries, gaps that are significant in the study, discussions and ideas of where the research may go next. The Resource Based Theory, The institutional Theory and The Economic Deterrence Theory guided the study.

2.2.1 The Resource Based Theory
The resource based theory is a framework developed by an organization and the people responsible for running of the day to day activities of a department within the organization with the aim of giving it a competitive advantage over other departments or rival organizations. Barney, (1991). Barney further opined that firms can be heterogeneous in nature and still compete on the basis of resources. The departments within an organization are usually accorded different resources but are expected to still perform and give results to the organization. An organization’s resource is defined as an asset or a liability of the firm. At any given time anything tangible or intangible that a firm can utilize to generate income or revenue is considered a resource. Examples or an organizations resource is the human resource, machinery, land, capital among others. Different resources exploited by the organization are expected to yield results and as most likely income for the organization. Birger, (1984). The theory was relevant because it showed how the real estate sector as an arm within Domestic tax department was given resources such as the employment of more staff and training of the officers. Resources such as data and taxpayer sensitization leads to enhanced data collection.
The more resources the tax authority employs to automate its tax collection capabilities, the higher the chances of it increasing its collection of real estate revenues. The rental income officers had also been accorded resources to help achieve the objectives. With such resources invested in the unit, results are expected. With the saying ‘to whom much has been given, much is required’, the rental income unit will be called upon to make more detections on non-compliant landlords.

2.2.2 Institutional Theory.
The theory of the institution seeks to elaborate and explain the social structures that govern people and organizations and how deep they run. The theory looks into the processes by which structures which include schemes, rules, norms and routine are established in an institution as guidelines for social behaviors. There are several components of institutional theory which are different and seek to explain how these elements are created and developed over space and time; and how they eventually fall and are no longer as useful as they used to be. Scott,(1995). According to the opinions of Meyer and Rowan, (1977), DiMaggio and Powell, (1991) the environment around an institution influences the development of structures that formally make up an organization often more than market pressures. The organization then attempts to easily recognizable and acceptable standards within its field of operations which helps it foster its own legitimacy. The theory further explains that both deliberate and accidental choices lead institutions to develop ideologies in which they operate. Di Maggio and Powell, (1991), suggest that there are three types of isomorphic processes; The processes are coercive, mimetic and normative and that they lead to an increase in homogenization within an organizational field. The coercive process projected when other organizations on which the institution is dependent on apply pressure. Coercive forces include factors beyond the control of the institution which need to be adhered to such as legal regulations and new standards of accreditation. Contrary but still applicable, mimetic processes can arise from futuristic factors such as technologies for goals that are not clear and predictable that lead institutions that have less prestige and resources to model and emulate those organizations that are thought of as leaders within the field. The normative process is a result of an increase in the ability of the organization to have more professionals as networks grow. This encourages homogenization of the institutional activities.

Toma, Dubrow and Hartley, (2005) explained that an institutional theory framework works in an environment which limits the discretion of institutions in the engagement of certain activities and moves the institutions towards conforming to rules and regulations but not necessarily towards its strategic advantage.
The institutional theory supports an emphasis of the normative impact of the environment on activities that govern the organization and that external pressure to conform may drive the range of decisions available to be made by institutions. The institutional theory is relevant in that it explains the necessity of the real estate projects in developing a strong and reliable rental tax collection in its bid to combat tax evasion by landlords and real estate owners and enhance tax collection in real estate.

The normative process of the rental revenue collection units means them to develop and improve themselves from within.

2.2.3 The Economic Deterrence Theory

Bentham in 1789, stated that people refrain from committing crimes because they fear the punishments they will undergo if they commit them. Deterrence is achieved when people who are considering committing a crime believe that it is too risky for them given the possibility of being caught and possibly being punished and therefore choose not to do so. Deterrence is therefore a strategy intended to dissuade an adversary from taking an action not yet started. Brodie (1958), writes that an organization or state must have the necessary tools for deterrence even if they will never be used. The deterrence theory is premised on dealing with challenge of compliance of tax laws and processes in an attempt to seek enforcement mechanisms that can be substituted to the morality and willingness of traders to comply with the given laws. This shows there is widespread evidence of noncompliance and engagement of illicit tax practices with the aim of reducing the responsibility to pay appropriate taxes is common in almost all the different countries. Ortega and Sanguinetti (2012). The theoretical approaches of the deterrence theory in using the rental income unit to combat malpractices and promote compliance of tax collection and meet the objectives have been divided theory of economic deterrence and the behavioral theory, Frey and Feld, (2002). The deterrence theory was mainly prevalent in the examination of malpractices with the purpose to evade taxes. The theory can be achieved by use of approaches. These can be both punitive and persuasive. The use of the punitive deterrence, rental taxation can use the increase of probability of being caught engaging in tax evasion by use of enforcement tools such as Penalties and interests. The theory of deterrence is relevant in that one of the core functions of KRA is the protection of society and collection of revenue. The use of the use of enforcement measures as a means to control illicit practices and tax evasion and deter its harm on the Kenyan and East African society and economy.
2.2.4 Conceptual Framework
The conceptual framework is an analytical tool that is used to get a comprehensive understanding of a phenomenon Emad Kamil (2015)

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<thead>
<tr>
<th>Data Driven Approach</th>
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<td>• Accuracy of the data.</td>
<td>• Timely filing</td>
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<td>• Validity of data.</td>
<td>• Correct declarations</td>
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<th>Taxpayers’ Knowledge</th>
<th>Enforcement measures</th>
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<tr>
<td>• Training and seminars</td>
<td>• Penalties and Interests</td>
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<tr>
<td>• Willingness to learn</td>
<td>• Agency Notices</td>
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Independent Variables

