

**FACTORS AFFECTING RESIDENTIAL RENTAL INCOME TAX  
COMPLIANCE AMONG PROPERTY OWNERS IN KENYA; CASE OF  
GATUNDU SOUTH, KIAMBU COUNTY**

**BY**

**MWEMA MARYANNE WANJUHI**

**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS  
AND ECONOMICS, DEPARTMENT OF ACCOUNTING AND FINANCE IN  
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD  
OF MASTERS DEGREE IN TAX AND CUSTOMS**

**ADMINISTRATION**

**MOI UNIVERSITY**

**2022**

## DECLARATION

### Declaration by Candidate

This project is my original work and has not been presented to any other examination body. No part of this research work should be reproduced without my consent or that of Moi University.

Sign: \_\_\_\_\_ Date: \_\_\_\_\_

**MARYANNE WANJUHI MWEMA**

**KESRA105/0008/2020**

### Declaration by the supervisors

This project has been submitted for examination with approval of Moi University.

Sign: \_\_\_\_\_ Date: \_\_\_\_\_

**DR. ROBERT ODUNGA**

Department of Tax and Customs Administration & Accounting and Finance

Kenya School of Revenue Administration/ Moi University

Sign: \_\_\_\_\_ Date: \_\_\_\_\_

**DR. JAPHETH KOGEI**

Department of Accounting and Finance

Kenya School of Revenue Administration/ Moi University

## **DEDICATION**

This project is dedicated to my parents Mr. & Mrs. Mwema, to my sisters Racheal Mwema and Miriam Mwema who assisted me financially and also for their moral support.

## **ACKNOWLEDGEMENT**

I sincerely thank the Almighty God for granting me good health during the entire time of the Project. I extend my sincere gratitude to my supervisors; Dr. Robert Odunga & Dr Japheth Kogei for their support, help and guidance received from every step of the way. Lastly, I thank the entire Moi University & Kenya School of Revenue Administration fraternity for providing conducive learning environment.

## ABSTRACT

Taxation is a major source of revenue for the Government. Therefore, taxpayers in Kenya are required to comply with various laws set aside by the Kenyan Government when it comes to payment of taxes. This study sought to determine the factors affecting Residential Rental Income Tax compliance among property owners in Gatundu South, Kiambu County, Kenya. The specific objectives of this study were to determine the effect of automation of service on Residential Rental Income Tax compliance among property owners in Gatundu south, to establish the effect of taxpayer perception on Residential Rental Income Tax compliance among property owners in Gatundu south, to determine the effect of tax audits on Residential Rental Income Tax compliance among property owners in Gatundu south, To establish the effect of stakeholder sensitization on Residential Rental Income Tax compliance among property owners in Gatundu south. The theories that supported this study were Economic deterrence theory, Theory of Technology Acceptance, Ability to Pay Theory and Fiscal Exchange Theory. A descriptive research design was adopted. The target population comprised 1298 residential property owners in Gatundu South. A sample size of 297 respondents was selected using a random sampling technique. The primary data was collected by the use of questionnaires. The results revealed that Automation of services, taxpayer perception, tax audit and stakeholder sensitization caused a variation of 61.9% ( $R^2 = 0.619$ ) Regression analysis was conducted and the findings revealed that automation of services on Residential Rental Income Tax compliance was statistically significant with ( $\beta_1$ ) of 0.229 and p value of 0.002 which is less than 0.05. Taxpayer perception on Residential Rental Income Tax compliance was statistically significant with ( $\beta_2$ ) of 0.390 and p value of 0.001 which is less than 0.05. Tax audit on Residential Rental Income Tax compliance was statistically significant with ( $\beta_3$ ) of 0.287 and p value of 0.000 which is less than 0.05. While stakeholder sensitization on Residential Rental Income Tax compliance was statistically significant with ( $\beta_4$ ) of 0.204 and p value of 0.000 which is less than 0.05. The study then concluded that on automation of services, taxpayer perception, tax audit and stakeholder sensitization that all independent variables had a significant relationship with rental income tax compliance. The study recommends that policy maker should formulate policies that can improve compliance levels of tax payments by Kenyan property owners. This will help the government raise more domestic revenue from tax collection which will be used in realizing the government's goals. Further studies may be conducted to determine the effect of compliance cost on residential rental income tax compliance.

## TABLE OF CONTENTS

DECLARATION .....	ii
DEDICATION .....	iii
ACKNOWLEDGEMENT .....	iv
ABSTRACT.....	v
TABLE OF CONTENTS.....	vi
LIST OF TABLES .....	x
LIST OF FIGURES .....	xi
ABBREVIATIONS .....	xii
OPERATIONAL DEFINITION OF TERMS .....	xiii
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>1</b>
1.0 Overview.....	1
1.1 Background of the Study .....	1
1.1.1 Global Perspective .....	2
1.1.2 Regional Perspective.....	3
1.1.3 Kenyan Perspective.....	4
1.2 Statement of the Problem.....	6
1.3 Objectives of the Study.....	9
1.3.1 The General Objective .....	9
1.3.2 Specific Objectives .....	9
1.4 Research Hypotheses .....	9
1.5 Significance of the Study .....	10
1.6 The Scope of the Study.....	10
<b>CHAPTER TWO .....</b>	<b>12</b>
<b>LITERATURE REVIEW .....</b>	<b>12</b>
2.0 Introduction.....	12
2.1 Review of concepts .....	12
2.1.1 Residential Rental Income Tax .....	12
2.1.2 Automation of Service .....	13
2.1.3 Taxpayer perception.....	14
2.1.4 Tax Audits.....	15
2.1.5 Stakeholder sensitization .....	16

2.2 Theoretical Framework.....	16
2.2.1 The Economic Deterrence Theory .....	16
2.2.2 Theory of Technology Acceptance.....	18
2.2.3 Ability to Pay Theory.....	20
2.2.4 Fiscal Exchange Theory.....	22
2.3 Empirical Review.....	23
2.3.1 Automation of services and Residential Rental Income Tax Compliance .....	23
2.3.2 Taxpayer Perception and Residential Rental Income Tax .....	26
2.3.3 Tax Audits and Residential Rental Income Tax .....	28
2.3.4 Taxpayers Sensitization Programme and Residential Rental Income Tax .....	29
2.4 Summary of Literature and Research Gaps .....	31
2.5 Critique of Existing Literature .....	32
2.6 Conceptual Framework.....	33
<b>CHAPTER THREE .....</b>	<b>35</b>
<b>RESEARCH DESIGN AND METHODOLOGY .....</b>	<b>35</b>
3.1 Introduction.....	35
3.2 Research Design.....	35
3.3 Target Population.....	35
3.4 Sampling Technique and Sample Size.....	35
3.5 Data Collection Procedures.....	36
3.6 Type and source of data .....	37
3.6.1 Pilot Study.....	37
3.6.2 Validity of Research Instruments.....	37
3.7 Reliability of Research Instruments.....	38
3.8 Assumptions of multiple regression analysis.....	39
3.8.1 Normality Test .....	39
3.8.2 Multicollinearity Test.....	40
3.8.3 Homoscedasticity test .....	40
3.8.4 Autocorrelation test.....	40
3.9 Data Analysis Methods .....	41
3.10 Measurement of Variables .....	42
3.11 Ethical Consideration.....	42
<b>CHAPTER FOUR.....</b>	<b>44</b>
<b>RESEARCH FINDINGS AND DISCUSSIONS .....</b>	<b>44</b>

4.0 Introduction.....	44
4.1 Analysis of the Response Rate.....	44
4.2 Reliability of Research Instruments.....	45
4.3 Demographic.....	46
4.4 Statistical Assumptions.....	47
4.4.1 Normality Test.....	47
4.4.2 Multicollinearity Test.....	48
4.4.3 Homoscedasticity test.....	49
4.4.4 Autocorrelation test.....	50
4.5 Descriptive Statistics.....	51
4.5.1 Automation of services.....	51
4.5.2 Taxpayer perception.....	52
4.5.3 Tax Audit.....	52
4.5.4 Stakeholder Sensitization.....	53
4.6 Rental income tax compliance.....	54
4.7 Correlation Analysis.....	55
4.7.1 Multiple Regression Analysis.....	57
4.7.2 Analysis of Variance.....	58
4.7.3 Test of Hypotheses.....	60
4.8 Discussion of the Findings.....	61
4.8.1 Effect of Automation of Services on Rental Income Tax Compliance.....	61
4.8.2 Effect of Taxpayer Perception on Rental Income Tax Compliance.....	62
4.8.3 Effect of Tax Audit on Rental Income Tax Compliance.....	63
4.8.4 Effect of Stakeholder Sensitization on Rental Income Tax Compliance.....	64
<b>CHAPTER FIVE.....</b>	<b>65</b>
<b>SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS 65</b>	
5.1 Introduction.....	65
5.2 Summary of Findings.....	65
5.2.1 Effect of Automation Service on Rental Income Tax Compliance.....	66
5.2.2 Effect of Taxpayer Perception on Rental Income Tax Compliance.....	66
5.2.3 Effect of Tax Audit on Rental Income Tax Compliance.....	66
5.2.4 Effect of Stakeholder Sensitization on Rental Income Tax Compliance.....	67
5.3 Conclusions.....	67
5.4 Recommendations.....	68



5.4.1 Policy Makers .....	68
5.4.2 Management and Practice .....	68
5.4.3 Implication to theory .....	69
5.5 Suggestions for Further Research .....	69
REFERENCES .....	70
APPENDICES .....	75
Appendix I: Introduction Letter .....	75
Appendix II: Questionnaire.....	76

## LIST OF TABLES

Table 3.1: Measurement of Variables .....	42
Table 4.1: Test of Reliability of Questionnaire .....	46
Table 4.2: Demographic.....	46
Table 4.3: Tests of Normality .....	48
Table 4.4: Multicollinearity Test .....	49
Table 4.5: Homoscedasticity test .....	50
Table 4.6 Durbin Watson test .....	51
Table 4.7: Automation of services .....	51
Table 4.8: Taxpayer perception .....	52
Table 4.9: Tax audit .....	53
Table 4.10: Stakeholder Sensitization.....	54
Table 4.11: Rental income tax compliance.....	55
Table 4.12: Correlation Analysis .....	56
Table 4.13: Multiple Linear Regression analysis Model Summary .....	57
Table 4.14: Analysis of Variance.....	58
Table 4.15: Overall Regression Analysis of Automation of Services, Taxpayer Perception, Tax Audit And Stakeholder Sensitization .....	59
Table 4.16: Summary of Hypothesis Testing .....	61

**LIST OF FIGURES**

Figure 2.1: Conceptual Framework .....	34
Figure 4.1: Response Rate .....	45

**ABBREVIATIONS**

<b>GDP</b>	Gross Domestic Product
<b>IMF</b>	International Monetary Fund
<b>KRA</b>	Kenya Revenue Authority
<b>LASDAP</b>	Local Authority Service Delivery Action Plan
<b>OCB</b>	Organizational Citizenship Behaviour
<b>PAYE</b>	Pay as you earn
<b>PIN</b>	Personal Identification Number
<b>ROI</b>	Return on Investment
<b>SME</b>	Small Medium Enterprises
<b>GST</b>	Goods and Services Tax
<b>EFDs</b>	Electronic Fiscal Devices
<b>OLS</b>	Ordinary Least Squares
<b>TSCs</b>	Time Series Cross Section
<b>TAM</b>	Technology Acceptance Model
<b>TRA</b>	Theory of Reasoned Action

## OPERATIONAL DEFINITION OF TERMS

**Automation of Services:** Refers to a tax filing and payment system that use tools of Information and Communication Technology particularly computers and the internet technology (Syed, Cassy, & Gaurav, 2017).

**Residential Rental Income Tax:** This is tax payable by resident persons (individual or) on rental income earned for the use or occupation of a residential property (KRA, 2015).

**Stakeholder Sensitization:** This are special arrangement that enhance knowledge and include platforms such as seminars (Olaoye & Ayodole, 2017)

**Tax Audits:** A tax audit is an examination of whether a taxpayer has correctly reported its tax liability and fulfilled other obligations. It is often more detailed and extensive than other types of examination such as general desk checks, compliance visits or document matching programs (OECD, 2016).

**Tax Compliance:** Is the timely filling and reporting of required tax information, the correct self-assessment of taxes owed, and the payment of those taxes without enforcement action (Jones, 2009).

**Taxpayer's Perception:** This is the attitude and feelings that a taxpayer can get to illegally not pay taxes. (Richardson, 2007)

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Overview**

This chapter introduces the study; it contains the background of the study, statement of the problem, objectives of the study, hypothesis, and significance of the study and the scope of the study.

#### **1.1 Background of the Study**

Understanding the compliance of rental income taxation is very important (Berhane & Yesuf, 2013). Rental income taxes are a fundamental source of revenue to government and local authorities (Ross & McGee, 2012). However the amount of revenue to be generated from these sources depends on many factors. According to Kirchler (2007), the factors may be individual, institutional and economic. With regard to rental income tax payers, Rizal (2011) and Kuria (2013) established attitudinal and knowledge difference, high tax rate, taxation system, dishonesty of rental tax payers, lack of awareness, complexity of tax law and regulation may lead to high levels of tax noncompliance. Tax compliance is viewed as the degree to which a taxpayer obliges to tax rules and regulations (Sapiei & Kasipillai, 2013).

Residential rental income tax is the tax imposed on income from rent of land or residential buildings. The owners of the property are required to declare this income on their tax return (Berhane & Yesuf, 2013). However, rental income tax compliance is a major problem facing tax authorities. Tax compliance is the full payment of all taxes due (Braithwaite, 2009). According to Jones (2009) tax compliance is the timely filling and reporting of required tax information, the correct self-assessment of taxes owed, and the payment of those taxes without enforcement action. Tax noncompliance is

referred to as any difference between the actual amount of taxes paid and the amount of taxes due (Geremew, 2017). This difference occurs because of overstating expenses or deductions and understating income. Non-compliance comprises both intentional evasion and unintentional non-compliance, which is due to calculation errors and an inadequate understanding of tax laws (Robben *et al.*, 1990 & Webley, 2004).

Tax non-compliance is a worldwide worry since most countries would like to fund their recurrent expenditure through mobilization of domestic revenue. Regardless of time and place, the main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulations of a tax system (Moore & Prichard, 2020). However, developing economies are worst affected by this challenge. While Developing countries record relatively higher tax compliance levels (35%), African countries report less than 23% (GIZ, 2016).

