ECONOMIC DETERRENT, TRUST IN GOVERNMENT AND RENTAL INCOME TAX COMPLIANCE AMONG LANDLORDS IN ROYSAMBU SUBCOUNTY, KENYA

BY

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DECLARATION

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I, the undersigned, declare that this research project is my original work and has not been submitted to any other university for academic merit.

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ABSTRACT

Taxes are essential to the functioning of any nation, despite the fact that it is generally unpopular and poorly understood by many people. However, even though taxpayers acknowledge the need to pay taxes and enjoy the benefits offered by the government in form of public goods, fully compliance with the set tax regulations is not favoured by the majority. In their bid to enhance tax compliance, various economic deterrents are instituted by tax authorities across the globe such as fines and penalties, tax audit, costs of compliance and tax rates. The general purpose of the study was to investigate the moderating effect of trust in government on the relationship between economic deterrent and rental income tax compliance among landlords in Roysambu Subcounty. The specific objectives of the study are to; establish the effect of fines and penalties, tax audit, cost of compliance and tax rate on rental income tax compliance and lastly establish the moderating effect of trust in government on economic deterrent and rental income tax compliance. The study was guided by fiscal exchange theory as the main theory and prospect and the rational choice as supplementary theories. The study was guided by explanatory cross-sectional research design. The target population comprised 320 landlords from the Roysambu sub-district. A final sample of 177 respondents was obtained using simple random sampling method. The study used both descriptive statistics and inferential to analyze the data. The study employed Hierarchical regression model. The regression results indicated that fines and penalties ($\beta = 0.239, \rho < .05$), tax audit ($\beta = 0.340, \rho < .05$), cost of compliance ($\beta = -0.077, \rho < .05$), tax rate ($\beta = -.185, \rho < .05$) had a significant relationship with rental income tax compliance.The results further confirmed that trust in government had a moderating effect on fines and penalties ($\beta = 0.109, \rho < .05$), tax audit ($\beta = 0.035, \rho < .05$), cost of compliance ($\beta = 0.027, \rho < .05$), and on tax rate ($\beta = 0.020, \rho < .05$) and rental income tax compliance. The study concluded that the economic deterrents are key determinants of renal income tax compliance and that trust in government moderates that relationship. The study's conclusions have implications for managers and regulators. The study recommends that KRA should review policies relating to economic deterrent measures. In particular, KRA should strengthen fines & penalties and tax audit procedures. There is also need to reduce cost of compliance as well as review of tax rate policy for effectiveness. The study recommends that future studies may conduct a comparative analysis across different regions or countries which may shed light on the generalizability of findings.

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ABBREVIATION AND ACRONYMS

BI	Behavioural Intention
CBD	Central Business District
CC	Cost of Compliance
EFD	Electronic Fiscal Device
FP	Fines and Penalties
GDP	Gross Domestic Product
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
LTO	Large Taxpayers Office
PBC	Perceived Behavioural Control
RITC	Rental Income Tax Compliance
SME	Small and Medium Enterprises
SN	Subjective Norms
TA	Tax Audit
TCB	Tax Compliance Behaviour
TOT	Turn-Over Tax
TR	Tax Rates
USD	United States Dollar

OPERATIONAL DEFINITION OF VARIABLES

Cost of Compliance: It refers to all the expenses that a firm incurs to adhere to the set tax regulations

Economic Deterrents: Refers to economic factors that acts to deter tax payers against being non-compliant with their tax dues.

Fines and Penalties: Punitive fines make tax evasion more expensive for the taxpayer, hence decreasing tax evasion. When there is a mix of effective fee imposition and frequent audits to detect instances of noncompliance, deterrence is effective (Otusanya, Adeyeye & Ovienbour, 2019).

Rental Income Compliance: Rental income tax compliance involves correctly declaring the tax due, compiling necessary tax documents and remitting the tax to the authorities at the right time (Ababio & Mangueye, 2021).