Dependent Variable

Figure 2.1 Conceptual Framework

2.3 Review of Study Variables

2.3.1 Data driven Approach.
Tax authorities are increasingly investing in new technology to proactively collect financial data in real time. New data and analytics technology enables tax authorities to quickly sort through millions of records to identify issues, risk-assess taxpayers and reduce timeframes for tax audits. As a result, they are swiftly improving their ability to reduce errors, prevent fraud and ensure corporate taxpayers meet their income, indirect and other tax obligations. Tax authorities are also demanding more data from corporate taxpayers, and they often demand it sooner. The KRA officers at Wilson Tax Base Expansion Project and those at the rental project receive data which was initially collected by the Block Management System in liaison with Kenya Power and sent to the Strategic Management Information System for analysis and fine-tuning who calculate the outstanding tax due together with the due fines and penalties before making notices of assessments and sending them to the landlords and real estate owners.
KRA,(2018)This approach of using data is accurate and valid because it links the KRA Pin, National ID and Kenya power meter numbers making it more effective and accurate hence increasing the amount of tax to be collected and boosting revenue for the organization. This data in filtered and the sent to the project teams These trends will increase as countries around the world continue to implement the Organization for Economic Co-operation and Development (OECD)’s Action Plan on Base Erosion and Profit Shifting (BEPS) and its requirements for more transparency in corporate tax reporting. As tax authorities embrace tax digitalization, it’s never been more important for companies to understand every detail of the story their tax data tells, while ensuring accuracy and consistency. Companies that take a data-driven approach to tax are in the best position to meet tax authorities’ demands globally and prevent costly errors.

2.3.2 Taxpayers Knowledge.
Knowledge and understanding of tax laws is one of the factors that relates to the taxpayers in terms of compliance, an understanding of tax laws and their willingness to comply. Compliance-related information factor is the general understanding of tax laws (Kasipillai et al, 2003). In order to increase public awareness, especially in areas relating to tax laws, the role of tax in national development and also to clarify how the government uses the revenue collected (Mohd, 2010). Improved awareness on tax can result to a positive attitude thus improving tax compliance. If a taxpayer is optimistic about tax, his or her propensity to stop paying tax is reduced (Ericksen and Fallan, 1996). Self-Assessment System (SAS) require that all taxpayers should be able to comprehend the tax laws and regulations. This is important because the taxpayers can determine the sum of taxes to be charged and make payments (Kasipillai et al, 2003). If taxpayers have ample knowledge and understanding they will readily accept introduction of new changes in the tax system and also the filling procedures. In this regard the tax authority and other public institutions need to introduce education programmes in order to enhance the taxpayer’s ability to understand taxation system, laws, procedures and to raise their faith in carrying out their duties as taxpayers (Mohani, 2001).

2.3.3 Enforcement Measures.
The KRA has put in place enforcement measures to deter would be tax cheats and boos its revenue collection amongst landlords and real estate owners. Examples of enforcement measures include issuing of agency notices and imposition of agency notices to keep would be evaders on check.
When higher penalties and Interests are imposed the simply make evading of taxes more hazardous. The deterrent impact of sanctions is unable to be always confirmed empirically. The results observed were lower than expected and some studies also indicate that an increase in penalties could have negative consequences and contribute to further tax evasion (Kirchler et al, 2007). A theoretical economic model proposed by Allingham and Sandmo (1972) clearly demonstrates that both sanctions and the likelihood of auditing affect tax compliance. The higher the Interests and the likely likelihood of the audit, the greater discouragement for possible tax avoidance. Most severe penalties have little effect; if it is common knowledge that virtually little auditing takes place. The rise in fiscal evasion and resistance to tax resulting from an increase in interest raises questions as to whether interests can be assessed as being effective. On the other hand, the tax should be sufficiently high to reduce the expected value of tax evasion and ensure its deterrent effect on tax payers. If taxes are too high, the tax system would be viewed as unreasonable and unjust this will prompt the taxpayers to using any possible way to avoid taxes legally (Kirchler et al, 2007). The agency notice on the hand seeks to block the bank accounts of landlords and real estate owners. When the KRA issues a bank with an agency notice, the bank now acts as the authority’s collection agent or it is held liable for its client’s debt to the authority. This has proved an effective method of collection of revenue because the landlords would not like to have the inconvenience of having their bank accounts frozen over a liability that would be significantly less than the amount that they owe the authority.

2.3.4 Tax Collection

There is a research body on taxpayer behavior, which helps build a deeper understanding how taxpayers are driven to comply with tax system specifications or not (Gayer & Mourre, 2012). Referring to Mwangi (2014), Personal income rates are the main reasons for tax evasion that tend to drive taxpayers to evading tax. A high tax rate is generally believed to be the principal reasons for tax evasion. Encouraging tax evasion depends on marginal tax rates, as these control the benefits of avoidance as a portion of the avoided tax. High taxes Can be a job-disincentive that could lead to low collection of tax (Kołodziej, 2011). The attitude and perception on tax and its general degree of enforcement were also described as the major factors affecting tax compliance (Mukabi, 2014). Attitude is typically regulated by a person’s behavior. It is therefore expected that a taxpayer with a positive attitude towards tax avoidance would Be less compliant than a negative-minded taxpayer (Kirchler et al., 2008; Nicoleta, 2011).
Income rates are also regarded by different individuals and organizations as having an effect on tax enforcement. In Kirchler’s opinion et al. (2007), the majority of taxpayers want to risk their hard-earning cash by playing with the tax authorities. Nicoleta (2011) also maintains that those who work for themselves are more likely to stop paying taxes than the employed. Fines and interest are part of the enforcement measures against tax violations. Penalties and fines typically promote adherence to taxes. The only challenge is identifying certain individuals or businesses likely to escape tax payments (Mukabi, 2014). It is therefore important for the tax authority to have an efficient program that can assist with detecting non-compliance and penalizing or fining tax evaders. Tax awareness and education are considered critical component of fiscal enforcement attitudes. Kirchler et al. (2008) argues that awareness of tax is important because a person will only comply when he / she knows what is to be done at any time. Knowledge as they claim is power. Bad tax knowledge can lead to a lack of confidence and a negative attitude towards taxation; while good tax knowledge is correlated with a positive attitude towards taxation (Hofmann, Hoelzl & Kirchler, 2008).