### **1.1.1 Global Perspective**

In Thailand, Gallkiew's (2015) study explored problems in direct tax administration in Thailand, which he found that people fail to comply with tax requirements due to negative attitude of taxpayers toward the government and the Revenue department, low standard of education of taxpayers, inefficiency in tax administration of the Revenue Department and ambiguity of the Revenue Code.

In Germany, the property tax is charged by the local authorities. All real estates are inclusive in this charge and is determined based on the properties size. The revenues are supposed to declared every year. The taxes range from 14-45% of the income. An addition 5.5% is charged for government reconstruction projects. Tax compliance literature in the United States have found several factors that could affect income tax compliance behavior, namely; tax amnesties, positive incentives, tax audits, attitudes

and perceptions toward tax systems, penalties, together with control variables such as demographic characteristics, actual income levels, and tax rates.

Mohd *et al* defines Tax compliance as the fulfillment of tax laws, declaration of the correct expenses and income and the payment of tax on time. Tax compliance can also be defined as the extent to which the tax paying community fulfils their duties and obligations as per the tax legal provisions (Maxwell, 2013). Thus, it can be concluded that Tax compliance is the taxpayers' decision to comply with state, federal and international tax laws, and regulations by settling tax liabilities in an accurate and timely manner.

### **1.1.2 Regional Perspective**

In Ethiopia, tax noncompliance is a growing concern for tax authorities and public policy makers since it seriously threatens the capacity of governments to raise required public revenue. So, the government introduced a number of rules, systems and methods aiming tax collection as a major source of public revenue. Nevertheless, the efforts did not achieve the intended outcomes for various reasons (ERCA, 2015). The main reason of this low revenue collection performance is due to tax noncompliance and due to poor tax administration. As stipulated by Adimassu and Jerene (2016), one of the main problems in implementing self-assessment system (SAS) is achieving acceptable levels of voluntary compliance. This may happen due to factors such as lack of familiarity with the self-assessment system, poor tax authority administration, lack of awareness creation about tax provisions, regulations, directives and general limited knowledge of tax issues (Wameyo, 2019).

In Rwanda, under Self-Assessment System, taxpayers are assumed to be conversant with the tax laws, regulations and procedures in place and tax authority relies on



taxpayers' honesty during the determination of taxable income, computation of tax due and completion of their tax returns (Munyentwali, 2014). In practice, this is not always true because taxpayers face different challenges in the course of exercising their rights and trying to meet their obligations, sometimes they fail to be compliant due to internal and/ or external factors. The tax evasion is explained by different economic and non-economic factors contributes to lowering the ratio of tax revenues to GDP (15% for 2014/2015), which is less than a half of the ratio computed for major industrialized countries members of OECD (Harelimana, 2018).

In Tanzania, property taxation is a top most political agenda and is the government's foundation in the strengthening of the direct taxation that is broad based. (Ali, Fjeldstad & Katera, 2018). It has special potential by founding the government and taxpayers bargain on revenue and public expenditures since it has a link on local service delivery and is visible to the taxpayers. However the revenue generated from the property tax in the country is limited. Various reasons have been linked to the limitations including property owners' resistance, and inadequate knowledge which is required in addition to the right altitudes and a policy design that is more informative (Ali, Fjeldstad & Katera, 2018).

### **1.1.3 Kenyan Perspective**

In Kenya, rental income taxation dates back 1973 when income tax act 1973 was implemented despite the fact that enforcement was not in place (Income Tax Act, 1973). Despite being in existence for more than four decades, the KRA is far from reaching its target with regard to rental income tax. Although tax collection has had a noticeable growth of around 300% by 2011, the amount attributed to rental income is significantly low (KRA, 2016).

An average of less than 40% of the rental income taxpayers have problems with the tax requirements even though the government had made efforts to reinforce the provision of the rental income tax (KRA, 2016). There has been a large failure by the landlords to comply with the provisions mostly since the government has no adequate strategy to ensure that all the landlords are included. Mostly the landlords collect rent on their own or use agents who are unregistered thus complicating the method that can be used to trace the income for taxation (Kuria, Ngumi & Rugami, 2017).

In the recent past, the Government has introduced measures such as the mapping of all residential areas and establishing a division within the KRA dedicated to collecting rental income tax in order to bring this important sector into the tax bracket. However, such measures have met limited success (Karanja, 2014). The move by the government to tighten the law on taxation on rental income using economic based measures has not achieved the desired results.

The study of Mwangi (2013) on the establishment of factors affecting tax compliance among the small and medium enterprises reached a conclusion that rates of tax, availability of information, compliance costs and taxpayer attitude towards tax payments have a direct effect on tax compliance. However, from the findings by KNBS (2017), Ipsos (2015), Mukabi (2014), Osebe (2013), it is observed that the studies were conducted in different geographical, sector and cultural environment which cannot be generalized in this study due to inconclusive findings. In addition, the KRA has recorded reductions in Domestic VAT by 7.0% in FY 2019/2020 and 7.9% in FY 2020/2021

Thananga *et al.*, (2013) assessed the factors affecting compliance on Rental Income Tax Policy by landlords in Nakuru Municipality. He argued that cost of compliance played a key role in determining the level of compliance. Lucinde (2017) examined the

determinants of compliance levels with residential tax income tax among property owners in Nairobi county. She concluded that tax compliance is dependent on penalties imposed for non-compliance and also audits. She cited that cases of high compliance to tax by taxpayers are due to fears of being sanctioned.

Kuria (2011) assessed the factors affecting rental income tax compliance among landlords in Kilifi county. Based on the findings of his study, tax compliance levels with rental income tax in Kilifi County were low. He also discovered that landlords and possibly the other citizens were not ready to comply with tax regulations because there is a feeling that there is no clarity on the advantages of paying taxes.

Housing activity and the residential construction associated with it are key elements of the national, state, and local economies. The housing market plays a pivotal role in the economy: depending on the incidence of house ownership, real estate usually forms an important part of household wealth, housing-related expenses are an important part of household consumption, rental prices are a component of consumer prices, housing taxation can have a profound impact on public finances, and the structure of the housing market can influence the supply side of the economy (for example, labour mobility). Moreover, housing wealth plays an important role in economic and financial cycles, as sharp fluctuations in house prices can threaten economic and financial stability (EU, 2012).

## **1.2 Statement of the Problem**

Kuria (2016) assessed the factors affecting rental income tax compliance among landlords in Kilifi County. Based on the findings of his study, tax compliance levels with rental income tax in Kilifi County were low. Many property owners are not disclosing full and correct information regarding their rental properties to avoid

payment of rental income (KRA 2019). This study therefore sought to determine factors affecting Residential Rental Income Tax among property owners in Kenya; A case study of Gatundu South, Kiambu County.

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

Developing countries like Nigeria failed to meet its tax revenue target of 8million naira in FY 2019 collecting total revenue of 5.26million naira. Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country has been experienced a consistent surplus of expenditure over revenue for long period of time (Tesfaye, 2015). A study by (Aiko & Logan, 2014) reveals that only 78% of South Africans and 64% in Botswana respectively support payment of taxes while the rest percentage do not.

According to a report by KRA (2019) it has continuously performed below its targets. For instance in 2018/2019 financial year the authority collected Kes 1,853 billion against a set target of Kes 1,949 billion while in 2019/2020 financial year KRA was able to collect Kes 1,522 billion against a target of Kes 1,659 billion.

Lucinde (2017) examined the determinants of compliance levels with residential tax income tax among property owners in Nairobi county. She concluded that high levels

of non compliance are attributed to penalties imposed on taxes and fear of being sanctioned. Kuria (2011) assessed the factors affecting rental income tax compliance among landlord in kilifi county. Based on the findings of his study tax compliance levels with rental income tax in Kilifi County were low. Many property owners are not disclosing full and correct information regarding their rental properties to avoid e-cruitment and payment of rental income (KRA 2019). Currently the cumulative revenue collections from rental income tax for the FY 2019/20 amounted to Kshs 241 million against a projection of Kshs 314 million in FY 2021/22 leading to a shortfall of Kshs 73 million KRA (2021)

A number of studies have been conducted on tax performance both globally and locally. These studies include: ICPAK (2018) study on residential revenue performance in Kenya which showed that revenue performance has been improving over the past 2 years. Lucinde (2017) examined the determinants of compliance levels with residential rental income tax among property owners in Nairobi county. She concluded that high levels of non compliance are attributed to penalties imposed on taxes ana fear of being sanctioned.

Waithira (2016) examined the determinants residential rental income tax compliance by property owners in Thika town and found a significant positive relationship between tax rate, tax knowledge and residential rental income tax compliance and an insignificant positive relationship between attitude and perception and residential rental income tax compliance. The problem of tax compliance is a growing international concern also facing landlords in Gatundu, Kimbu County. Although studies have been conducted by scholars globally, regionally, and locally on tax compliance, they do not bring out in totality all the factors which influence residential rental income tax compliance especially in Gatundu.

### **1.3 Objectives of the Study**

#### **1.3.1 The General Objective**

The general objective of the study was to determine factors affecting Residential Rental Income Tax Compliance among property owners in Kenya; A case study of Gatundu South, Kiambu County.

#### **1.3.2 Specific Objectives**

The specific objectives of this study were as follows:

- i. To determine the effect of automation of service on Residential Rental Income Tax Compliance among property owners in Gatundu south
- ii. To examine the effect of taxpayer perception on Residential Rental Income Tax Compliance among property owners in Gatundu south
- iii. To determine the effect of tax audits on Residential Rental Income Tax Compliance among property owners in Gatundu south
- iv. To establish the effect of stakeholder sensitization on Residential Rental Income Tax Compliance among property owners in Gatundu south

### **1.4 Research Hypotheses**

The hypotheses of this study were as follows-

**H<sub>01</sub>** – Automation of service has no significance effect on Residential Rental Income Tax Compliance among property owners in Gatundu South

**H<sub>02</sub>** – Taxpayer perception have no significance effect on Residential Rental Income Tax Compliance among property owners in Gatundu South

**H<sub>03</sub>** – Tax Audits has no significance effect on Residential Rental Income Tax Compliance among property owners in Gatundu South

**H<sub>04</sub>** – Stakeholder sensitization has no significance effect on Residential Rental Income Tax Compliance among property owners in Gatundu South.

### **1.5 Significance of the Study**

This study gives an insight to Government to understand the challenges the landlords face in their quest to meet their tax obligation. It will help Government to come up with policies and regulations that will enhance tax compliance on rental income among taxpayers not only in Gatundu south, Kiambu County but all over the country. The study will aid in policy making by the government which can improve compliance levels of tax payment by the Kenyan landlords. This will help the government raise more domestic revenue from tax collection which will be used in realizing the government goals in Vision 2030.

The study findings may be of significance to property owners especially on knowledge on taxation and use of digital platforms in paying taxes. Through extensive awareness on tax payment and compliance, landlords may be able to understand their role as far as tax is payment is concerned and the need to comply with tax authorities. By paying residential income tax on time and complying with tax guidelines, the landlords and other property owners may have a smooth time to run their business without any interruptions from the Revenue Authorities.

The study will add to the body of knowledge of attention to both researchers and academicians who pursue to discover or examine the factors influencing rental income among the landlords in Gatundu or any other area. It will lay the basis of other studies to be carried out.

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

The study sought to determine factors affecting Residential Rental Income Tax compliance among property owners in Kenya; A case study of Gatundu South, Kiambu County. The variables of the study were automation of service, taxpayer perception, tax

audit and stakeholder sensitization and Residential Rental Income Tax compliance as the dependent variable. The study targeted residential property owners in Gatundu South. The target population was 1298 residential property owners and a sample size of 297 residential property owners, the study covered financial years 2020/2021.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter presents a review of related literature and various concepts on the subject under study presented by various researchers, scholars, analysts, theorists and authors. It has enabled the researcher to gain knowledge from previous research and come up with other useful information to strengthen the study.

#### **2.1 Review of concepts**

This section contains review of concepts studies related to the variable of the study

##### **2.1.1 Residential Rental Income Tax**

Residential rental income tax is the tax imposed on income from rent of land or residential buildings. The owners of the property are required to declare this income on their tax returns (Berhane & Yesuf, 2013). However, rental income tax compliance is a major problem facing tax authorities. Tax compliance is the full payment of all taxes due (Braithwaite, 2009). According to Jones (2009) tax compliance is the timely filling and reporting of required tax information, the correct self-assessment of taxes owed, and the payment of those taxes without enforcement action. Tax noncompliance is referred to as any difference between the actual amount of taxes paid and the amount of taxes due (Geremew, 2017). This difference occurs because of overstating expenses or deductions and understating income. Non-compliance comprises both intentional evasion and unintentional non-compliance, which is due to calculation errors and an inadequate understanding of tax laws (Robben *et al.*, 1990 & Webley, 2004).

### **2.1.2 Automation of Service**

According to Whait (2012) opined that property administration staff all over the world are not efficient in the way they organize their business due to improper planning. They lacked the skills in strategy development, ICT policy, information management and consequently not contributing to good management such as keeping registers and maps up to date. In support of that, Ding (2003) in his study on land policy reform in China revealed that land use taxes were difficult and costly to collect because of the lack of trained staff in land registration.

As such revenue generated from land use taxes has not met expectations. Hussein (2006) in his analysis on the reform programmed of Malawi's local government indicated that adequate capacity and new administrative skill are required for the local authorities to discharge their responsibilities effectively. These rely upon the available infrastructure, the quality and the quantity of human resources and financial resources. The performance of the Malawi local government institution declined due to inadequate and inappropriately trained personnel.

However, Tessema and Soeters (2006) found that a major challenge for the government was to effectively use the expertise of the existing staff. They also argued that the main reason for the failure of the government development programmed projects and routine operations is due to lack of competent civil servants. Therefore, the effective utilization of the trained staff could enable the civil service to function effectively.

Generally, ICT is used to enhance performance in revenue administrations by reducing human error and processing times, providing readily accessible data for tax officers, promoting voluntary compliance thereby minimizing tax evasion and facilitating better decision making by tax authorities.

According to Nyambo as cited in Chatama (2013) ICT help to maintain consistent record keeping, timely access of such records, fast processing of return which together improved the performance of tax revenue. In support of that, Bird and Zolt (2008) posed that ICT technologies are used to speed up the decision-making process and Machupa, Otaigo, Koloseni, and Shimba (2011) claimed that computers facilitate service delivery, customer satisfaction, information accessibility, efficiency, and effective administrative gain as well as information sharing among various units of the government.

Based on these reviews, it is found that the ICT problem includes new technologies was not supported by state/district because of the cost, new technologies implemented were complex, installation and maintenance of new technologies challenge, employee's perception towards the technologies were negative and users not well trained to use the technologies.