Tax Audit: A tax audit is an examination conducted by the tax authority to confirm the accuracy of tax returns and detect noncompliance behaviour and actions (Dubin, 2020).

Tax Rate: It refers to the ratio at which a business or person is taxed (OECD, 2019).

Trust in government: It refers to government responsible with the provision of public goods and services that are financed through tax revenue (Liucija (2014).

CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter will consist of the background of the study, statement of the problem, purpose of the study, objectives of the study, research hypothesis, and significance of the study.

1.1 Background of the Study

Tax compliance refers to act of fulfilling all tax obligations as specified by the state tax regulations voluntarily (OECD, 2019). For this reason, tax compliance is regarded as the overall process that entails correct computation, filling and paying the assessed taxes by the due date. As a result, numerous factors are thought to affect the amount of tax compliance in a particular economy. According to International Monetary Fund (2019), failure to comply with tax authorities diminishes the mobilization of government revenue resources, thus, limiting the government ability to invest in provision of crucial public goods and services. As a result, non-compliance with tax laws is regarded as a major legal violation in any nation and is punishable by harsh fines and penalties (IMF, 2019).

Collecting of taxes is essential to the functioning of any nation, despite the fact that it is generally unpopular and poorly understood by many people. The majority of taxpayers do not support strict adherence to specific tax regulations, despite the fact that they are aware of the necessity of paying taxes and reaping the benefits of the public goods provided by the government (IMF, 2019). Because it affects how the government moulds citizens' lives, it is critical that the significance of tax compliance be recognized. As a result, tax payers are often compelled to voluntarily fulfill their tax duties by accounting, computing, filling out, and paying their actual taxes to the relevant tax agency (OECD, 2019). Despite this, some taxpayers do not comply fully comply with tax laws. As a result of noncompliance, many economies around the world have had increasing difficulties in obtaining adequate tax revenue to fund their ever-rising public expenditures over the years (IMF, 2018).

It is believed that Non-compliance with tax regulations is a global issue that affects both industrialized and developing nations. However, low-income countries experience more tax law violations than developed nations do. In the United States (US) alone, the federal government is estimated to lose around $1 trillion in unpaid taxes each year due to high levels of non-compliance, especially among large corporations and wealthy citizens (IRS, 2021). Unlike the US, the government of the United Kingdom has instigated strong measures to counter non-compliance with tax laws. As a result, non-compliance with tax in the UK decreased from 12% in 2020 to 2021 to 9% in 2021 to 2022 (Murphy, 2019).

Regionally, the performance of tax revenue is hampered by the major problem of tax non-compliance in many developing nations throughout Africa. For example, in 2019, Nigeria lost around $856 million due to issues related to tax evasion across the country especially among SMEs. However, consistent with past trends, revenue collection in Nigeria has been on an increasing trend over the past decade especially due to various deterrence measures that have been put in place by the government. In Tanzania, the government has rolled out several measures to improve tax compliance, including updating tax collection technology, increasing the outreach of tax authorities and public education, restructuring the Tanzania Revenue Service, and strengthening law enforcement efforts.

Locally, the level of tax compliance in is still low despite various measures by KRA to improve tax collection. Non-compliance with tax regulations in Kenya has been causing the government to lose billions of shillings each financial year as taxpayers continue to use fake invoices and receipts to avoid paying taxes. According to Nduruchi, Gregory & Namusonge, (2017), Kenya is estimated to have lost at least Kshs. 90 billion shillings in 2019 alone as a result of tax evasion schemes. Lost sales due to missing billed exports in 2019 are estimated at Sh14 billion due to lower-than-expected company sales and compensation (Masaku, 2019). This means that KRA must work hard to ensure effective and efficient tax administration. Therefore, this study aimed to examine the moderating effect of trust in the government on the connection between economic deterrents and compliance with rental income tax on landlords in Roysambu Sub- County.