2.4 Empirical Review

2.4.1 Data Driven Approach and Tax Collection.
To improve domestic resource mobilization, the KRA has implemented initiatives and reforms to modernize Kenya’s tax system. Before 2003, the KRA achieved little in digitalizing tax administration, lacking as it did the appropriate developments in the national payments system. After 2003, the KRA laid the groundwork for the current momentum of digitalization and reforms in tax design and revenue administration launched under the Revenue Administration Reforms and Modernization Program. The reform strategy was based on six components: customs reform and modernization, domestic taxes reform and modernization, road transport reform and modernization, business automation, human resources revitalization, and infrastructure development (KRA 2010). Box 10.3 describes the main digitalization initiatives that preceded the iTax system and KRA M-Service. The reforms described in this section, made possible by the technological revolution, were the prerequisites for development and adoption of the iTax system and the KRA M-Service. The financial sector has become more inclusive, banks have integrated the Digital Financial System as an efficient platform to manage micro-savings accounts, and a retail payments system has emerged that does not require a bank account.
2.4.2 Taxpayers knowledge and Tax Collection.
There were several other studies that have been conducted on the subject of factors affecting the tax collection of real estate owners. Berhane and Yesuf (2003) evaluated the difficulties and home Income Tax Opportunities in the regional state of Tigray, Ethiopia. Collection of their data through research questionnaires. The results of the study have shown that there is inefficiency and a shortage of income tax assessment and collection officers in the federal state of Tigray. In addition, the study found that most taxpayers do not have adequate information about tax assessment and collection procedures. Therefore, the majority of business house rent taxpayers do not know the existing rules and regulations, and further the study found that the tax payment was postponed due to negligence. Mukabi (2014) also examined factors affecting Kenya’s revenue authority's tax enforcement with turnover tax compliance at Kenya revenue authority. The study employed a group of 56 respondents chosen using stratified sampling and data obtained using questionnaires. The findings of the study have shown that taxpayers’ perception of the tax system has a major effect on the level of turnover tax enforcement. The results also suggested that other factors, such as enforcement costs and complex processes, contributed to low rates of enforcement. The study also showed that increased tax awareness had a significant effect on understanding the tax system.

2.4.3 Enforcement Measures and Tax collection.
Thananga, Wanyoike and Wagoki (2013) conducted analysis on how tenants in the municipality of Nakuru reacted to new tax measures, and factors influencing compliance. For data collection, a survey of 94 respondents and questionnaires were used. The results of the study found that the degree of compliance with the rental income tax was small and the non-compliance was because of overpricing and deductions that would decrease the taxable pay. Musau (2015) evaluated factors affecting the tax compliance of small and medium-sized enterprises in Nairobi County. The study selected a sample of 44 respondents and data obtained using questionnaires evaluated using a model of binary probity regression. The findings of the study showed that there is a high likelihood of tax compliance between small and medium-sized enterprises in Nairobi County increasing when individual perceptions of tax evasion difficulties increase. The findings also showed that individuals pleased with what government provides as public goods together with tax services; have ample information; trust government in managing their taxes; have the expectation that tax payers are likely to comply with tax payments when tax filing procedures are less complex.
2.5 Critique of the Existing Literature Relevant to the Study.

In past research, the majority of them addressed, for example, Vadde (2014) and Berhane and Yesuf (2013) examined the factors that affect the attitudes of the rental tenant and the compliance actions of the tax system. Mas'ud, Aliyu and Gambo (2014) Nicoleta (2011) and Kasipillai and Jabbar (2006) also looked at different factors influencing tax compliance their respective countries. While Thananga, Wanyoike and Wagoki (2013) Karanja (2014) and Kuria (2013) looked at factors affecting collection of taxes in real estate in Kenya. Most of the existing studies have put most of their focus on SMEs compared to residential homeowners. In Kenya, enforcement and tax agencies may pool resources to train and maintain the rental income unit in order to save costs and since they all work in the same jurisdiction and share intelligence, reports and results. A well maintained and funded rental unit will be a big win for the agencies in the fight against tax cheats and non-compliance as well. However, taxation in Kenya on rental income property owners is still young this is because residential and rental homeowners did not have specific tax regimes in the past.

The study on data driven approach is relatively new and scant because of the manual way of doing things. New studies show the automation of data through Kenya Power and collection by the block management system. The authority also conducts seminars and taxpayer education in a bid to disseminate knowledge and remove the argument that the authority does not inform the public about the taxes on real estate. The development of a Tax base expansion unit and taxpayer services which recruits and incubates potential taxpayers by first educating them on what they should do and explains to them that KRA first seeks to enhance collection through trust and facilitation and will only employ enforcement measures as a final resort. KRA, (2019)

2.6 Summary

The study focuses on effects of enforcement measures used to ensure compliance of the rental income in the urban areas. Due to time and financial constraints, it focused on Nairobi County Lang’ata sub-County. In the theoretical framework, major theories utilized was the Agency theory, the Economic deterrence theory and Ability to pay theory. In addition, the variables of the study discussed, and they included; Compliance cost, Taxpayer’s Knowledge and Penalties and Interests. It includes the theoretical review of the study, the conceptual framework, the review of study variables the empirical review, summary and research gaps
2.7 Research Gaps.

Several research on tax compliance were also conducted globally, on a regional and local level. For example, Vadde (2014) and Berhane and Yesuf (2013) looked at the factors affecting rental taxpayer attitudes and tax system compliance behaviors at regional level. Mas'ud, Aliyu and Gambo (2014), Nicoleta (2011) and Kasipillai and Jabbar (2006) also investigated various factors affecting tax enforcement. Thananga, Wanyoike and Wagaki (2013), Karanja (2014) and Kuria (2013) investigated the factors that affect homeowners’ voluntary tax compliance in Kenya. Maseko (2014), Musau (2015), Mukabi (2014) and Makori et al (2013) examined the various factors affecting SME tax compliance in various parts of Kenya. But most of the current and reviewed studies focused more on small and medium-sized enterprises than on the owners of residential rental properties. In addition, the Kenya’s taxation of rental properties remains a young concept, as residential rental property owners in the past did not have a specific tax regime. In summary factors affecting tax compliance can be classified into different models which blend together in aspect of economic deterrence, psychology and ability to pay. According to Mill (1948), compliance to tax law is proportional to the ability to of the taxpayer in terms of revenue. Pigou (1928) supports this argument and further suggests that the tax payable should be proportional to the taxpayers’ income. This ensures equality which in turn enhances compliance. Punishing non-compliant taxpayers through penalties and interests discourages tax avoidance and evasion (Becker, 1968). Kendrick (1939) agrees that this approach of imposing tough penalties encourages compliance.