### **2.1.3 Taxpayer perception**

Subjective norm is the perception of social pressure to perform or not perform the behavior (Ajzen, 1991). Subjective norm refers to a person's beliefs about whether individuals or groups of individuals approve or reject a particular behavior, and the extent to which individuals are motivated to adjust to individuals or other groups (Bobek dan Hatfield, 2003). Meanwhile, Baron and Byrne (2002) state subjective norm is the perception of the individual whether others will support or not for his actions. Someone believes that the person who gave him that behavioral reference should be made, so subjective norm will affect its intention to perform a particular behavior (Ariff, Bidin, Sharif, dan Ahmad, 2010).

#### **2.1.4 Tax Audits**

Literature affirmed that tax audit is always triggered by suspicion of fraud, evasion and related offenses. According to Adams, C. (2001), a tax audit is a level of inquiry aimed at determining what level of fraud or willful default or neglect a taxpayer perpetrated and to obtain evidence for possible prosecution of the culprit. This implies that tax audit centers on determining some unrevealed sources of revenue, pointing to gross non-compliance, or it may be proof of underpayment and fraud. Supporting this view, Ojo, O.D. (2016) defined tax audit and investigation as an inspection of taxpayers' business records to ensure that law and regulation were maintained in the amount of tax reported. This reflects that the so aim of tax audit is to ensure that laws and regulations regarding tax revenue are maintained by taxpayers to increase the revenue pool of the government.

Bassey, O.U. (2013) observed that tax audit is an essential compliance tool in most tax jurisdictions all over the world as it maximizes the expected tax revenue to the government both in developed and developing countries. Expanding on this notion, Okonkwo, A.I. (2014) cited in Ojo, O.D. (2016) revealed that tax audit revolves examination of an individual or organization's tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of the state. Tax audit is necessary because it helps the government to collect taxes paramount in financing the budget and maintaining economic and financial order and stability. Similarly, Kircher, E.E. (2008) submitted that satisfactory returns are submitted by the tax payers, to organize the degree of tax avoidance and tax evasion, to ensure strict compliance with tax laws by taxpayer, to improve the degree of voluntary compliance by taxpayer and to ensure that the amount due is collected and remitted to the government.

### **2.1.5 Stakeholder sensitization**

According to Ali et al (2013), like any developing country finds itself at a critical stage on its path toward sustainable development, struggling to relieve poverty, reduce inequalities, deliver public services and build the infrastructure for inclusive growth. For many, developing countries, the global recession has slowed down the pace of growth, reducing the availability of funds for development according to Rodriguez, D.& Theilen, B. (2018). The Kenyan government has been striving more than ever to mobilize greater revenue domestically. For this to happen, the government is increasingly reaching out to inform and engage today's and future taxpayers according to Misra, R. (2004). The goal is to foster an overall "culture of compliance" based on taxpayers' rights and responsibilities concurs Stemrod *et al* (2001). In this way, citizens see paying taxes as an integral aspect of their relationship with their government according to Semboja, J. (2001), (a position echoed by a research paper put together by OECD (2015). In this context, stakeholder sensitization becomes the bridge linking administration and the citizen Chetty, R. & Saez, E. (2013). All over the world, innovative techniques are springing up for building this culture of compliance. For any government to raise enough taxes to meet its development needs, it is necessary for such a government to have 'educated taxpayers' (in tax matters) concludes Lubua, E. (2014)

## **2.2 Theoretical Framework**

The study is guided by four theories, which were Economic deterrence theory, Theory of Technology Acceptance, Ability to Pay Theory and Fiscal Exchange Theory.

### **2.2.1 The Economic Deterrence Theory**

The Allingham-Sandmo (AS) theory is also known as the economic deterrence theory emanated from the seminal work of Allingham and Sandmo (1972). This model

assumes that behaviour is influenced by factors such as tax rate, which determine the benefits of tax evasion and penalties for fraud and probability of detection, which determine costs (Allingham and Sandmo, 1972).

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

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

Raskolnikov (2019) recently reviewed this theory and observed that it had made a lot of progress in explaining how the government should make its choices. He established that it investigates how the government may achieve its objective of maximizing social welfare given the individual decision-making strategy (Raskolnikov, 2019). Polinsky and Shavell (2007) define social welfare as the cost of catching violators and imposing sanctions on them. Sanctions take the form of fines or imprisonment; the latter is seen as costless while the former is seen as costly for the government to impose (Raskolnikov, 2019). The government chooses the magnitude of the sanction, the probability of imposing the sanction since most violations are not detected with certainty and, whether to sanction all individuals causing external harm or only those whose actions breach the set threshold (Raskolnikov, 2019).

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

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

### **2.2.2 Theory of Technology Acceptance**

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

The Technology Acceptance Model (Davis *et al*, 1989), one of the most researched and accepted models that explains individual IT use at the acceptance stage, has identified two salient beliefs that predict information technology use: perceived usefulness and

perceived ease-of-use. Perceived usefulness (PU) - This was defined as "the degree to which a person believes that using a particular system would enhance his or her job performance". Perceived ease-of-use (PEOU) - Davis defined this as "the degree to which a person believes that using a particular system would be free from effort" (Davis *et al*, 1989).

This theory develops a framework to establish the effects of external variables on the system usage. According to this model, individuals accept a particular system if they believe in the system (Jullie, 2017). When taxpayers understand or learn the on-line tax filing system quicker, the filing efficiency and accuracy will be increased. Taxpayers can complete tax filing quicker (perceived usefulness) when they perceive the ease of use of the system is higher (Fu, Cheng, and Wen 2013).

TAM has been widely criticised, despite its frequent use, leading the original proposers to attempt to redefine it several times. Criticisms of TAM as a "theory" include its questionable heuristic value, limited explanatory and predictive power, triviality, and lack of any practical value (Chuttur 2009). Benbasat and Barki suggest that TAM "has diverted researchers' attention away from other important research issues and has created an illusion of progress in knowledge accumulation. Furthermore, the independent attempts by several researchers to expand TAM in order to adapt it to the constantly changing IT environments has lead [sic] to a state of theoretical chaos and confusion" (Benbasat & Barki 2017).

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



### **2.2.3 Ability to Pay Theory**

This theory was developed by Adam Smith and supported by Swiss philosopher Jean, the French political economist Say and the English economist Mill. According to the ability to pay principle, taxes should be distributed according to the capacity of taxpayers to pay them (Hyman, 2014). This theory treats revenue and expenditure of the government separately. The obligation to pay to the government is taken as a social and collective responsibility although the question of who shall pay and in what amount is necessarily an individualized one. Those who have means pay and those who have not need not to pay (Kennedy, 2012).

Kaldor (1958) assert that the ability-to-pay tax theory is the taxing of tax progressively. Ability-to-pay theory maintains that tax should be administered in accordance to paying ability of a taxpayer. This approach towards tax increases burden of tax to businesses and individuals. The ability-to-pay theory is that businesses and individuals earning more income can afford to pay high amount of tax compared to those earning less income in that they pay less tax.

The ability-to-pay theory also is commonly interpreted to mean the requirement that direct personal taxes have a progressive rate structure, although there is no way of demonstrating any degree of progressivity is the right one. This is because a considerable part of the population does not pay certain direct taxes such as income and thus some tax theorists believe that a satisfactory redistribution can only be achieved when such taxes are supplemented by direct transfers or refundable credits (Blum & Kalven, 1952). Other scholars however argue that income transfers and negative income tax create negative incentives; instead, they favor public expenditure targeted toward low-income families as better means of reaching distributional objectives (Neumark et al, 2020).

According to this theory, developed by Mill (1848) tax liability in its true form is a compulsory and an unconditional payment to the state. Those who are better able to pay should bear the greater burden of taxation, whether they benefit. The theory posits a citizen is to pay taxes just because he or she can and his or her relative share in the total tax burden is to be determined by the relative paying capacity. Ability to pay is interpreted in terms sacrifice It says that money for public should come from “him that hath” instead of from “him that hath not”, Kendrick (1939). Kendrick further says that the usual and indeed the only serious justification of ability to pay is on grounds of sacrifice. The assumption of sacrifice when linked to the concept of the declining marginal utility of money has given rise to three theories of progressive taxation: the equal, equal-proportional, and least-sacrifice theories.

According to Kennedy (2012), the ability to pay theory has been justified on the basis of equality of sacrifice. The basic tenet of this theory is that the burden of taxation should be shared by the members of society on the principles of justice and equity and that these principles necessitate that the tax burden is apportioned according to their relative ability to pay. This theory suggests that the payers of TOT should pay unconditionally and according to their paying capacity (Chigbu et al., 2012). According to Hyman (2014), individual evaluations of the ability to pay are likely to differ but in countries such as U.S.A and Kenya, ability to pay varies with income.

According to this theory, a citizen pays taxes because they have the ability to pay and the total tax burden is determined by their relative paying capacity. The theory was bound to be supported by social thinkers because it follows the ideas and concepts of justice and equity. However, the doctrine received equally support from non-social thinkers also and became part of the theory of welfare economics. The major principle of this theory is that the tax burden should be paid by the members of society on the

canons of justice and equity and that these canons demand that tax burden is apportioned according to their relative ability to pay theory.

This theory propagates that people should be asked to pay taxes according to their ability to pay and assessment of their taxable capacity should be made based on the basis of income and property. The most popular and accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay (Limerick, 2013). It can therefore be argued and appears reasonable and just that taxes should be taxed on the basis of the taxable capacity of a person and in using this principle it can be stated that if the taxable capacity of one individual is greater than that of the other person, that a person who earns more should be asked and expected to pay more taxes in comparison with the one who earn less.

#### **2.2.4 Fiscal Exchange Theory**

This theory is acclaimed to have evolved from the economic deterrence and social psychology models. It is premised upon the existence of a social, relational or psychological contract between the government and the taxpayers (McKerchar & Evans, 2009). This theory suggests that government expenditures are the main motivate of tax compliance and the governments has the ability to ensure that its citizen comply by offering more improved public goods and services with the little they collects in form of tax (Ali, Fjeldstad & Sjurson, 2013). The presence of government expenditures may serve as a motivating factor for taxpayer compliance, especially when the taxpayers value the goods and services they perceive to be receiving from the government (Fjeldstad, *et al.*, 2012). Behavioral science evidence suggests that greater individual participation in the allocation and decision process will foster an increased

level of compliance. Further, this research suggests that taxpayers will be more willing to pay taxes if they value the expenditures financed from tax revenues.

Another major proposition of this theory is that of tax bargaining between taxpayers and the government, which is considered as fundamental to building a relation of accountability and obligations between state and society (Bello & Danjuma, 2014). This theory affirms that government expenditures serve as a motivating factor for taxpayer compliance, especially when the taxpayers value the goods and services they perceive to be receiving from the government. According to Dulleck, Fooker, Newton, Ristl, Schaffner and Torgler (2016), the taxpayers will be more willing to comply when they are satisfied with provision of services from government, even in the absence of detection and punishment.

Conversely, they are also likely to adjust their terms of trade, by reducing compliance when they are dissatisfied with services provision from the government, or even when they dislike the way their taxes are spent (Burman, Gale, Gault, Kim, Nunns & Rosenthal, 2016). The relevance of this theory is that property owners may be willing to pay residential rental income tax since they value public goods and services being offered by their authorities and believe that the more they pay taxes, they will be offered more improved and better goods and services. Conversely, the property owners may not be willing to comply if they feel that they do not derive any benefit from the taxes collected by the authorities.

## **2.3 Empirical Review**

### **2.3.1 Automation of services and Residential Rental Income Tax Compliance**

Upgraded innovation in the automation of service arena is inescapable in the present business condition and is progressively being utilized by tax specialists to improve worldwide tax collections. Having in mind that they are losing significant revenues in

unremitted Residential Rental Income Tax specialists are actualizing programming arrangements and thorough information prerequisites in order to battle tax losses. U.S. organizations working abroad ought to comprehend and get ready for the critical changes to worldwide Residential Rental Income Tax compliance management. The utilization of innovation in the technological world by business and government in the process of advocating for tax compliance (World Bank, 2018).

Information Communication Technology (ICT) continues to play a significant role in transforming the administration of tax. It improves interaction between government and its citizens, transactional and informational. Today, taxation-related services are among the most developed e-government services all over the world. At the same time, e-taxation services are among those most used by clients in many countries, sometimes even because clients are forced to use them. For instance, the e-Europe measurement reports indicate that year after year the services included in the income-generating cluster (income and corporate tax, social contributions for employees, value-added tax (VAT), customs declarations) were and remain the most developed (Baležentis & Paražinskaitė, 2012).

Mutai (2013) surveyed the determinants of tax compliance among little and medium businesses in Uasin-Gishu County. The investigation received an essentially subjective exploration plan. Methodological triangulation was utilized, using the interview and a questionnaire overview to gather essential information from SMEs in Uasin Gishu County. The outcomes demonstrated that SMEs face diverse business conditions from enormous organizations which cause them to bear high tax burdens. The outcomes likewise showed that the impression of SME administrators about technology, charge

administration quality and government spending priorities incredibly influence their tax compliance choices.

Mukuwa and Phiri (2020), conducted a study on effects of e-services on revenue collection and tax compliance among SMEs in developing countries, a case study of Zambia while deploying a descriptive model for the study. The study revealed that there has been significant increase in revenue collection and tax compliance among SMEs since the introduction of these e-services. The findings of this study further pointed to the fact that electronic filing enhances revenue collection and tax compliance among the SMEs. When the process is simplified and easily accessible through internet and on phones as opposed to manual queuing to file tax on papers, many SMEs are encouraged to file their taxes.

Murehia (2016) evaluated the reasons for low duty consistence among Small and Medium Enterprises (SMEs) in Nairobi County, Kenya. An objective populace of 560 taxpayers was chosen and given the huge populace of taxpayers in Nairobi County, a complete sample size of 56 was picked as delegate, to be the focal point of this investigation. A distinct study configuration was utilized. Information was gathered utilizing self-directed polls and an interview guide. The gathered information was examined utilizing Statistical Package for Social Scientist programming and discoveries introduced utilizing tables. The Findings from the examination uncovered that all the recognized components impact the tax compliance. The perceptions of technology usability in the tax system greatly determine the level of compliance for turnover tax.

### **2.3.2 Taxpayer Perception and Residential Rental Income Tax**

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

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

A model of tax evasion behaviour developed by Weigel Hessing and Elffers, (1987) consider social and psychological conditions, including attitudes and moral beliefs about tax evasion's propriety, as antecedents of tax compliance. Data collected from fined tax evaders and honest taxpayers showed that attitudes explain in part self-reported tax evasion, but are insignificant predictors of actual behaviour. However, the correlations between self-reported tax non-compliance and attitudes are significant but weak. These findings suggest a rather complicated relationship between tax evasion and

attitudes; nevertheless we can be confident in our general prediction that if tax attitudes become worse, tax evasion will increase (Lewis, 2002).