1.1.1 Rental Income Tax Compliance

Globally, real estate market has steadily expanded causing many people to massively invest in rental properties. However, rental income tax compliance levels have steadily remained low in countries such as Singapore. This is despite the fact that the Inland Revenue Service of Singapore (IRAS) has simplified filing taxes and reduced the burden of recording by calculating the total rental fee based on 15% of the gross rent (IRAS, 2022). To improve rental income tax compliance, the Government of Singapore, through IRAS, is introducing various heightened alert (HA) periods in 2021 and assisting businesses with rental costs through rent waivers of up to three months for respondents in the small and medium enterprise (SMEs) condition and certain non-profit organizations (NPOs) of government-owned commercial real estate tenants. Therefore, the lessee is obliged to hand over the rent relief received to the entitled tenant if necessary. These tenants can, for example, reduce future rents or make cash payments to qualifying tenants within a certain time. The Rent Relief Framework will ensure a fair distribution of lease obligations during the heightened alert period between the government, landlords and eligible tenants (Rent Relief Framework Report 2021).

Tax compliance remains a topical policy issue in most developing countries, especially in Latin America and sub-Saharan Africa, as governments seek ways to increase the efficiency of tax collection to fund their increased budgets (OECD, 2019). In Nigeria, as in several other developing countries, non-compliance with tax laws poses serious challenges to the administration of income tax and hinders the collection of tax revenues. The share of direct taxes to overall government income is still low and generally diminishing, according to historical statistical evidence, despite the numerous tax changes the Nigerian government has put in place over time to raise tax collections. The income tax and rental income tax, however, continue to be the most discouraging, ineffectual, unproductive, and contentious of all the direct taxes in the Nigerian tax system. According to statistics, Nigeria's non-oil income tax contribution to total government revenue decreased from 19.8% in 2015 to 11.7% in 2020, making the 2020 tax rate the lowest in Africa and Nigeria. According to the OECD (2020), the West is below the recommended 15% for low-income countries.

The tax on rental income is an important source of revenue for the state. According to an OECD study (2020), rental property is the most highly taxed type of asset in many OECD countries. This was done to increase state tax productivity due to the significant growth of the real estate sector in the country. To achieve this, KRA introduced real estate sector office that was meant to deal with matters pertaining to do with real estate sector.

The government expects people to pay the amount owed voluntarily. By assigning responsibility to individuals, the government avoids expensive alternatives to determine the obligations of each individual taxpayer and uses alternative tax collection (Gitau, 2021).

However, the downside of such heavy reliance on voluntary compliance by individual taxpayers is that not everyone will voluntarily pay their taxes when they are due. Most landlords collect rent themselves or use unregistered agents, making it difficult to track their income for tax purposes (Ngunjiri 2021). Due to the negative effects it has had on their businesses, landlords have reacted differently to the government's decision to tighten the Rent Income Tax Act in light of Kenya's rising business costs. The government has taken many steps in an effort to compel the payment of rental income taxes. One is the withholding tax on rent, whereby an assigned tax agent can deduct a portion of the rent and send it to KRA (Obongo, 2020). In addition, tax collectors can obtain information from electricity companies in Kenya about taxpayers seeking energy for rental housing. This measure allowed KRA to quantify the number of non-compliant landlords who received lease payments (Ngunjiri, 2021).

1.1.2 Roysambu Institutional Setting

Nairobi city fondly referred to us as City under the sun and most populous city in the country. The metro area of population of Nairobi in 2022 was 5,119,000 a 4% increase from 2021 while the current population of Nairobi in 2023 stand at 5,325,000, a 4.02% increment from year 2022(UN-World Population Prospects). Nairobi is credible and has charming buildings well with new skyscrapers. It has headquarters to several international organizations in Africa. It’s only city in the world with national park. On 4th of August 2010, Kenyans voted to adopt a new constitution, widely seen as most important political development since independence from Great Britain in 1963. Consequently, 47 county governments in Kenya were created. There are seventeen sub counties in Nairobi. Out of this number, random sampling was done and that's how we were able to reach to Roysambu Sub-County for this study. Nairobi County has attracted a sizable population due to its status as Kenya's capital city. This has led to high demand for offices block, godowns, apartments, townhouses and bungalows, warehouses, and factories that are rented out by landlords in Nairobi County generating significant rental income. Despite this, most landlords in Nairobi County appoints rental collection agents to act on their behalf, and has made it very hard to know the real owners thereby not even paying for the rental tax income (Ngunjiri 2021).