According to Mohd (2010), promoting tax knowledge and understanding is necessary to enhance compliance. The Self-Assessment System (SAS) in particular is dependent on whether the taxpayers have knowledge and understand what is expected of them (Kasipillai et al, 2003). Although studies have been done, they have not been exhaustive my study is now focusing on factors affecting tax compliance among real estate owners in Lang’ata sub-county, Nairobi county. This project will be timely and will now use the following variables Compliance cost, taxpayer’s knowledge, Penalties and Interests.
CHAPTER THREE
METHODOLOGY

3.1 Introduction
The chapter explained how the research study was carried out. The study gave details on the research design, area of study, measurement of the variables, the population. The data sampling techniques, sample sizes the methods and instruments of collection of data. An analysis, presentation and a presentation of the findings.

3.2 Research Design
A research design is a plan that guides a researcher on how activities should be organized in research (Bryman & Bell 2003). It sets up frameworks or action arrangements for study. The study uses the research concept as descriptive. It is reasonable because it consisted of gathering data to respond to questions on current study subject. Kothari (2003) suggests descriptive design, the study will enable to describe the recording, analysis and reporting conditions that will or existed. Descriptive research determines and reports how things are and also help the researcher to describe the attitude, values and characteristics of a phenomenon (Mugenda and Mugenda, 2003). The descriptive design according to Orodho (2003), allows researchers to collect, present and interpret information for clarification purposes. This concept was picked since it enables the researcher to gather a large amount of information about the population under study. Since the study is going to sort out to investigate effects of tax collection by property owners in Lang’ata sub-county in Nairobi County, descriptive design will help to Present and assess the status of the phenomenon being investigated.

3.3 Target Population
According to Mbokane ,(2009), population is a complete set of elements which include persons or objects that possess some common characteristics that are defined by the sampling criteria established by the researcher. This particular study focused on a target population of landlords, real estate owners and KRA officers who work directly with the Real estate sector. This population was chosen because it is cost effective, readily available for collection of data and devoid of any bias because they work with Landlords. The researcher used survey method to collect the necessary data from the landlords and KRA staff.
Table 3.1: Target population

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landlords</td>
<td>6</td>
<td>13.6</td>
</tr>
<tr>
<td>Real Estate Companies</td>
<td>12</td>
<td>27.3</td>
</tr>
<tr>
<td>KRA Officers</td>
<td>26</td>
<td>59.1</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author

3.4 Sampling Frame of study.

Turner, (2003) describes a sampling frame as the source of material or a device from which a sample is drawn. In this study, the sampling frame is a list of landlords in Lang’ata sub-county and its environs who owns rental properties. They include Landlords, real estate owners and real estate companies in Lang’ata sub-county. The sample of the target population is given in the table above. A representative number of 44 individuals has been given.

3.5 Sampling Technique and Sample size.

Sampling is the process and technique of selecting a representative of a population for the purpose of determining the characters that are similar or identical. The study used stratified sampling in which landlords, real estate owners and KRA employees will be the strata. Mugenda and Mugenda, (2012), opines that a sample population of 30% is an adequate representation of a population but this study used the Slovin’s formulae to arrive at the sample as indicated below.

\[ n = \frac{N}{1 + N(\alpha)^2} = \frac{44}{1 + 44(0.05)^2} = 40 \]

Where:

N = Total population
n = Sample population
\( \alpha \) = Sampling error
Table 3.2: Sample size

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landlords</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Real Estate owners</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>KRA Officers</td>
<td>26</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>44</strong></td>
<td><strong>40</strong></td>
</tr>
</tbody>
</table>

3.6 Data Collection Procedure

The researcher administered and guided the respondents in filling the questionnaires to the target population in Lang’ata sub-county. The researcher sort permission from KRA and a letter to the respondent on the instrument that was provided by the Kenya School of Revenue Administration (KESRA) enabled to gather information about the purpose of the study, general instructions on how to respond to each question and an assurance of strict confidentiality for the respondent. The respondents gave information on the rental income collection and how effective it has been on execution of its mandate and the effect it has had on its performance. This was the primary data that the researcher depended on for information. The study also used secondary data from the Kenya Revenue Authority records.

3.7 Data Collection Instruments

Questionnaires were used to collect data. According to Abawi, (2003) a questionnaire is a set of written questions asked for obtaining statistically useful or personal information from respondents. The questionnaire as an instrument was the invention of Sir Francis Galton. The study used both structured and unstructured questionnaires to collect data from various landlords and real estate owners in Lang’ata sub-county. The open ended or unstructured questionnaires are to acquire a more candid view of any individual questioned and get a greater understanding of the topic. The structured questionnaires are easier to compare answers from different responses and easier to analyse too. The study also used data available on the Kenya Revenue Authority website.
3.7.1 Reliability of Data Collection Instrument.
Reliability is the ability of a research instrument to measure the consistency of characteristics over a period of time. Mugenda & Mugenda, (2008). The researcher measured the degree to which the questionnaire was reliable in order to determine its consistency in what the respondent says about the research variables. The sample that was used for the reliability tests of the questionnaire was not used as the sample that was used to collect data.

3.7.2 Validity of Data Collection Instrument.
According to Mugenda & Mugenda, (2008). Validity is the extent to which the inferences of a study are accurate and meaningful based on research results. Validity refers to the degree to which various findings and theories support the interpretation of test scores entailed by the use of tests. Kothari, (2010) states that viability on the other hand is that a project is technically and legally feasible as well as economically justifiable. To ensure the study is viable, the researcher pre-tested about 10 of the questionnaires and also compared the questionnaires with past questionnaires of a similar study. The researcher also made a reconnaissance trip to familiarise himself with the area of study.

3.8 Pilot Testing
A pilot study or pilot project is a small-scale preliminary study done with the purpose of conducting feasibility. This is to improve upon the study design prior to the commencement of the actual research project. This to show the reliability and the validity. Kothari, (2004).

3.9 Data Analysis and Presentation
Data analysis is the of systematic application of statistical and logical techniques in evaluation of data Shamoo and Resnik, (2009). Since the study is quantitative, descriptive statistics will be used for data analysis. The analysis was narrated and where necessary the use of tables were adopted. The data obtained from the questionnaires was analysed using the Statistical Package for Social Science (SPSS) version 25. The relationship between the independent and dependent variables was expressed through the linear regression model as shown below

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon \]

Where \( Y \) = Collection of Rental income tax.