Ali, Fjeldstad, and Sjursen (2013) carried out a study on the factors affecting tax compliant attitude in Africa by drawing evidence from Kenya, Tanzania, Uganda and South Africa. Using a binary logit regression, the study found some similarities, but also differences in factors that are correlated with tax compliance attitude in the four countries. An increase in the perception of individuals about the difficulty of evading taxes is found to increase the likelihood of tax compliant attitude in Kenya and South Africa. Besides, the study found evidence that individuals who are more satisfied with public service provision are more likely to have a tax compliant attitude in all the four countries.

However, frequent payment to non-state actors to criminal gangs in exchange for protection, reduces individual's tax compliant attitude. Furthermore, those individuals who perceive that their ethnic group is treated unfairly are less likely to have a tax compliant attitude in Tanzania and South Africa. Tax knowledge is also significantly correlated with tax compliant attitude in Tanzania and South Africa.

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



### **2.3.3 Tax Audits and Residential Rental Income Tax**

Niu (2010) in a study found a positive association between the audit and the Residential Rental Income Tax compliance. The finding suggests that the audit productivity may be under estimated in many studies in the literature. It reminds us that when considering the productivity of the audit work. Besides the direct audit collections, we should also take the audit impact on the Residential Rental Income Tax compliance into consideration. For this reason, the finding may provide tax professionals and tax authorities with incentives to strengthen the audit power and to better structure their audit organization to generate more revenue for the state. Niu (2010) Historical population data of a New York State economic sector were used in this study instead of experimental data or randomly selected sample data often used in the literature.

The results of both Ordinary Least Squares (OLS) and Time Series Cross Section (TSCS)

autoregressive modeling methods. The results of both methods suggest that after an audit, a firm would report a higher sales growth rate. Jin Kwon (2004) study in Korea observed that a more rigorous analysis to evaluate the determinant of tax culture for the study of tax compliance and tax audit. There are three types of tax audit. Badara (2012) stated these three types of audit include the random tax audit, cut-off tax audit and conditional tax audit. The random tax audit scheme simply provides each self-report of income an equal chance of being chosen for verification by an audit. Cut-off audit scheme, audit resources are employed to verify reports of the tax payers reporting the lowest income levels. The conditional audit scheme requires in addition to the reported income, sources of information representing a noisy signal of tax payers" thorough income earning potentials.

Alm and McKee, (2016) investigates the application of experimental methods to examine the individual compliance responses to a “certain” probability of audit, and conclude that the compliance rate rises if an individual knows he will be audited and the rate falls if he knows he will not be audited. Slemrod et al, (2001) examines randomly selected taxpayers and inform them that their filling will be “closely examined” and found evidence of taxpayers’ behavior changes in response to an increased probability of audit, although the responses are not uniform among different groups of taxpayers.

#### **2.3.4 Taxpayers Sensitization Programme and Residential Rental Income Tax**

Taru and Mukta (2019) examined Goods and Service Tax compliance in India. The review had the object of examining the extent of awareness and perception of new tax. More so, the study sought to investigate promotional strategies affected tax compliance. Data was analysed descriptively. Results revealed that awareness can be said to be a moderate determinant of GST compliance from the sample taxpayers in India. Further data analysis found out that promotional strategies were effective sensitization platforms which enhanced tax compliance.

Olaoye and Ayodole (2017) sought to provide empirical evidence on effect of information technology on taxation situation in Nigeria. Data was obtained from professionals from Southwest Nigeria States. Analysis of data was done descriptively and also in content analysis. Upon data analysis, it was revealed that online tax filing with proper and timely sensitization enhance tax compliance. The authors indicated that seminars and sensitization efforts on adoption of any new tax administration system would foster tax compliance.

Mulian and Shewan (2011). Increasing awareness through education and other modes of facilitation may increase tax compliance or might not have any change. Tax awareness is an interterm in that the two goes hand in hand through education and facilitation the taxpayer education and awareness for mutual benefits of the government and public and may improve the way the taxpayers view the tax laws and implement them.

Taxpayer knowledge has an influence on compliance and various researches support this argument. Knowledge is categorized on the basis of official education received and tax evasion knowledge (Korndörfer & Schmukle, 2014). Awareness which is one of the variable that are necessary for tax compliance is well connected with the taxpayer's ability to comprehend tax laws & regulations, and the ability to comply (Poudel, 2017). Taxpayer formal training exists to motivate voluntary compliance through service delivery to taxpayers. Low degrees of self-compliance will urge revenue specialist to employ forceful techniques to uphold compliance levels (Fjeldstad & Ranker, 2003). Kimingu and Kileva (2007) says that the education component will deal with compliance matters in the informal sector. This is premised on the possibility that non-compliance being unintentional due to the ignorance of law or might be deliberate because of the negative compliance mentalities.

Kira (2016) undertook a review of perceptions on tax revenue sourcing in Dodoma, Tanzania. Examining perception of Electronic Fiscal Devices with regard to fulfilment of tax obligations formed the goals of the inquiry. Data was collected and analysed descriptively. Findings led to the conclusion that use of EFDs was a great step towards enhancing tax compliance among the respondents. In addition, results indicated that use of electronic mechanisms saved time for processing returns thus saving on costs.

However, the rate of sensitization was low and this hampered adoption of the tools which potentially lowered the level of tax compliance.

Mwihaki and Nyaegah (2018) undertook a review of itax tax system with the intention of examining how the system impacted on tax obligation adherence. Businesses were sample from Nakuru town where structured questionnaires were employed to harness first hand data. Results indicated that with itax system working and taxpayer payer adequately sensitized, tax compliance was bound to improve. Further, fines and penalties were found to be a major deterring factor since the respondents were afraid of non-compliant due to hefty penalties.

Kairu (2018) examined turnover taxes challenges at the Kenya Revenue Authority. The explanatory variables were perceptions, officers trust in the levy and facilitation mechanisms. Facilitation was used in lieu of sensitization. First hand data was obtained from structured questionnaires from one hundred and forty seven respondents working at the KRA. Data was analysed descriptively and principally it was revealed that facilitation was a significant ingredient of tax compliance. Also, respondents indicated that they had experienced more positive responses from the taxpayer when they sensitized them on tax laws.

#### **2.4 Summary of Literature and Research Gaps**

Olaoye and Ayodole (2017) sought to provide empirical evidence on effect of information technology on taxation situation in Nigeria. Data was obtained from professionals from Southwest Nigeria States. Analysis of data was done descriptively and also in content analysis. Upon data analysis, it was revealed that online tax filing with proper and timely sensitization enhances tax compliance. The authors indicated that seminars and sensitization efforts on adoption of any new tax administration system

would foster tax compliance. The current study will be done in Kenya hence contextual gap.

Alm and McKee, (2006) investigates the application of experimental research methods to examine the individual compliance responses to a “certain” probability of audit, and conclude that the compliance rate rises if an individual knows he will be audited and the rate falls if he knows he will not be audited while the current study will use explanatory research methods

Mukuwa and Phiri (2020), conducted a study on effects of e-services on revenue collection and tax compliance among SMEs in developing countries, a case study of Zambia while deploying a descriptive model for the study. The study revealed that there has been significant increase in revenue collection and tax compliance among SMEs since the introduction of these e-services. The study focused on small and medium enterprises but the current study will focus on Residential Rental Income Tax compliance bring out the conceptual gap.

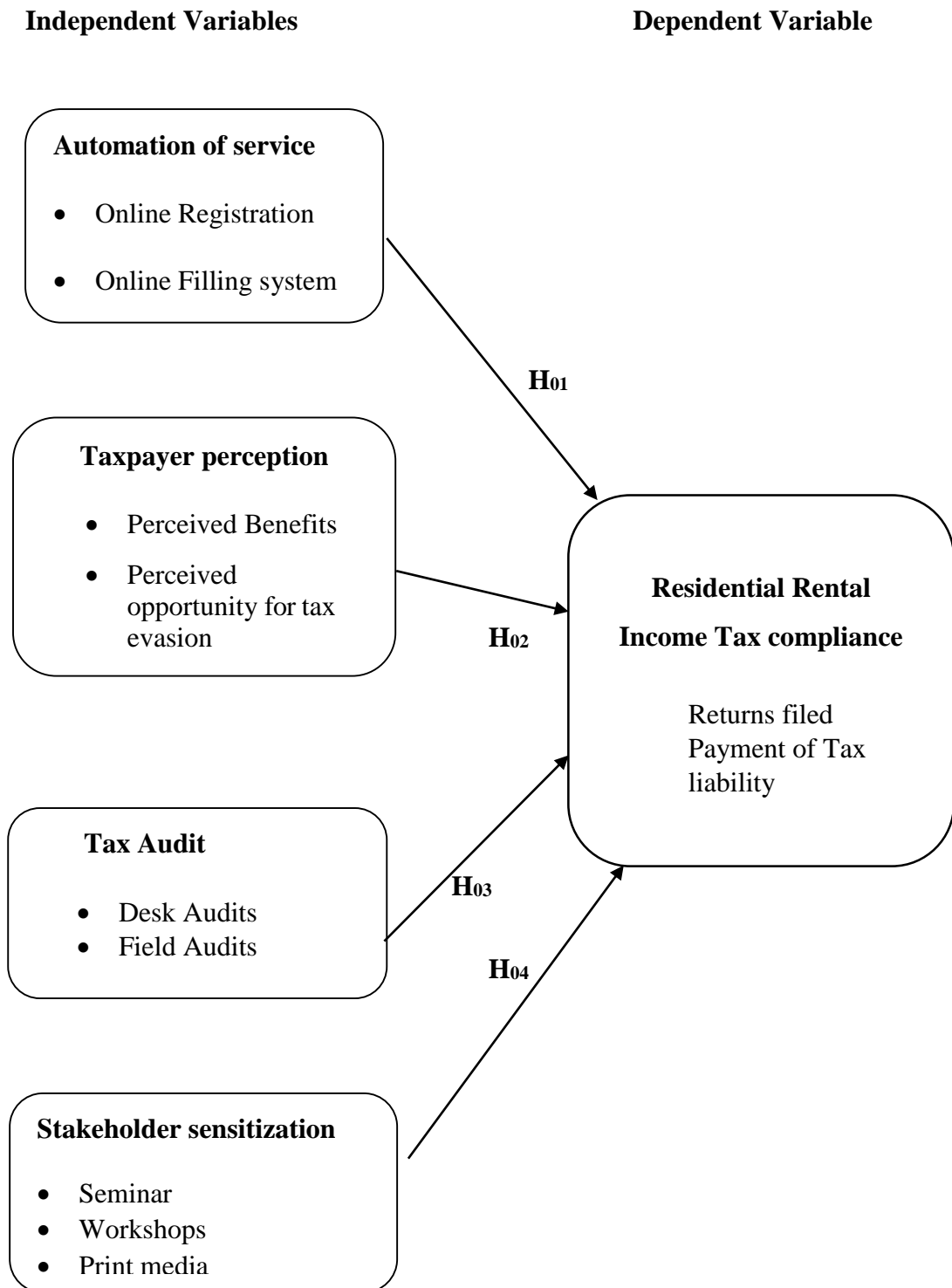
## **2.5 Critique of Existing Literature**

Taru and Mukta (2019) examined Goods and Service Tax compliance in India. The review had the object of examining the extent of awareness and perception of new tax. More so, the study sought to investigate promotional strategies affected tax compliance. Data was analysed descriptively. Results revealed that awareness can be said to be a moderate determinant of GST compliance from the sample taxpayers in India (Kirchler *et al.*, 2008) compliance, this view of individual choices within a social environment is missing; only the threat of external sanction audits and penalties generate compliance. The fact that informal institutions can affect compliance has been excluded from the model

Mutai (2013) surveyed the determinants of tax compliance among little and medium businesses in Uasin-gishu County. The investigation received an essentially subjective exploration plan. Methodological triangulation was utilized, using the interview and a questionnaire overview to gather essential information from SMEs in Uasin Gishu County. The outcomes demonstrated that SMEs face diverse business conditions from enormous organizations which cause them to bear high tax burdens

## **2.6 Conceptual Framework**

Conceptual framework is a group of concepts which are well organized to provide a focus, a tool and rational for interpretation and integration of information and is usually achieved in pictorial illustrations. This is to explain how they are related to each other (Adom, *et al.*, 2016). The conceptual framework linked the independent variables (automation of services, taxpayer perception, audit and stakeholder sensitization) to the dependent variable (residential rental income tax compliance).



**Figure 2.1: Conceptual Framework**

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

This chapter represents the research design, target population, description of the instruments used for the data collection and data analysis procedure applied

#### **3.2 Research Design**

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). An explanatory research design was used in this study since it enabled the researcher to seek new ideas from the respondents and develop an insight to the problems under study.

#### **3.3 Target Population**

Target population is the complete set of individuals, cases, or objects with some common characteristic to which the researcher wants to generalize the results of the study (Mugenda & Mugenda, 1999). A population is the entire set of individuals or other entities to which study finding are to be generalized (Berg, 2009). Kothari (2011) refers to population as all items in any field of inquiry which is also known as the universe. The population of interest for this study was 1298 residential property owners in Gatundu South Kiambu County (KRA 2021).

#### **3.4 Sampling Technique and Sample Size**

Sampling is a procedure by which some elements of the population are selected as representatives of the total population using probability to acquire a representative degree of reliability in the selected area (Saleemi, 1997). Sampling techniques are considered to be the strategies used by researchers in the statistical sampling process



(Cooper and Schindler, 2001). The researcher used random sampling techniques. The adoption of the sampling technique is to ensure fair and objective distribution of the population for better representation.

The sample size was determined by using the formula furnished by Cochran (1977).

$$n = N * X / (X + N - 1)$$

Where;

$$X = Z_{\alpha/2}^2 * p * (1-p) / d^2,$$

$Z_{\alpha/2}$  = the critical value of the Normal distribution (the study used 95%,  $\alpha$  is 0.05,  $z=1.96$ )

$p$  = the sample proportion

$d^2$  = the margin of error

$N$  = the population size

$$X = 1.96^2 * 0.5(1-0.5) / 0.05^2 = 385$$

$$n = 1298 * 385 / (385 + 1298 - 1) = 297$$

### **3.5 Data Collection Procedures**

This study used primary data collection through questionnaire. The questionnaire was used because of its economy, also to ensure anonymity; it permits use of the standardized questions and has uniform procedures. It also provides time for subjects to think about responses and it is easy to score. The questionnaire is made up of closed ended and open-ended questions to avoid being too rigid and quantify data especially where structured items is used (Kothari, 2004). This study used close-ended questions in a form of a 5-point type Likert scale. Likert scale is an interval scale that specifically uses five anchors of strongly disagree, disagree, neutral, agree and strongly agree. This

method helped the study to collect enough information, which otherwise was impossible using interviews and observations.