\( \beta_0 \) = Constant and is the level of \( Y \) which \( \beta_1 \) is 0

\( \beta_1 \) = Coefficient of variable 1
\[ \beta_2 = \text{Coefficient of variable 2} \]

\[ \beta_3 = \text{Coefficient of variable 3} \]

\[ \beta_1, \beta_2 \text{ and } \beta_3 \text{ are the changes in } Y \text{ due to the unit change in } X_1, X_2 \text{ and } X_3 \text{ respectively where} \]

\[ X_1 = \text{Data driven Approach} \]

\[ X_2 = \text{Taxpayers Knowledge} \]

\[ X_3 = \text{Enforcement Measures} \]

\[ \varepsilon \text{ is the error term which include other factors which affect collection of rental income tax.} \]
CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction
The chapter presents the study results which were obtained from the analysis of the collected data. The analysis of data included the use of both primary and secondary data. Both descriptive and inferential statistics were used in the study and the results are presented in tables and figures where appropriate providing ease of interpretation.

4.2 Response Rate
The researcher distributed 40 questionnaires from where 36 were received back fully completed. This indicated a 90 per cent response rate. According to Mugenda and Mugenda, (2012) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

Table 4.1: Questionnaire Response Rate

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Response</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td>36</td>
<td>90</td>
</tr>
<tr>
<td>Non-respondents</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

4.3 Pilot Results

4.3.1 Data Validity
The researcher engaged research supervisor in determination of the questionnaire face and content validity. The researcher implemented changes as proposed by the supervisor.

4.3.2 Reliability Analysis
Prior to the actual study, the researcher carried out a pilot study to pre-test the validity and reliability of data collected using sample questionnaires. The results on reliability of the research instruments are presented below.
### Table 4.2: Reliability Coefficients

<table>
<thead>
<tr>
<th>Scale</th>
<th>Cronbach’s Alpha Index</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Driven Approach</td>
<td>0.837</td>
<td>Accepted</td>
</tr>
<tr>
<td>Taxpayers knowledge</td>
<td>0.741</td>
<td>Accepted</td>
</tr>
<tr>
<td>Enforcement measures</td>
<td>0.769</td>
<td>Accepted</td>
</tr>
<tr>
<td>Tax Collection</td>
<td>0.810</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

The overall Cronbach’s alpha for the four categories is 0.789. The findings of the pilot study shows that all four scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 Mugenda and Mugenda, (2012).

### 4.4 Background Information

The demographic data of the respondents was established to ascertain the nature of respondents that participated in the study in relation to their years of property ownership, service level and academic qualifications. The background information in the questionnaire captured this data, which is analyzed as below.

#### 4.4.1 Years of Property ownership.

The researcher sought to determine the years of existence of the property.

### Table 4.3: Years of existence

<table>
<thead>
<tr>
<th>Years of service</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 years and below</td>
<td>7</td>
<td>17.5</td>
</tr>
<tr>
<td>11 to 21 years</td>
<td>20</td>
<td>50.0</td>
</tr>
<tr>
<td>Above 22 years</td>
<td>13</td>
<td>32.5</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
</tr>
</tbody>
</table>

From the table 4.3 above, respondents were asked to indicate their years existence of their rental properties Majority of the respondents have owned the properties between 11 and 21 years (n=20) (50.0%) followed by above 22 years with (n=13) (32.5%). The lowest was below 10 years which represented (17.5%, n=7). This was an indication that majority of the respondents have owned properties for above 11 years and above thus have knowledge and skills concerning the study.
4.4.2 Level of Education

The researcher sought to establish the respondents’ academic qualification.

Table 4. 4: Respondents level of education

<table>
<thead>
<tr>
<th>Education level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>8</td>
<td>20.0</td>
</tr>
<tr>
<td>Bachelors degree</td>
<td>15</td>
<td>37.5</td>
</tr>
<tr>
<td>Post graduate diploma</td>
<td>11</td>
<td>27.5</td>
</tr>
<tr>
<td>Master's degree</td>
<td>6</td>
<td>15.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The respondents were asked to indicate their highest level of education. Results show that 45% of the respondents had their highest level of education being bachelor’s degree, while 32.5% of the respondents had post graduate diploma qualifications and 20% of the respondents had diploma level qualification and only 2.5% of the respondents had master’s degree qualifications. In as far as the title of study is concerned, the results imply that, the respondents were expected to understand the questionnaire and give valid response since they had better understanding as guided by their level of education which in this case majority having undergraduate university degrees as the highest level of education.

4.4.3 Level of Service

The researcher sought to determine the respondents’ level of service

Table 4. 5: Respondents service level

<table>
<thead>
<tr>
<th>Service level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>KRA Officers</td>
<td>24</td>
<td>60.0</td>
</tr>
<tr>
<td>Real estate owners</td>
<td>10</td>
<td>25.0</td>
</tr>
<tr>
<td>Landlords</td>
<td>6</td>
<td>15.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The respondents were asked to indicate their service level. Results show that 60.0% of the respondents were KRA officers, while 25.0% of the respondents were real estate owners and only 15.0% of the respondents were Landlords.
4.5 Descriptive Analysis

Descriptive analysis using SPSS IBM Version 25 was undertaken to transform raw data on the three variables.

4.5.1 Data Driven Approach in Tax Collection.

With a view to establish the effect of data driven approach on rental income collection, the study sought the views of respondents on the extent to which the given aspects of data driven approach affect tax collection as indicated by their level of agreement. A likert scale data was collected rating the extent of agreement in a scale of 1 to 5 where 1 is the strongly disagree whereas 5 is the strongly agree indicator. Findings are as presented in table 4.6 below.

Table 4. 6: Data Driven Approach

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The real estate division needs to employ more staff.</td>
<td>40</td>
<td>4.35</td>
<td>.622</td>
</tr>
<tr>
<td>The benefits of the real estate unit exceeds its operational costs</td>
<td>40</td>
<td>2.95</td>
<td>1.449</td>
</tr>
<tr>
<td>The data driven approach is a more cost effective tool compared to other enforcement method</td>
<td>40</td>
<td>3.15</td>
<td>1.051</td>
</tr>
<tr>
<td>The data driven approach earns the rental unit a lot of extra revenue</td>
<td>40</td>
<td>2.93</td>
<td>1.269</td>
</tr>
</tbody>
</table>

From table 4.6 above, the respondents agreed (mean = 4.35; std. dev. = .622) that the rental income needs to employ more staff. However, from the study findings it was established that majority of the respondents disagreed that the benefits of the rental unit exceeds its operational costs as shown by a mean of 2.95 with a standard deviation of 1.449. Findings also showed that, the respondents were moderately indifferent (mean = 3.15; std. dev. = 1.051) that the rental income unit is a more data driven way compared to other enforcement method. Finally, the study findings established that majority of the respondents disagreed that the rental income sector earns KRA a lot of extra revenue as shown by a mean of 2.93 and a standard deviation of 1.269.
4.5.2 Effect of Taxpayers knowledge on Rental Income collection

Findings under this section are drawn on the mean and standard deviation for the data that was collected through the likert scale.