### **3.6 Type and source of data**

According to Magenda and Magenda (2003), questionnaires are commonly used to obtain important information about population under study. The questionnaires was administered using a drop and pick criteria. The collected data was analyzed using the statistical software program namely Statistical Package for Social science (SPSS) version 20. The quantitative data was analyzed using descriptive statistics (mean and standard deviation) and a number of techniques of analysis was used including Reliability test, Correlation and Multiple Regression.

#### **3.6.1 Pilot Study**

A pilot study was conducted on 29 respondents in Ruiru Town being given questionnaires of study before the final survey was undertaken. The reliability of the questionnaires will be improved through pretesting of pilot samples from lecturers in academic. This enabled rephrasing of some questions. Zikmund (2011) suggests pre testing is conducted to check how long the respondents may take to complete the questionnaire, if the instructions were clear, if there is any question unclear or ambiguous, if there has been any major topic omitted, if the layout of the questionnaire is clear or comments to add. Pilot test is a crucial step before conducting the final research.

#### **3.6.2 Validity of Research Instruments**

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 was determined through piloting, where the responses of the subjects were checked against the research objectives. For a research instrument to be considered valid, the content selected and included in the questionnaire must be relevant to the variable being investigated. According to Pallant (2011), it is the degree to which the results are truthful. So that it requires research instrument (questionnaire) to correctly measure the concepts under the study.

The questionnaire was tested for both content and face validity. Content Validity is defined by Creswell, (2005) as the extent to which the questions on the instrument and the scores from these questions represent all possible questions that could be asked about the content or skill. On the other hand, face validity refers to the degree to which a test appears to measure what it claims to measure as stated by Leedey & Ormrod (2004)

### **3.7 Reliability of Research Instruments**

Reliability is the degree to which an instrument yields the same results each time it is put into measurement under constant conditions (Saunders *et al.*, 2009). A reliable study is trustworthy if the appraisals give similar results in different times, if same findings are got by different observers and if there is transparency in the findings of the raw data (Sekaran, 2012). According to (Joppe, 2004) reliability is the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is reliable. Reliable measuring instrument does contribute to validity, but a reliable instrument need not be a valid instrument. If the quality of reliability is satisfied by an instrument, then while using it we can be confident that the transient and situational factors are not interfering.

Reliability can be improved in the following two ways: By standardizing the conditions under which the measurement takes place and by carefully designed directions for measurement with no variation from group to group, by using trained and motivated persons to conduct the research and by broadening the sample of items used (Kothari,, 2004). Reliability is measured using Cronbach alpha coefficient which is a measure used to assess the reliability of a set of set of scale or test items. This study tested reliability of the study instrument using Cronbach's alpha coefficient with a threshold of 0.7. Cronbach's alpha was computed by correlating the score for each scale item with the total score for each observation and then comparing that to the variance for all individual item scores:

### **3.8 Assumptions of multiple regression analysis**

To ensure that there was no violation of the assumptions, this study was tested for multicollinearity, and normality test. The following tests was undertaken. Multicollinearity or excessive correlation amount explanatory variables can complicate or prevent the identification of an optimal set of explanatory variables for a statistical mode. Cohen et al, (2013)'s definition of variance inflation factor (VIF) is that it provides an index of the amount that the variance of each regression coefficient is increased relative to a situation in which all of the predictor variables are uncontrolled" and suggest VIF to be too large hence not suitable.

#### **3.8.1 Normality Test**

Normality test was carried out using The Shapiro-Wilk Test to test whether the score of the samples was normally distributed with the same mean and standard deviation. If the test is significant ( $P < 0.05$ ) then the distribution is not significantly different from a normal distribution, but if the test is non – significant ( $P > 0.05$ ) then the distribution of the sample is significantly different from a normal distribution (Kilungu *et al.*, 2015).

### **3.8.2 Multicollinearity Test**

When two or more independent variables are linearly dependent on each other, then one of them should be used in data analysis instead of the two or more as this increases the standard errors, making the results biased (Alin, 2010). Using a Variance Inflation Factor (VIF) of values to measure whether the independent variables (IVs) suffer multicollinearity problem, a VIF value  $\geq 10$  shows there is a multicollinearity while any VIF value  $\leq 10$  with a tolerance factor of  $\geq 0.2$  is ideal and acceptable measure of multicollinearity. It is important to test for multicollinearity among independent variables since the presence of multicollinearity leads to multiple errors in the analysis of data (Zainodin & Yap, 2011). The study assumes that a true linear relationship between taxpayers' education and income tax performance. That errors was normally distributed, there was equal variance around the regression line during the analysis of the variables. That the relationship was independent of one another to diagnostically test the relationship between the variables.

### **3.8.3 Homoscedasticity test**

Homoscedasticity means that the variance or spread of errors from the regression line is constant. Lani (2011) notes that in regression, an error is how distant a point deviates from the normal line of regression. The assumption of linear regression is that the spread of the residual or the error term is constant across the graph and if this assumption is violated, the statistical results may not be trustworthy due to biased coefficients. The study will use Breusch/Pagan to test Homoscedasticity

### **3.8.4 Autocorrelation test**

This test was conducted to check whether the values of the residuals are independent and that was to ensure that the observations are independent from one another and uncorrelated. Marshall (2018) explained that The Durbin-Watson test was conducted to

indicate the level of autocorrelation. The statistic's value ranges from 0 to 4. Non-autocorrelation is shown by a number near 2; positive autocorrelation is indicated by a value near 0; and negative autocorrelation between independent variables is indicated by a value near 4. The study used Durbin Watson to test autocorrelation.

### 3.9 Data Analysis Methods

This involves qualitative and quantitative analysis. The data collected by use of various instruments was first edited to get the relevant data for the study. Data analysis is a process of gathering, modeling, and transformation data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making hence preparing crude data into interpretable designs (Mugenda & Mugenda, 2003). Data was analyzed using statistical methods by use of tables, charts, frequencies, and percentages. It is envisaged that the comparative methods are the best since the data is quantitative in nature prior to the summarization of the data. The questionnaires were checked to ensure that they are fully completed and accurate.

Determining relationships among variables of the study, regression analysis was used and it was guided by the following analytical model;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

**Where;**

**Y** = Residential Rental Income Tax compliance

**$\beta_0$**  = Constant (Coefficient of intercept)

**$X_1$**  = Automation of service

**$X_2$**  = taxpayer perception

**$X_3$**  = Tax Audit

**$X_4$**  = stakeholder sensitization

**$\epsilon$**  = Error Term

**$\beta_1, \beta_2, \beta_3$  and  $\beta_4$**  = Variable coefficient of the 4 variables

### 3.10 Measurement of Variables

This section provides details of how each of the study variables was measured and operationalized.

**Table 3.1: Measurement of Variables**

Variable	Indicator/Measure	Authors	Data collection Instrument	Measurement Scale	Types of Analysis
Automation of service	<ul style="list-style-type: none"> <li>Online Registration</li> <li>Online Filing system</li> <li>Online Payment system</li> </ul>	Phiri (2020),	Questionnaire	5 Point Likert Scale	Quantitative Regression analysis
Taxpayer perception	<ul style="list-style-type: none"> <li>Perceived Benefits</li> <li>Perceived efficiency</li> </ul>	(Kirchler <i>et al</i> , 2008).	Questionnaire	5 Point Likert Scale	Quantitative Regression analysis
Tax audit	<ul style="list-style-type: none"> <li>Desk audit</li> <li>Field audit</li> </ul>	Alm and McKee, (2016)	Questionnaire	5 Point Likert Scale	Quantitative Regression analysis
Stakeholder sensitization	<ul style="list-style-type: none"> <li>Seminar</li> <li>Workshops</li> <li>Print media</li> </ul>	Ayodole (2017)	Questionnaire	5 Point Likert Scale	Quantitative Regression analysis
Residential Rental Income Tax compliance	<ul style="list-style-type: none"> <li>Returns filed</li> <li>Payment of Tax revenue</li> <li>Timely Filing</li> </ul>	KRA 2021	Questionnaire	5 Point Likert Scale	Quantitative Regression analysis

### 3.11 Ethical Consideration

Ethics concerns moral principles and how people should conduct themselves in social affairs (Collis and Hussey, 2009). While McNeill (2005) state that ethics are norms or standards of behavior that guide moral choices about behavior and relationship with others. Ethical considerations of confidentiality of data provided by respondents was maintained. While respondents were informed about the objectives of the research. Privacy of possible and actual participants was addressed. All major statements in the study were cited with source clearly indicated to avoid plagiarism. The researcher

respected the rights and dignity of those who are participating in filling the questionnaire of the research project. The researcher operated with honesty and integrity. All the participants were offered the opportunity to remain anonymous.



## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSIONS**

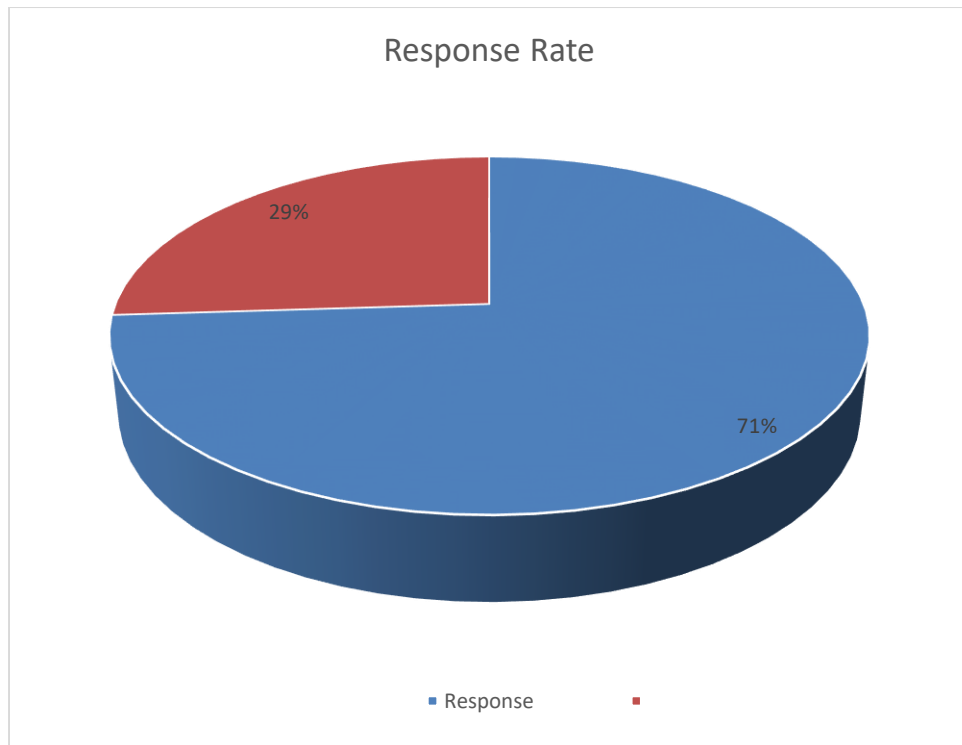
#### **4.0 Introduction**

This chapter describes the actual results as per the feedback from the respondents and which linked them to the objectives of the study. The presentation has been done based on the specific objectives of the study where data is summarized using tables and charts as well as narratives. The study sought to investigate factors affecting Residential Rental Income Tax among property owners in Kenya; A case study of Gatundu South, Kiambu County. Specific objectives of the study were automation of services, taxpayer perception, tax audit and stakeholder sensitization on Residential Rental Income Tax among property owners in Kiambu County

#### **4.1 Analysis of the Response Rate**

Questionnaires were used to seek the views of the property owners in Gatundu south 297 questionnaires were distributed, out of which 216 were received, and 5 questionnaires were rejected due to improper incompleteness. Thus 211 questionnaires were filled correctly and hence accepted which represents a response rate of 71 %.

Saunders *et al.*, (2007) argued that an average response rate of 30% to 40% is reasonable. This could be supported by Kothari (2014) who stated that the response rate of 60% and above is good while over 70% was very good. Based on the above arguments, it is clear that the response rate for the research was adequate. Figure 4.1 below illustrate the level of response rate.



**Figure 4.1: Response Rate**

Survey Data (2022)

#### 4.2 Reliability of Research Instruments

Table 4.1 shows the results that indicated that automation of service had reliability of (0.953), taxpayer perception (0.850), tax audit (0.937), stakeholder sensitization (0.781) and lastly rental income tax compliance (0.834). The highest instrument had Cronbach Alpha value of 0.953 while the lowest had reliability of 0.781 this implied that all instruments of the study were reliable for measurement. Sekaran (2012) indicated that an absolute value that is equal to or greater than 0.7 it's an indication of reliability. This study adopted a coefficient of 0.7 as the benchmark for reliability.

**Table 4.1: Test of Reliability of Questionnaire**

<b>Factor</b>	<b>Number of Items</b>	<b>Cronbach Alpha score</b>	<b>Conclusion</b>
Automation of service	4	0.953	Reliable
Taxpayer perception	4	0.850	Reliable
Tax audit	4	0.937	Reliable
Stakeholder sensitization	6	0.781	Reliable
Rental income tax compliance	4	0.834	Reliable

**Source: Survey Data (2022)**

### 4.3 Demographic

Table 4.2 shows that 59.2% of the 125 interviewed respondents were male while 40.7% of 86 were females. This may imply that the ratio of men to women involved in property ownership is skewed, favoring the men.

The level of education of respondents who participated in the study was also examined. The results presented showed that of (13.7%) respondents had primary as their highest academic level, with (26.1%) indicating that their highest level of education was secondary school. (37.4%) stated that their highest level of education was college level; lastly university level was (22.7%). The study established that the respondents had formal education and thus they could respond to the questionnaires on residential rental income tax compliance without the need of an interpreter.

**Table 4.2: Demographic**

#### **Education Level**

Primary	29	13.7
Secondary	55	26.1
College	79	37.4
University	48	22.7
<b>Total</b>	<b>211</b>	<b>100</b>

**Source: Research Data, (2022)**

#### **4.4 Statistical Assumptions**

Statistical tests rely upon certain assumptions about the variables used in the analysis. Osborne and Waters (2014), opine that when these assumptions are not met the results may not be valid. They further argue that this may result in a type I or type II error, or over or under-estimation of significance or effect size(s). It is therefore important to pretest for these assumptions for the validity of their results. Osborne, Christensen, and Gunter (2001) observed that few articles report having tested assumptions of the statistical tests they rely on for drawing their conclusions.

According to Osborne and Waters (2014), not pretesting for these assumptions has led to a situation where there is a rich literature in education and social science, but questions about the validity of many of these results, conclusions, and assertions still exist. Testing for assumptions is beneficial as it ensures that an analysis meets the associated assumptions and helps avoid type I and II errors (Osborne and Waters, 2014; Owino, 2014). Prior to data analysis, assumptions for normality and multicollinearity were checked.

##### **4.4.1 Normality Test**

The normality of data was tested using the Shapiro Wilk test. Thus, on the one hand, if the P-value is less than the chosen alpha level, then the null hypothesis is rejected and there is evidence that the data tested are not normally distributed. On the other hand, if the  $p$ -value is greater than the chosen alpha level, then the null hypothesis that the data that came from a normally distributed population cannot be rejected. The null-hypothesis of this test is that the population is normally distributed. The results of the normality test are presented in Table 4.3.

The normality results showed that automation of services had p-value  $0.142 > 0.05$  hence the data is normally distributed. It was also established that the p value for taxpayer perception was  $0.85 > 0.05$ , Tax Audit had p -value  $.171 > 0.05$  while stakeholder sensitization had p -value  $0.78 > 0.05$ . Lastly, Tax Audit had p-value  $0.66 > 0.05$ . The results of the normality test revealed that the data were normally distributed and hence further analysis was conducted.

**Table 4.3: Tests of Normality**

	Statistic	Shapiro-Wilk Df	Sig.
Automation of service	.921	211	.142
Taxpayer perception	.696	211	.85
Tax Audit	.573	211	.171
Stakeholder sensitization	.696	211	.78
Rental income tax compliance	.780	211	.66

**Source: Research Data, (2022)**

#### 4.4.2 Multicollinearity Test

Multicollinearity exists when two or more of the predictors in a regression model are moderately or highly correlated thereby limiting the research conclusions to be drawn. According to Zainodin, Noraini, and Yap (2011), multicollinearity refers to the presence of correlations between the predictor variables. In severe cases of perfect correlations between predictor variables, multicollinearity can imply that a unique least squares solution to a regression analysis cannot be computed (Field, 2009). According to Field (2009) VIF values over or above 10 are an indication of the presence of Multicollinearity. Multicollinearity inflates the standard errors and confidence intervals leading to unstable estimates of the coefficients for individual predictors.

Multicollinearity was assessed in this study using the Variance Inflation Factor (VIF) as shown in Table 4.4.

Results were presented in Table 4.9. A variance inflation factor test was conducted to test for multicollinearity of the predictors and a value less than 10 is acceptable automation of service had V.I.F value of 1.420 which is less than 10 implying there is no multicollinearity. Taxpayer perception had a V.I.F value of 1.476 means that there is no multicollinearity since VIF is less than 10. The results indicated that tax audit had a V.I.F value of 1.852 implying there is no multicollinearity since VIF is less than 10. The results indicated that stakeholder sensitization had a V.I.F value of 1.163 implying there is no multicollinearity since VIF is less than 10. Regression can be conducted on factors affecting Residential Rental Income Tax among property owners in Kenya; case of Gatundu South, Kiambu County.

**Table 4.4: Multicollinearity Test**

Variable	Collinearity Statistics	
	Tolerance	VIF
Automation of services	0.744	1.420
Taxpayer perception	0.619	1.476
Tax audit	0.975	1.852
Stakeholder sensitization	0.852	1.163

a. Dependent Variable: Rental income tax compliance

**Source: Research Data, (2022)**

#### 4.4.3 Homoscedasticity test

Homoscedasticity means that the variance or spread of errors from the regression line is constant. Lani (2011) notes that in regression, an error is how distant a point deviates from the normal line of regression. The assumption of linear regression is that the spread of the residual or the error term is constant across the graph and if this

assumption is violated, the statistical results may not be trustworthy due to biased coefficients. The results from the homoscedasticity test showed F-statistic 1.12685 p value  $>0.05$ . The test results concluded that the assumption for homoscedasticity is not violated.

Breusch/Pagan test was conducted on

**Table 4.5: Homoscedasticity test**

F-statistic	1.12685	Prob.	0.2598
-------------	---------	-------	--------

#### 4.4.4 Autocorrelation test

This test was conducted to check whether the values of the residuals are independent and that was to ensure that the observations are independent of one another and uncorrelated. Marshall (2018) explained that The Durbin-Watson test was conducted to indicate the level of autocorrelation. The statistic's value ranges from 0 to 4. Non-autocorrelation is shown by a number near 2; positive autocorrelation is indicated by a value near 0; and negative autocorrelation between independent variables is indicated by a value near 4. Results from the Durbin Watson test showed the Durbin Watson result of 2.3021 which is between 1.5 and 2.5 thus this indicated no autocorrelation exists in the data set.

Numbers between 1.5 and 2.5 indicates no autocorrelation.

**Table 4.6 Durbin Watson test Model**

	<b>Durbin-Watson</b>
1	2.3021

**4.5 Descriptive Statistics****4.5.1 Automation of services**

The results from respondents demonstrated that using electronic filing system is simple with a (mean=3.56, standard deviation= 0. 869) Changes to the electronic filing system can be made to ease my work of preparation of tax returns (mean=4.24, standard deviation= 0.645). Electronic payment process is simple (mean=4.06, standard deviation= 0. 785) The Online Payments has enhanced compliance among residential income property owners with a (mean=4.47, standard deviation= 0. 587).

**Table 4.7: Automation of services**

	<b>Mean</b>	<b>Std. Dev</b>	<b>Skewness</b>	<b>Kurtosis</b>
Using electronic filing system is simple	3.56	0.869	0.378	0.861
Changes to the electronic filing system can be made to ease my work of preparation of tax returns	4.24	0.645	0.268	0.674
Electronic payment process is simple	4.06	0.785	0.597	0.076
The Online Payments has enhanced compliance among residential income property owners	4.47	0.587	0.581	0.598

**Source: Research Data, (2022)**



### 4.5.2 Taxpayer perception

Table 4.8 the results from respondents demonstrate that The tax system is fair and it enhances rental income tax compliance (mean=4.17, standard deviation=.541). I perceive tax filing and payment tedious (mean=4.08, standard deviation=0.682). I perceive Payment of rental income tax as a contribution to economic growth (mean=4.10, standard deviation = 0.703). I perceive provision of public services/resources to encourage tax compliance (mean =4.12, standard deviation = 0.764).

**Table 4.8: Taxpayer perception**

	Mean	Std. Dev	Skewness	Kurtosis
The tax system is fair and it enhances rental income tax compliance	4.17	0.541	0.132	-0.710
I perceive tax filing and payment tedious	4.08	0.682	-0.107	-0.828
I perceive Payment of rental income tax as a contribution to economic growth	3.10	0.703	-0.142	-0.951
I perceive provision of public services/resources to encourage tax compliance	4.12	0.764	-0.199	-1.254

**Source: Research Data, (2022)**

### 4.5.3 Tax Audit

Table 4.9 The results from respondents demonstrate that I have been once summoned by KRA officials to submit our books for audit (mean=4.19, standard deviation=0.882). Audit has been done by KRA (mean=3.64, standard deviation= 0.956). In case of inconsistency, KRA sends their officers to conduct an audit immediately to property owners in Gatundu south (mean=3.77, standard deviation= 0.710). KRA officials always advise our firm on some rental income tax new laws after the audit exercise (mean=3.56, standard deviation= 0.720).

**Table 4.9: Tax audit**

	Mean	Std. Dev	Skewness	Kurtosis
I have been once summoned by KRA officials to submit our books for audit	4.19	0.822	0.138	0.657
Audit has been done by KRA	3.64	0.956	0.053	0.521
In case of inconsistency, KRA sends their officers to conduct an audit immediately to property owners in Gatundu south	3.77	0.710	0.102	0.546
KRA officials always advise our firm on some rental income tax new laws after audit exercise	3.56	0.720	0.196	0.377

**Source: Research Data, (2022)**

#### 4.5.4 Stakeholder Sensitization

The results from respondents demonstrate that KRA has created awareness among taxpayers on residential rental income tax with a (mean=4.41, standard deviation= 0. 587). I have been involved in workshops, trainings, and seminars about rental income (mean=3.73, standard deviation= 1.190). No Public awareness has been done (mean=3.60, standard deviation= 1.362). Taxpayer workshops has improved my compliance (mean= 4.23, standard deviation=1.279). I understand my rights and obligations as a taxpayer (mean=3.70, standard deviation= 0.711). KRA official should look for ways of creating awareness and educating taxpayers (mean=4.51, standard deviation=.613).

**Table 4.10: Stakeholder Sensitization**

5 = Strongly Agree 4 = Agree 3 = Neutral 2 = Disagree 1= Strongly Disagree

	Mean	Std. Dev	Skewness	Kurtosis
KRA has created awareness among taxpayers on residential rental income tax	4.41	0.587	-0.064	-2.129
I have been involved in workshops, training, and seminars about rental income	3.73	1.190	0.785	0.046
Public awareness has been done	3.60	1.362	0.322	-1.895
Taxpayer workshops have improved my compliance	4.23	1.279	0.425	-0.584
I understand my rights and obligations as a taxpayer	3.70	0.711	0.349	-0.581
KRA official should look for ways of creating awareness and educating taxpayers	4.51	0.613	-0.178	-0.428

**Source: Research Data, (2022)**

#### **4.6 Rental income tax compliance**

The results indicate my tax is paid by the due date (mean= 3.94, standard deviation= 0.971). I'm registered for KRA Pin (mean= 3.68, standard deviation= 0.980). I remit my rental income tax to KRA in time (mean=4.06, standard deviation= 0.330). I voluntarily file Residential Rental Income Tax returns because it's an obligation (mean= 4.13, standard deviation= 0.698).

**Table 4.11: Rental income tax compliance**

5 = Strongly agree 4 = Agree = 3 = Neutral 2 = Disagree 1 = Strongly disagree

	Mean	Std. Dev	Skewness	Kurtosis
My tax is paid by the due date	3.94	0.946	-0.712	-0.047
I'm registered for KRA Pin	3.68	0.900	-0.350	0.018
I remit my rental income tax to KRA in time	4.06	0.330	-0.326	0.209
I voluntarily file Residential Rental Income Tax returns because it's an obligation	4.13	0.698	-0.184	-0.922

**Source: Research Data, (2022)**

#### 4.7 Correlation Analysis

The researcher used Pearson Product Moment correlation coefficient which establishes the level of strength that determines the strength of linear association that is present in bivariate variables which are considered to have an effect on Rental income tax compliance.

**Table 4.12: Correlation Analysis**

		<b>Rental Income tax Compliance</b>	<b>Automation Services</b>	<b>Taxpayer Perception</b>	<b>Tax Stakeholder audit sensitization</b>	
Rental income tax compliance	Pearson Correlation	1				
	Sig. (2- tailed)	211				
	N					
Automation of services	Pearson Correlation	.236**	1			
	Sig. (2- tailed)	.000				
	N	211				
Taxpayer perception	Pearson Correlation	.293**	.275**	1		
	Sig. (2- tailed)	.004	.000			
	N	211				
Tax audit	Pearson Correlation	.219.**	.335**	.272**	1	
	Sig. (2- tailed)	.000	.006	.000		
	N	211				
Stakeholder sensitization	Pearson Correlation	.213**	.276**	.320	.210	1
	Sig.(2tailed)	.001	.000	.000	.004	
	N	211				

\*\* . Correlation is significant at the 0.05 level (2-tailed).

**Source: Research Data, (2022)**

Pearson correlation coefficient (r) was used to assess the strength of the association between the study variables. A correlation coefficient enables the researcher to quantify the strength of the linear relationship between two ranked or numerical variables (Smith, 2010). Correlation analysis measures the degree of relationship between variables. Pearson correlation analysis was used to analyze the relationship between study variables. The Table 4.12 presents the results of the correlation analysis. The results presented show that automation of service is positively and significantly associated with rental income tax compliance as shown  $r=0.236$  and  $p=0.000<0.05$ ),

The results also show that taxpayer perception is positively and significantly associated with rental income tax compliance as shown  $r = -0.293$  and  $p = 0.004 < 0.05$ ). The results show that tax audit is positively and significantly associated with rental income tax compliance as shown  $r = 0.219$  and  $p = 0.000 < 0.05$ . Further, results show that stakeholder sensitization is positively and significantly associated with rental income tax compliance as shown  $r = 0.213$  and  $p = 0.001 < 0.05$ ).

#### 4.7.1 Multiple Regression Analysis

Multiple regression analysis was adopted to show the level of significance of the relationship that exists between the dependent variable and independent variables. The analysis shows how independent variables would affect dependent variable and to show the extent to which the chosen variables affect each other. The results are indicated in the model summary on the table 4.13.

**Table 4.13: Multiple Linear Regression analysis Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.787 <sup>a</sup>	.619	.611	.38513

a. Predictors: (Constant), Automation of services, taxpayer p, tax audit and stakeholder sensitization.

b. . Dependent Variable: Rental income tax compliance

**Source: Research Data, (2022)**

The findings in Table 4.13, reveal that Automation of services, taxpayer perception, tax audit and stakeholder sensitization to correlate with rental income tax compliance up to 78.7% ( $R = 0.787$ ). The results reveals that Automation of services, taxpayer perception, tax audit and stakeholder sensitization caused a variation of 61.9% ( $R^2 = 0.619$ ). This implies that 38.1% of the change in rental income tax compliance was caused by other factors which were not included in the study. The findings further reveal that even if

the results adjust, the study would still account for 61.1% (Adjusted $R^2$ , 0.611) variation of rental income tax compliance.

#### 4.7.2 Analysis of Variance

The ANOVA statistics presented in the table 4.14 was used to present the regression model significance

**Table 4.14: Analysis of Variance**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.674	4	1.418	13.767	.000 <sup>b</sup>
1 Residual	21.325	206	0.103		
<b>Total</b>	<b>26.999</b>	<b>210</b>			

a. Dependent Variable: Rental income tax compliance

b. Predictors: (Constant), Automation of services, taxpayer perception tax audit and stakeholder sensitization.