Table 4. 7: Taxpayers Knowledge.

<table>
<thead>
<tr>
<th>Statement</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landlords in lang’ata sub-county are more open in their declarations because of the rental income unit.</td>
<td>40</td>
<td>4.00</td>
<td>.877</td>
</tr>
<tr>
<td>The rental income unit is accurate in identifying tax evasion.</td>
<td>40</td>
<td>4.17</td>
<td>.747</td>
</tr>
<tr>
<td>The rental income unit is a dependable way of collecting taxes from landlords and real estate owners.</td>
<td>40</td>
<td>4.23</td>
<td>.660</td>
</tr>
<tr>
<td>The real estate unit is better at risk identification.</td>
<td>40</td>
<td>4.03</td>
<td>.768</td>
</tr>
</tbody>
</table>

As shown in the table 4.7, the respondents agreed that landlords and real estate owners in Langata sub-county are more open in their declarations because of the rental income unit as indicated by a mean of 4.00 and standard deviation of 0.877. The respondents also agreed that the rental income unit is accurate in identifying potential hazards as shown by a mean of 4.17 and a standard deviation of 0.747. Further, the respondents agreed that the rental income unit is a dependable tool in the fight against tax evasion. This is shown by a mean of 4.23 with a standard deviation of 0.660. Finally, majority of the respondents (mean=4.03 and standard deviation=0.768) agreed that the rental income unit is better at risk identification.

4.5.3 Effect of Enforcement measures in Rental Tax collection.

Table 4.8 presents the study results on the effect of enforcement measures. The results are as well based on the means and standard deviation for the likert scale data collected.
Table 4. 8: Enforcement measures.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>More rental income officers find collection of taxes easier</td>
<td>40</td>
<td>3.75</td>
<td>.954</td>
</tr>
<tr>
<td>Less time is taken if data driven approach is used to collect taxes.</td>
<td>40</td>
<td>4.10</td>
<td>.591</td>
</tr>
<tr>
<td>More taxes are collected when enforcement measures are applied.</td>
<td>40</td>
<td>4.23</td>
<td>.800</td>
</tr>
<tr>
<td>There has been fewer cases of non-declaration as a result of the enforcement measures.</td>
<td>40</td>
<td>4.15</td>
<td>.580</td>
</tr>
</tbody>
</table>

As shown in the table 4.8, the respondents agreed that more rental income officers find collection of taxes easier as result of the enforcement measures. This had a mean of 3.75 with a standard deviation of 0.954. The study findings established that majority of the respondents agreed that less time is taken if enforcement measures are used in collection of taxes as indicated by a mean of 4.10 and standard deviation of 0.591. More taxes are collected when enforcement measures are involved. This is as indicated by a mean of 4.23 with a standard deviation of 0.800. Finally, respondents agreed that there has been fewer cases of non-declaration as a result of the enforcement measures (M=4.15, SD=0.580)

4.6 Correlation Analysis

Table 4. 9: Bivariate Correlation

<table>
<thead>
<tr>
<th></th>
<th>Data driven approach</th>
<th>Taxpayers Knowledge</th>
<th>Enforcement Measures</th>
<th>Tax collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Driven</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approach</td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxpayers</td>
<td>Pearson Correlation</td>
<td>.477**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Knowledge</td>
<td>Sig. (2-tailed)</td>
<td>.002</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>40</td>
<td>40</td>
<td></td>
</tr>
</tbody>
</table>
The study used Pearson correlation to identify the relationship between independent variables and depended variable. Table 4.9 indicates that there was a moderate positive correlation of (r=0.353, P=0.025) between Data driven approach and tax collection indicating that the data driven approach had a moderate effect on rental tax collection. There was also a moderate positive correlation of (r=0.401, P=0.010) between taxpayers knowledge and Rental tax collection. Finally, there was a strong positive correlation of (r=0.445, P=0.004) between enforcement measures and rental tax collection.

### 4.7 Regression Analysis

Findings under this section present the results on the relationship test between the dependent and independent variables. The significance of the regression model was tested at the 5% level of significance.

#### 4.7.1 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.581&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.338</td>
<td>.283</td>
<td>.976</td>
</tr>
</tbody>
</table>

<sup>a</sup> Predictors: (Constant), Enforcement Measures, Data driven approach, Taxpayers knowledge

A Multiple regression analysis was used to out to test the objectives of the study. The model equation being \( Y = \alpha + \beta_1X_1 + \beta_2X_2 + \ldots + \beta_nX_n + \varepsilon \). As shown in the table above.

#### 4.7.2 Statistical Significance

This tests the differences between means.
Table 4. 11: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>17.505</td>
<td>3</td>
<td>5.835</td>
<td>6.130</td>
<td>.002</td>
</tr>
<tr>
<td>Residual</td>
<td>34.270</td>
<td>36</td>
<td>.952</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>51.775</td>
<td>39</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance
b. Predictors: (Constant), Enforcement measures, Data driven Approach, Taxpayers knowledge

ANOVA was used to compare the difference of means amongst the various groups (dependent and independent variables). To test the fitness of the model, a two-way ANOVA was carried out where the statistics (F (3, 36) = 6.130, P-value=0.002) was realized as shown in table 4.11 above. This implies that the model was fit to predict the relationships between the variables under study.

4.7.3 Regression Coefficient

An extension of simple linear regression and predicts the value of a variable.

Table 4. 12: Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>4.357</td>
<td>1.890</td>
</tr>
<tr>
<td>Data driven approach.</td>
<td>.140</td>
<td>.061</td>
</tr>
<tr>
<td>Taxpayers’ knowledge.</td>
<td>.109</td>
<td>.042</td>
</tr>
<tr>
<td>Enforcement measures.</td>
<td>.354</td>
<td>.127</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance

The regression equation was:

\[ Y = 4.357 + 0.140X_1 + 0.109X_2 + 0.354X_3 + \varepsilon \]
All variables taken into account by the equation, rental income tax collection as a result of data driven approach, taxpayers’ knowledge and Enforcement measures being zero, would be 4.357. This shows a strong correlation between the dependent and independent variables.

Further in the model it shows that a unit increase in data driven approach would lead to a unit change in performance by 0.140 which is 14% unit increase in the performance of the rental income. Further, the study established that a unit increase in taxpayers’ knowledge would lead to a unit change in performance by 0.109 which is a 10.9% increase in the performance of the rental income. Finally, it was established that a unit increase in enforcement measures would lead to a unit change in performance by 0.354 which is a 35.4% increase in the performance of the rental income. All the variables were significant at 0.05. The model indicates that at 35.4%, enforcement measures are the most elaborate indicator on the performance of the rental income. The model therefore indicates enforcement measures are to be used more in rental income collection.

$\epsilon$ is the stochastic error terms that represents the other factors that affect the performance of rental income but not included in the study.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter provides summary of findings, conclusions and recommendations based on the general objective of the study. It also highlights suggestions for future research to be undertaken based on the findings of this study.

5.2 Summary of Findings
The objective of the study was to establish the factors affecting collection of rental income in Lang’ata sub-county. The study adopted a quantitative approach to draw inferences on the factors affecting collection of rental revenue. For data analysis and presentation of results, both descriptive and inferential statistics were employed specifically using regression and ANOVA to establish the significance of the model and also to establish the relationship between the study variables.

5.2.1 Data Driven Approach
From the findings it was established that the domestic taxes department needs to focus more on automation and use of data as compared to manual verification. However, from the study findings it was established that majority of the respondents disagreed that the benefits rental income unit exceeds its operational costs. The findings also show that, the respondents were moderately indifferent that data is a more effective unit is a more cost-effective tool compared to manual and physical site visits. Finally, the study findings established that majority of the respondents agreed that data driven approach collects more revenue from landlords and collection of extra revenue.

5.2.2 Taxpayer Knowledge
The study was also able to deduce that the more educated and informed the taxpayer were, the easier it was for the authority to collect revenue. Most of the landlords initially claimed ignorance on the various tax laws. The landlords that claimed were semi illiterate could now comply to tax laws because education was done in a language and way in which they were familiar with and this
boosted revenue collection. Commercial real estate owners were educated on such things as filing and payment of rental income declared as business income.

5.2.3 Enforcement measures

The study also established that more revenue was collected as a result of fear of the enforcement measures. It was also established that additional fines and penalties increased the amount of revenue collected. The enforcement tools that were found to be effective in ensuring compliance in rates payment include: Improved communication between KRA and the taxpayer; operational debt recovery; sanctions and penalties; provision of discounts and waivers on interests & penalties. Some of the challenges hindering effective collection of real estate tax in Langata sub-county include negative attitude of the public towards KRA officials; unfair administration; discontentment with real estate rates administration; and complexities in understanding tax system and payment procedures. To improve on collection, the study recommends provision of improved public services to boost the morale of rates’ payers; use of an integrated computer assisted property rates administration system; and capacity building of the administrators.

5.3 Conclusion

The study came to the conclusion that there is a need for KRA to use a data driven approach to enhance its collection. The data driven approach is more effective, less costly and more accurate than the initial manual way of tax collection. The data driven approach is multi-pronged since it involves not only the KRA pin but also information from Kenya power and the national ID as well as the National Construction Authority making it easier to nab tax cheats. Use of data is more valid and makes more reliable collections. The study concludes that the that the more taxpayers are sensitized and educated on the need to pay and file their real estate tax the easier it will be for them. KRA also needs to establish better communication strategies and build a relationship with taxpayers by facilitation through trust.

The study concludes that the enforcement measures put in place by KRA should be fair and non-prejudicial. Enforcement measures should be the last resort and the organization should be willing to put in place waivers and amnesties. The fines and penalties put in place should not exceed the original amount owes so to not only enhance collection but to also encourage growth in the real estate sector which the authority will still need for collection of future taxes.
5.4 Recommendations
The study recommends that the KRA should invest more on automated and data analytical skills to enhance revenue collection. The more automated the tax collection is, the more accurate and reliable it will be therefore making it easier to collect more revenue. The study also recommended facilitation and enhanced capacity building. Better communication skills and conducting trainings for both the KRA staff and real estate taxpayers will reduce the argument of ignorance and each party will be knowledgeable about what they are supposed to do and pay. The study recommended use of fair and just enforcement measures such as agency notices, and that they should only be used as a last resort. Provision of waivers and amnesties for penalties and interest was also recommended. Facilitation through trust was encouraged between the authority and landlords and real estate owners of Langata Sub County

5.5 Areas of Further Research
The study only covered a single unit of real estate that is rental income collection. This rental income tax is just one of the many core sections in domestic tax, implying that a wide knowledge gap exists and there is need to carry out similar research incorporating other factors within and outside real estate such VAT, stamp duty and Capital Gains tax which will also increase revenue for the authority. The R square indicated 33.8% of the factors that affect collection of rental income tax of the real estate sector as studied under the variables. Further research therefore should look at factors that will grow and improve collection and also spur growth of the real estate sector. This determines how the sector will grow and provide future revenue for the authority. Research should be done further to determine 66.2% of factors that hinder better collection of real estate revenue. This is because landlords and real estate owners come up with newer and more efficient means to beat the system. The KRA officers should therefore take more refresher trainings and courses to make them even more prepared to the dynamics of the game such as costs, technology and a changing operating environment.

5.6 Limitations of the Study
Data collection technique used for the study was questionnaires that introduce multiple challenges. For instance, interpretation of the question is subjective, which means answers are based on personal understanding rather than the intention of the researcher (Debois, 2016). When the questionnaire was designed, the researcher took liberties in the framing and importance of each question. There is a possibility that the relevant items were not included; thus, the research did not identify a significant factor in tax collection.
Also, the response rate was very low, 40.6%, which might result in biases in the results since many people chose not to respond. Another limitation of the study is the truthfulness of the respondents. The research delved into a sensitive subject that might make some respondents fearful of the consequences of answering truthfully despite the fact the researcher is sworn to secrecy (Debois, 2016). Therefore, while valuable conclusions were made from analysis, there is a possibility they were founded on false information.