**Source: Research Data, (2022)**

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings in Table 4.14 show an F value of 13.767 with a significance level of 0.000 which is less than the p value of 0.05, hence establishing the model is statistically significant. The implication is that Automation of services, taxpayer perception, tax audit and stakeholder sensitization. Contribute significantly to changes in the rental income tax compliance

**Table 4.15: Overall Regression Analysis of Automation of Services, Taxpayer Perception, Tax Audit And Stakeholder Sensitization**

Model	Standardized Coefficients	Unstandardized Coefficients	T	Sig	
	$\beta$	Std. Error	Beta		
(Constant)	0.378	0.061	6.196	0.000	
Automation of service	0.229	0.044	0.372	5.204	0.002
Taxpayer Perception	0.390	0.072	0.291	5.416	0.001
Tax Audit	0.287	0.063	0.215	4.555	0.000
Stakeholder sensitization	0.204	0.059	0.316	3.457	0.000

a. Dependent Variable: Rental income tax compliance

Source: Research Data, (2022)

The regression analysis model derived from the methodology was specified as follows;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y =Rental income tax compliance

X<sub>1</sub> = automation of services

X<sub>2</sub> = taxpayer perception

X<sub>3</sub>=tax audit

X<sub>4</sub>=stakeholder sensitization

$\alpha$  = constants term

$\beta_1, \beta_2, \beta_3,$  and  $\beta_4$  = regression coefficients of X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub>, X<sub>3</sub> and  $\varepsilon$  = error item.

### Regression Equation

$$Y=0.378+ 0.229X_1 + 0.390X_2 + 0.287X_3 + 0.204X_4$$

The Regression equation shows that the independent variables and dependent variable were statistically significant. Automation of services had a beta coefficient ( $\beta_1$ ) of 0.229 which implies that a unit change in automation of services leads to an increase of rental



income tax compliance by 0.229 and was statistically significant at ( $p=0.002<0.05$ ). Taxpayer perception had a beta coefficient ( $\beta_2$ ) of 0.390 which implies that a unit change in taxpayer perceptions leads to an increase of rental income tax compliance by 0.390 and was statistically significant at ( $p=0.001<0.05$ ). Tax audit had a beta coefficient ( $\beta_3$ ) of 0.287 which implies that a unit change in tax audit leads to an increase of rental income tax compliance by 0.287 and was statistically significant at ( $p=0.000<0.05$ ). Stakeholder sensitization had a beta coefficient ( $\beta_4$ ) of 0.204 which implies that a unit change in stakeholder sensitization leads to an increase of rental income tax compliance by 0.204 and was statistically significant at ( $p=0.000<0.05$ ).

#### **4.7.3 Test of Hypotheses**

The first hypothesis  $H_{o_1}$  stated that Automation of service has no significant effect on Residential Rental Income Tax among property owners in Gatundu South. Automation of services has a positive relationship effect on rental income tax compliance. The study results on Table 4.13 rejected the hypothesis as evidence of  $\beta_1=0.229$ ,  $p<0.002$  which is less than  $p<0.05$ .

The second hypothesis  $H_{o_2}$  stated that taxpayer perception has no significant effect on Residential Rental Income Tax among property owners in Gatundu South. Taxpayer perception has a positive relationship effect on rental income tax compliance. The study results on Table 4.13 rejected the hypothesis as evidence of  $\beta_2=0.390$ ,  $p<0.001$  which is less than  $p<0.05$ .

The third hypothesis  $H_{o_3}$  stated that tax audit has no significant effect on Residential Rental Income Tax among property owners in Gatundu South. Tax audit has a positive relationship effect on rental income tax compliance. The study results in Table 4.13 rejected the hypothesis as evidence of  $\beta_3=0.287$ ,  $p<0.000$  which is less than  $p<0.05$ .

The fourth hypothesis  $H_{04}$  stated that stakeholder sensitization has no significant effect on Residential Rental Income Tax among property owners in Gatundu South. Stakeholder sensitization has a positive relationship effect on rental income tax compliance. The study results on Table 4.16 rejected the hypothesis as evidence of  $\beta_4=0.204$ ,  $\rho<0.000$  which is less than  $\rho<0.05$ .

**Table 4.16: Summary of Hypothesis Testing**

Hypothesis	P-value	Conclusion
<b>H<sub>01</sub></b> Automation of service has no significant effect on Residential Rental Income Tax Compliance among property owners in Gatundu South	0.002	Reject H <sub>01</sub>
<b>H<sub>02</sub></b> Taxpayer perception has significant effect on Residential Rental Income Tax Compliance among property owners in Gatundu South	0.001	Reject H <sub>02</sub>
<b>H<sub>03</sub></b> Tax Audits have no significant effect on Residential Rental Income Tax Compliance among property owners in Gatundu South	0.000	Reject H <sub>03</sub>
<b>H<sub>04</sub></b> Stakeholder sensitization has no significant effect on Residential Rental Income Tax Compliance among property owners in Gatundu South	0.000	Reject H <sub>04</sub>

**Source: Research, 2022**

#### **4.8 Discussion of the Findings**

This discussion of the results of various tests carried out on the study. The results of each of the hypothesis in this study were discussed.

##### **4.8.1 Effect of Automation of Services on Rental Income Tax Compliance**

The first objective was to determine the effect of automation of service on Residential Rental Income Tax among property owners in Gatundu south. The finding reveals that the relationship between automation of service and rental income tax compliance is statistically significant with ( $\beta_1=0.229$ , at  $\rho<0.002$  which is less than 0.05 the convectional probability The study was in agreement with Mukuwa and Phiri (2020),

conducted a study on effects of e-services on revenue collection and tax compliance among SMEs in developing countries, a case study of Zambia while deploying a descriptive model for the study. The study revealed that there has been a significant increase in revenue collection and tax compliance among SMEs since the introduction of these e-services. The findings of this study further pointed to the fact that electronic filing enhances revenue collection and tax compliance among the SMEs. When the process is simplified and easily accessible through the Internet and on phones as opposed to manual queuing to file taxes on papers, many SMEs are encouraged to file their taxes

Mutai (2013) surveyed the determinants of tax compliance among little and medium businesses in Uasin-Gishu County. The investigation received an essentially subjective exploration plan. Methodological triangulation was utilized, using the interview and a questionnaire overview to gather essential information from SMEs in Uasin Gishu County. The outcomes demonstrated that SMEs face diverse business conditions from enormous organizations which cause them to bear high tax burdens. The outcomes likewise showed that the impression of SME administrators about technology, charge administration quality and government spending priorities incredibly influence their tax compliance choices.

#### **4.8.2 Effect of Taxpayer Perception on Rental Income Tax Compliance**

The second objective was to establish the effect of taxpayer perception on Residential Rental Income Tax among property owners in Gatundu south. The finding reveals that the relationship between taxpayer perception and rental income tax compliance is statistically significant with  $\beta_2=0.390$ , at  $p<0.001$  which is less than 0.05 the convectional probability. The finding was in agreement Chan, Moorthy & Choo (2017) conducted a study on taxpayers' perceptions on tax evasion behaviour: an empirical

study in Malaysia. Data was collected from 400 taxpayers through the use of a questionnaire. Data were then analyzed using regression and correlation analysis. The findings of the study suggested that tax perception is the most important tax system characteristic that affects taxpayers' attitude toward tax morality. The study findings also suggested that taxpayers' attitude of toward tax morality is significant to taxpayers' perceptions of tax evasion in Malaysia.

#### **4.8.3 Effect of Tax Audit on Rental Income Tax Compliance**

The third objective was to determine the effect of tax audits on Residential Rental Income Tax among property owners in Gatundu south. The finding reveals that the relationship between tax audit and rental income tax compliance is statistically significant  $\beta_3=0.287$ , at  $p<0.000$  which is less than 0.05 the conventional probability. The study was in agreement with Alm and McKee, (2016) investigates the application of experimental methods to examine the individual compliance responses to a "certain" probability of audit, and conclude that the compliance rate rises if an individual knows he will be audited and the rate falls if he knows he will not be audited. Badara (2012) stated these three types of audit include the random tax audit, cut-off tax audit and conditional tax audit. The random tax audit scheme simply provides each self-report of income an equal chance of being chosen for verification by an audit. Cut-off audit scheme, audit resources are employed to verify reports of the tax payers reporting the lowest income levels. The conditional audit scheme requires in addition to the reported income, sources of information representing a noisy signal of tax payers' thorough income earning potentials.

#### **4.8.4 Effect of Stakeholder Sensitization on Rental Income Tax Compliance**

The fourth objective was to establish the effect of stakeholder sensitization on Residential Rental Income Tax among property owners in Gatundu south. The finding reveals that the relationship between stakeholder sensitization and rental income tax compliance is statistically significant with  $\beta_4=0.204$ , at  $p<0.000$  which is less than 0.05 the conventional probability. The finding concurred with Mwihaki and Nyaegah (2018) undertook a review of itax tax system with the intention of examining how the system impacted tax obligation adherence. The study sample was form Nakuru town where structured questionnaires were employed to harness first hand data. Results indicated that with itax system working and taxpayer payer adequately sensitized, tax compliance was bound to improve. Further, fines and penalties were found to be a major deterring factor since the respondents were afraid of being non-compliant due to hefty penalties.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents a summary of the findings in line with the specific objectives of the study, conclusions drawn and recommendations made for the study including suggested areas of further study to enrich relevant knowledge under the study.

#### 5.2 Summary of Findings

The main objective of this study was to investigate factors affecting Residential Rental Income Tax compliance among property owners in Kenya; case of Gatundu South, Kiambu County. It applied explanatory study research and primary data methods were used to gather data for this research. To achieve the objectives of the study, primary data was collected using self-administered predetermined questionnaire. The questionnaire of the study included closed ended questions with five point Likert scale.

The specific objectives were to determine the effect of automation of service on Residential Rental Income Tax among property owners in Gatundu south. The study showed that automation of services has a positive effect on Residential Rental Income Tax among property owners in Gatundu South.

To establish the effect of taxpayer perception on Residential Rental Income Tax among property owners in Gatundu south. The study revealed that taxpayer perception has a positive effect on Residential Rental Income Tax among property owners in Gatundu South.

To determine the effect of tax audits on Residential Rental Income Tax among property owners in Gatundu south. The study found that tax audit has a positive effect on Residential Rental Income Tax among property owners in Gatundu South.

To establish the effect of stakeholder sensitization on Residential Rental Income Tax among property owners in Gatundu south. The study showed (indicated???) that stakeholder sensitization had a positive effect on Residential Rental Income Tax among property owners in Gatundu South.

### **5.2.1 Effect of Automation Service on Rental Income Tax Compliance**

The first objective was the effect of automation of service on Residential Rental Income Tax among property owners in Gatundu south. Correlation analysis showed that automatic service on rental income tax compliance is positively and significantly associated. Also the Regression analysis shows there was a positive significant linear relationship between automation of service and rental income tax compliance evidence of  $p=0.002$ ,  $\rho<0.05$ .

### **5.2.2 Effect of Taxpayer Perception on Rental Income Tax Compliance**

The second objective was the effect establish the effect of taxpayer perception on Residential Rental Income Tax among property owners in Gatundu south. Correlation analysis showed that taxpayer perception on rental income tax compliance is positively and significantly associated. Also the Regression analysis showed that there was a positive significant linear relationship between taxpayer perception and rental income tax compliance evidence of  $p=0.001$ ,  $\rho<0.05$ .

### **5.2.3 Effect of Tax Audit on Rental Income Tax Compliance**

The third objective was to determine the effect of tax audits on Residential Rental Income Tax among property owners in Gatundu south. Correlation analysis showed that tax audit on rental income tax compliance is positively and significantly associated. Also the Regression analysis shows there was a positive significant linear relationship between tax audit and rental income tax compliance evidence of  $p=0.000$ ,  $\rho<0.05$ .

#### **5.2.4 Effect of Stakeholder Sensitization on Rental Income Tax Compliance**

The fourth objective was to establish the effect of stakeholder sensitization on Residential Rental Income Tax among property owners in Gatundu south. Correlation analysis showed that stakeholder sensitization on rental income tax compliance is positively and significantly associated. Also the Regression analysis shows there was a positive significant linear relationship between stakeholder sensitization and rental income tax compliance evidence of  $p=0.000$ ,  $\rho<0.05$ .

#### **5.3 Conclusions**

The study concluded that automation of services has a positive effect on Residential Rental Income Tax among property owners in Gatundu South. The study findings showed that respondents agreed on The Online Payments had enhanced compliance among residential income property owners and Changes to the electronic filing system can be made to ease my work of preparation of tax returns

The study concluded that taxpayer perception had a positive effect on Residential Rental Income Tax among property owners in Gatundu South. The study findings showed that respondents perceive that the tax system is fair and it enhances rental income tax compliance and the provision of public services/resources to encourage tax.

The finding also concluded that tax audit had a positive effect on Residential Rental Income Tax among property owners in Gatundu South. I have been once summoned by KRA officials to submit our books for audit the study concluded that stakeholder sensitization had a positive effect on Residential Rental Income Tax among property owners in Gatundu South. The taxpayers were in agreement that KRA should adopt better ways of creating awareness and educating taxpayers and agreed that KRA has



created awareness among taxpayers on residential rental income tax.

## **5.4 Recommendations**

### **5.4.1 Policy Makers**

From the findings and conclusion above, the study revealed a statistically significant relationship Between Automation of services, taxpayer perception, tax audit and stakeholder sensitization and rental income tax compliance. From the results of the study a unit change in automation of service, increases by 0.372, therefore, the study recommends that the policy-makers should formulate policies that can improve compliance levels of tax payment by Kenyan property owners. This will help the government raise more domestic revenue from tax collection which will be used in realizing the government's goals.

It will help Government to come up will policies and regulations that will enhance tax compliance on rental income among taxpayers not only in Gatudu south, Kiambu County but all over the country. The study will aid in policy making by the government which can improve compliance levels of tax payment by the Kenyan landlords. This will help the government raise more domestic revenue from tax collection which will be used in realizing the government goals in Vision 2030.

### **5.4.2 Management and Practice**

Kenya Revenue Authority's performance s mostly and significantly boosted by automation of service, tax audit and stakeholder sensitization. The Kenyan landlords will understand the critical role of voluntary tax compliance as an engine to economic development and reduce noncompliance costs. This in return is going to improve the performance of the government and they will enjoy the low cost of doing business due to improved services by the government.

### **5.4.3 Implication to theory**

From the findings the study will add to the body of knowledge to the researchers who pursue to discover or examine the factors influencing rental income and the study is guided by four theories, which were Economic deterrence theory, Theory of Technology Acceptance, Ability to Pay Theory and Fiscal Exchange Theory. The study will add to the body of knowledge of attention to both researchers and academicians who pursue to discover or examine the factors influencing rental income among the landlords in Gatundu or any other area. It will lay the basis of other studies to be carried out.