The study was also financial draining but the researcher was able to overcome and come up with a comprehensive report.
REFERENCES

Public Ownership of Rural Lands Proclamation, No. 31/1975)
Public Ownership of Rural Lands Proclamation, No. 31/1975)
Antony Majiwa Determinants of tax compliance behavior in Kenya, 2016
APPENDIX I: Introduction Letter
ANDREW OTHIENO MULAMA

POST GRADUATE DIPLOMA IN TAX ADMINISTRATION
KENYA SCHOOL OF REVENUE ADMINISTRATION
NAIROBI CAMPUS
P.O BOX 191 - 50102
NAIROBI

28TH MARCH 2020

Dear Sir/Madam,

RE: REQUEST TO CONDUCT A RESEARCH PROJECT IN LANG’ATA SUB-COUNTY

I am a student at the Kenya School of Revenue Administration undertaking a research project, ‘Factors Affecting collection of taxes among real estate owners a survey of Lang’ata sub-county’.

I humbly request your assistance and cooperation to provide the necessary data to use in my research as stated in the questionnaires. Any information given will be treated as confidential and is purely for academic purposes.

Your assistance will be highly appreciated.

Sincerely,

Andrew Othieno Mulama.
APPENDIX II: Questionnaire

Section I: Background information

Please tick and fill where appropriate

1. Gender:

   Male [   ] Female [   ]

2. Number of years the rental property has existed

   Below 2 years [   ] 3-5 years [   ] 6-8 years [   ] 9 years and above [   ]
## Section II

*Table 1 Data Coding*

<table>
<thead>
<tr>
<th>Category</th>
<th>Question</th>
<th>Variable Name</th>
<th>Values</th>
</tr>
</thead>
</table>
|          | What is your Gender? | Gender | Male: 0  
Female: 1 |
|          | Number of years the rental property has existed | Years | 2 years: 1  
3-5 years: 2  
6-8 years: 3  
9 or more: 4 |
| Compliance Cost | Is the 10% residential rental income tax rate fair to property owners? | Cost_Fair | Yes: 0  
No: 1 |
|          | Are residential rental property owners now willingly paying tax due to the well-structured tax rate? | Willingness | Strongly Agree: 0  
Agree: 1  
Neutral: 2  
Disagree: 3  
Strongly Disagree: 4 |
|          | Select a tax rate that, in your opinion, results in an overall lower tax burden? | 10_vs_30 | 10% tax rate on gross: 1  
30% tax rate on net rental income: 2 |
| **As a property owner, what is the difficulty level for the computation of tax on gross rental proceeds?** | **Difficulty** | **Easy: 0**  
**Normal: 1**  
**Hard: 2** |  |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What impact has the reduced tax rate had on residential rental property owners’ Willingness to pay their taxes?</strong></td>
<td><strong>Low_Rate</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| **Taxpayer's Knowledge** | **Have you received formal training from KRA or other institutions on residential rental income tax?** | **Training** | **Yes: 0**  
**No: 1** |  |
|  | **What is your level of knowledge on the tax rate, the basis of taxation, and compliance requirements under** | **Knowledge** | **Expert: 0**  
**Intermediate: 1**  
**Basic: 2**  
**None: 3** |  |
| the residential rental income tax regime? | Select a major reason, in your opinion, for non-compliance from the list; | Reasons | Lack of knowledge including tax rates and tax laws due to ineffective tax education:1
Lack of proper records on expenses incurred:2
Hostile tax laws:3 |
| --- | --- | --- | --- |
| Select the solution that, in your opinion, will best improve tax compliance; | Solutions | Effective tax education:1
Increase public awareness on residential rental income tax:2 |
| Penalties and Interests | Do you believe the Penalties and Interests Charged by KRA punitive to property owners? | Punitive | Yes: 0
No:1 |
| As a property owner, have you think owners file nil or incorrect returns | Nil_or_Incorrect | Yes: 0
No:1 |
<table>
<thead>
<tr>
<th>to avoid penalties of non-compliance on the iTax system</th>
<th>Rate_NonCompliance</th>
<th>Greatly affects: 0 Neutral:1 Has no impact:2</th>
</tr>
</thead>
<tbody>
<tr>
<td>- In your opinion, how much does the rate of penalties and Interests with residential income tax obligations contribute to non-compliance;</td>
<td>Waivers_Compliance</td>
<td>Strongly Agree: 0 Agree:1 Neutral:2 Disagree:3 Strongly Disagree:4</td>
</tr>
<tr>
<td>In your opinion, can periodic waivers of penalties and Interests encourage compliance?</td>
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APPENDIX III: Work plan

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<th>15&lt;sup&gt;th&lt;/sup&gt; Jul 2019</th>
<th>26&lt;sup&gt;th&lt;/sup&gt; Sep 2019</th>
<th>28Sep-5&lt;sup&gt;th&lt;/sup&gt; Jan 2020</th>
<th>21st-26&lt;sup&gt;th&lt;/sup&gt; Feb 2020</th>
<th>21st-26&lt;sup&gt;th&lt;/sup&gt; April 2020</th>
<th>12&lt;sup&gt;th&lt;/sup&gt;-18&lt;sup&gt;th&lt;/sup&gt; May 2020</th>
<th>24&lt;sup&gt;th&lt;/sup&gt; June 2020</th>
</tr>
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<tbody>
<tr>
<td>Proposal Writing</td>
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</tbody>
</table>
APPENDIX IV: Budget

<table>
<thead>
<tr>
<th>ITEM DESCRIPTION</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Typing and Printing</td>
<td>7500</td>
</tr>
<tr>
<td>Photocopying and Spiral binding</td>
<td>7,500</td>
</tr>
<tr>
<td>Stationary</td>
<td>8,000</td>
</tr>
<tr>
<td>Travelling</td>
<td>6,000</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>10,000</td>
</tr>
<tr>
<td>Internet Surfing</td>
<td>5,000</td>
</tr>
<tr>
<td>Hard cover binding</td>
<td>2,500</td>
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<tr>
<td>Research Assistant</td>
<td>16,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>62,500</strong></td>
</tr>
</tbody>
</table>