### **5.5 Suggestions for Further Research**

The study focused only on Gatundu South in Kiambu County, further studies should be carried out on other counties such as Laikipia to obtain objective conclusions as different counties have different operational environments. Further studies may also be conducted to determine the effect of compliance cost on residential rental income tax compliance.

## REFERENCES

- Adams, C. (2001) *For Good and Evil the Impact of Taxes on the Course of Civilization*. Hacienda Publishing, Madison
- Ajzen, F. M. (1975). *Belief, Attitude, intention and Behavior. An Introduction to Theory and Research*.
- Ali, M., Fjeldstad, O.-H., & Katera, L. (2017). Property Taxation in Developing Countries. *CMI Brief*.
- Allingham, M. G. (1972). Income tax evasion: A theoretical analysis. . *Journal of Public Economics*, 323-338.
- Alm, J. S. (1995). Economic and noneconomic factors in tax. 3-18.
- Asiligwa. (2017). The Effect of Internal Controls on the Financial Performance of Commercial Banks in Kenya. *Journal of Economics and Finance*.
- Authority, K. R. (2011). *Kenya Revenue Authority*. Nairobi.
- Baer. (2002). Improving Large Taxpayer Compliance. *IMF, Occasional Paper, 215. Washington D.C.*
- Barbutamisu, N. 2. (2011). *A Review of Factors for Tax Compliance*. Annals of “Dunarea de Jos” University of Galati.
- Bassey, O.U. (2013) *Companies Income Taxation in Nigeria*. CIBN Press Ltd., Lagos
- Bennet, A. (2009). *Introducing the Intelligent Complex Adaptive System Model for Organizations*.
- Bhatia, Arjun Kumar. (2006). *The Business of Tourism: Concepts and Strategies*. Sterling Publishers Pvt Ltd.
- Bird. “Improving Tax Administration in Developing Countries.” *Journal of tax administration*, 2015.
- Bobek, D. D., Roberts, R. W., & Sweeney, J. T. (2007). The Social Norms of Tax Compliance: Evidence from Australia, Singapore, and the United. *Journal of Business Ethics*, Vol. 74, No. 1 (Aug., 2007)., 49-64.
- Bonneville, A. a. (1980). *Taxpayer Compliance: An agenda for research*. Pennsylvania: Unity of Pennsylvania Press.
- Brehm, V. (2001). ‘North-South NGO Partnerships, Legitimacy and Constitutencies’ . . *Ontrac 17*.
- Budget Outlook. (2020). *County Budget Review and Outlook Paper*. National Treasury & Planning; Public Relations Office.

- Committee of Sponsoring Organizations of the Treadway Commission. (2004). *Enterprise Risk Management - Integrated Framework* .
- COSO. (2004). *The Committee of Sponsoring Organizations of the Treadway Commission, Enterprise Risk Management Framework*.
- Crocker L, A. J. (1986). Introduction to classical. *Orlando, FL:Harcourt Brace Jovanovich*, pp. 1-527.
- Cronbach L.J., "Coefficient alpha and the internal structure of tests." *Psychometrika*, 1951: 297-334.
- Cytonn,. "Nyeri real estate investment opportunity." 2019.
- Damayanti et all., "The Role of Taxpayer's Perception of the Government and Society to Improve Tax Compliance." *Accounting and Finance research*, 2015.
- Davis, J. S., Hetcht, G., & Perkins, J. D. (2003). Social Behaviors, Enforcement, and Tax compliance Dynamics. *The Accounting Review, Vol. 78, No. 1 (Jan., 2003)*, 39-69.
- Devos, K. (2014). Tax Compliance Theory and the Literature. In *Factors Influencing Individual Taxpayer Compliance Behaviour* (p. 14). Springer Science+Business Media Dordrech.
- Devos, K. (7-10-2008). Revenue Law Journal. *Tax Evasion Behaviour and Demographic Factors:An Exploratory Study in Australia*, 9-13.
- Donald Cooper, P. S. (2010). *Business Research Methods*. McGraw-Hill Education, 2010.
- Donnelly, E. &. (2010). The role of tax authorities in encouraging corporate social responsibility. *The 10th European Conference one Government*. . Reading, UK: Academy Publishing Limited.
- Emmanuel, O. K. (2013). Motivation and tax compliance in Nigeria: Issues and Theories. *Journal of Business Management and Administration Vol 1*, 7-14.
- Engida and Baisa,. "Factors influencing taxpayers' compliance with the tax system An empirical study in Mekelle City, Ethiopia ." *eJournat of Tax Research*, 2014: 433-452.
- Eriksen and Fallan,. "Tax knowledge and attitudes towards taxation; A report on a quasi-experiment." *Journal of Economic Philosophy*, 1996: 387-402.
- F. D. (1991). Evolutionary Games in Economics. In F. D., *Econometrical 59* (pp. 637-666).
- Feinstein JS. (1991). Journal of Economics. *An Econometric Analysis of Income Tax Evasion and its Detection*, 14-35. Fishbone, T. A. (2004). *Belief, Attitude*,

*Intention, and Behavior: An Introduction to Theory and Research.* Addison Wesley.

- Gitaru,. “The Effect of Taxpayer Education on Tax Compliance in Kenya:A case study of SMEs in Nairobi CBD.” 2017.
- Gitonga and Memba,. “Determinants of Tax compliance by public transport Savings Credit cooperative Societies in Kiambu county.” *International journal of social sciences and Information Technology*, 2018: 100-112.
- Guzman, A. T. (2003, September 23). *A Compliance Based Theory of International Law*. Retrieved September 22, 2013, from [www.inece.org](http://www.inece.org): <http://www.inece.org/mlw/>
- Indranil, Lin, S., & Wu, S.-L. (2015). The Quality of Internal Control over Financial Reporting in Family Firms. *International Journal Accounting and Business*.
- Iqbal, M. (2015). Inequality in emissions: Evidence from Indonesian households. *SAGE Journal*.
- Iqbal, M. Z. (2015). Effectiveness of Performance Appraisal: An Integrated Framework. *International Journal of Management Reviews*.
- Jon S. Davis, G. H. (2003). Social Behaviors, Enforcement, and Tax Compliance Dynamics. *The Accounting Review*, Vol. 78, No. 1, 39-69.
- Jon S. Davis, G. H. (2003, January). Social Behaviors, Enforcement, and Tax Compliance Dynamics. . *The Accounting Review* Vol. 78, No. 1, pp. 39-69.
- Kahneman, D., &Tversky, A. (1979, March 1). Prospect Theory: An Analysis of Decision under Risk. *Econometrica*, Vol. 47, No. 2.pp. 263-292.
- Kamunge, Succession Cause 2692 of 2008 (The High Court Of Kenya March 04, 2008).
- Katz, & Kahn. (1966). *The Social Psychology of Organizations*.
- Keneth, C. L., & Jane, P. L. (2007). *Management Information systems: Managing the Digital Firm*.
- Kircher, E.E. (2008) Enforced versus Voluntary Tax Compliance: The Slippery Framework. *Journal of Economic Psychology*, 29, 210-225.
- Kirchler and Wahl,. “Tax compliance inventory TAX-I: Designing an inventory for surveys of tax compliance.” *Journal of economic Psychology*, 2010: 331-346.
- Kirchler, E. (n.d.). *Tax Behaviour: Actors in the Field and Research Paradigm*.
- Kirchler. “The Economic Psychology of Tax behaviour.” *The Economic Psychology of Tax behaviour*, 2007.
- Kolb, D. A. (1984). *Experiential Learning*. Engelwood Cliffs.

- Kothari, C. (2004). *Research Methodology; Methods and Techniques*. New Delhi, India: New Age International (P) Ltd.
- Kothari,. *Research Methodology methods and techniques*. New Delhi: New age International Publishers, 2004.
- Kothari. (2004). *Research Methodology, Methods & Techniques*. New Delhi: New Age International Limited.
- Kothari. *Research Methodology: Methods and Techniques. 2nd Edition*., New Delhi: New Age International, 1985.
- LATF. (2001). *Property Taxation in Kenya*. Nairobi.
- Leung, G. C. (2009). A critical review of Fischer tax compliance model: A. *Journal of Accounting and Taxation Vol.1 (2)*, 34-40.
- Milgram, B. L. (2001). Operationalizing microfinance. *Women and craftwork in Ifugao, Uland Philippines.*, 212224.
- Milliron, J. a. (1986). Demographic Variables. *Demographic Variables*, 3.
- Minchin, E. (2001). *Homer and the Resources of Memory*.
- Ministry of Local Government, 2. (2001). *Property Rates Revenues as % of Own Source Revenues and Own Source Tax*. Nairobi.
- Mugenda, & Mugenda. (1999). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: Acts Press.
- Mugenda, M. &. (2003). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: African Centre for Technology Studies.
- Mugenda, O. M., & Mugenda, A. G. (2003). *Research Methods, Quantitative and Qualitative Approaches*. Nairobi: ACT.
- Murphy, K. 2. (2008). Enforcing Tax Compliance: To punish or persuade? *Economic analysis and Policy*, 28, 113 - 135.
- Nagin, S. K. (1989). Tax Compliance and Perceptions of the Risks of Detection and Criminal Prosecution. *Law & Society Review, Vol. 23, No. 2*, 209-240.
- Nehemiah Friedland, S. M. (1978). A Simulation Study of Income Tax Evasion. *Journal of Public Economics 10 (1978)*, pp. 107-116.
- Nyakundi. (2018). Internal Control Systems & Its Relationships With. *International Journal Of Scientific & Technology Research*.
- OECD. (2000). *Women Entrepreneurs in SMEs: Realizing the Benefits of Globalization and the Knowledge-Based Economy*. Paris: OECD.

- OECD. (2004). *Women's Entrepreneurship: Issues and Policies*. Istanbul: OECD Publications, 2 rue André-Pascal, 75775 Paris Codex 16, and France.
- OECD. (2009). *Forum on tax administration: Compliance Management of Large Business Task Group*.
- Ojo, O.D. (2016) *The Impact of Tax Audit on the Compliance Level of Taxpayers in Kwara State*. Unpublished Master's Thesis, University of Ilorin, Ilorin.
- Okonkwo, A.I. (2014) *Critical Evaluation of Tax Audit and Investigation Processes in Enhancing Tax Compliance*
- Palacios, L. L., Lopez, R. P., & Redendo, Y. P. (2020). How situational circumstances modify the effects of frontline employees?. *Journal of Retailing and Consumer Services*.
- Payne, G. (2003). *Problems with Tax Concessions for Australian SMEs in N. Warren; Taxing Small Business*. Sydney: Australian Tax Research Foundation.
- Pope, J. (2008). Small Business Taxation; An Evaluation of the Role of Special. *The Business Review, Cambridge 10(2)*, pp. 14-20.
- Rubino, M., & Vitolla, F. (2014). Corporate governance and the information system: How a framework for IT governance supports ERM. *International Journal of Business in Society*.
- Sandford, C. G. (1989). *Administrative and Compliance Costs*. Bath: Fiscal Publications.
- Saussure. (2017). *Saussure and the model of Communication*.
- Schmidt, Spieth, Haubach, & Kuhne. (2019). *Resource efficiency through employee competence: Best practice cases from producing companies*.
- Schultheis, R. (1999). *Keeping Financial Records for Business*. South-Western Educational Publishers.
- Shokoohi et al. (2015). *Relationships with the Financial Performance in Telecommunication Companies*.
- Silvani, C. B. (2008). *Tax Administration Reform and Fiscal Adjustment. The Case of Indonesia. Working Paper*.
- Wisnicki, & Davis. (2002). *Drivers for Wireless handheld technology: Views from Queensland Nurses*.
- Wojcak, Bajzikova, Sajgalikova, & Palakova. (2016). *How to Achieve Sustainable Efficiency with Teleworkers: Leadership Model in Telework. Procedia-Social and Behavioral sciences*.

## **APPENDICES**

### **Appendix I: Introduction Letter**

My Name is Maryanne Mwema, I am carrying out a research proposal on to factors affecting Residential Rental Income Tax among property owners in Kenya; A case study of Gatundu South, Kiambu County. This study is purely meant for academic purpose and therefore any information provided shall be treated with utmost privacy and confidentiality.

Yours

Maryanne Mwema



## Appendix II: Questionnaire

For each of the question below, please tick in the space provided for the answer that describes your opinion

### **SECTION A: GENERAL INFORMATION**

#### **1. Gender**

Male                       Female

#### **2. Highest level of Education**

Primary

Secondary

College

University

### **SECTION B : AUTOMATION OF SERVICE**

Using the following scale, state your opinion by ticking on the space

**On a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= Neutral, 4= agree and 5=strongly agree**

	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
using electronic filing system is simple					
Changes to the electronic filing system can be made to ease my work of preparation of tax returns					
Electronic payment process is simple					
The Online Payments has enhanced compliance among residential income property owners					

**SECTION C: TAXPAYER PERCEPTION**

On a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= Neutral, 4= agree and 5=strongly agree.

Statement	5	4	3	2	1
The tax system is fair and it enhances VAT compliance					
I perceive tax filing and payment tedious					
I perceive Payment of VAT as a contribution to economic growth.					
I perceive provision of public services/resources to encourage tax compliance					

**SECTION D: TAX AUDIT**

Using the following scale, state your opinion by ticking on the space

In a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= Neutral, 4= agree and 5=strongly agree

	5	4	3	2	1
I have been once summoned by KRA officials to submit our books for audit					
I have been audited by KRA					
In case of inconsistency, KRA send their officers to conduct audit immediately to property owners in Gatundu south					
KRA officials always advise our firm on some rental income tax new laws after audit exercise					

### **SECTION E: STAKEHOLDER SENSITIZATION**

Using the following scale, state your opinion by ticking on the space

**On a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= Neutral, 4= agree and 5=strongly agree.**

	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
KRA has created awareness among taxpayers on residential rental income tax					
I have attended workshops, trainings, and seminars about rental income					
Public awareness has not sufficiently been done					
Taxpayer workshops has improved my compliance					
I understand my rights and obligations as a taxpayer					
KRA should adopt better ways of creating awareness and educating taxpayers					

**SECTION F: RESIDENTIAL RENTAL INCOME TAX COMPLIANCE**

Using the following scale, state your opinion by ticking on the space

**On a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= Neutral, 4= agree and 5=strongly agree.**

	1	2	3	4	5
I pay tax by the due date					
I' m registered for KRA Pin					
I always remit our rental income tax to KRA in time					
I file Residential Rental Income Tax returns voluntarily because it's an obligation					

**THANK YOU**