In Kenya, tax compliance is generally low, particularly among property owners in Nairobi County. Property owners in Nairobi County have the ability to significantly contribute to the country's gross domestic product due to the county's improved governance systems. In addition, boosting tax compliance in Nairobi County would contribute modest income for the revenue authority. As such, the study aims to sample Roysambu constituency within Nairobi County and examine the moderating effect of trust in government on the connection between economic deterrents and rental income tax compliance among landlords in Roysambu Sub County.

1.2 Statement of the Problem

Tax compliance is a major issue for many taxpayers especially among developing nations. As a result of not complying with tax regulations, many tax agencies in developing countries normally experience shortfalls in tax revenues (OECD, 2019). Though people recognise the significance of paying taxes in order to enhance economic growth and infrastructure development, still a lot of people don't like paying the actual taxes they owe the government a fact that drives people into engaging in tax evasion activities. As a result of this, governments in most cases fail to achieve their overall tax revenue targets.

The issue of non-compliant with rental income tax laws is very rampant among taxpayers especially those operating in developing countries. In Kenya, for example, the related rent taxes submitted to KRA have for many years remained well below the target for commercial buildings, despite the country's remarkable growth in the real estate sector and the introduction of tax cuts on income tax from rentals (KRA Revenue Performance, 2021). The tax-to-GDP ratio decreased from 17.4% in 2019 to 17.3% in 2020 as a result of widespread non-compliance with Kenya's rent tax, which is one of the most significant sources of overall government revenue. In contrast, the average of 30 African nations rose by 0.3 percentage points during the same time period, reaching 16.6% in 2020 (KNBS, 2021 d.). The average of 30 African nations has risen 1.8 percentage points since 2010, from 14.8% to 16.6% in 2019. Kenya's tax-to-GDP ratio decreased by 0.6 percentage points during that time, from 17.9% to 17.3% (OECD, 2021). With that in mind, this study was undertaken to analyse the main factors driving rental income tax compliance for landlords in the East Nairobi tax district and to recommend actions that should be taken by the government and KRA to increase tax collection during the sector's boom period (KNBS, 2021).

Numerous research on the factors that influence tax compliance has been carried out abroad and in Kenya. Tiwari (2021) studies the key factors impacting the tax compliance behaviour of taxpayers in Nepal who earn a living from rental properties and discovers that the extent of their awareness and perception of the law affects their level of compliance. However, this research has a conceptual gap because it was conducted in Nepal while this research was conducted in Kenya. Odoro (2021) examines how the Kenyan tax system affects overall rental income taxpayer compliance and finds that rental income taxpayer compliance in Kenya is influenced by the following factors: age, current job, financial constraints, influence of peer group, and level of education of the taxpayer. The study poses a contextual gap as it assessed Kenya tax system while the current one examined economic deterrents. Therefore, the current study sought to examine the moderating of effect of trust in government on the relationship between economic deterrents and rental income tax compliance among landlords in Roysambu Sub County.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of this study was to examine economic deterrent, trust in government and rental income tax compliance among landlords in Roysambu subcounty, Kenya.

1.3.2 Specific Objectives

i. To determine the effect of fines and penalties on rental income tax compliance among landlords in Roysambu, Nairobi County.

ii. To investigate the effect of tax audit on rental income tax compliance among landlords in Roysambu, Nairobi County.

iii. To examine the effect of cost of compliance on rental income tax compliance among landlords in Roysambu, Nairobi County.

iv. To examine the effect of tax rate on rental income tax compliance among landlords in Roysambu, Nairobi County.

v. To investigate the moderating effect of trust in government on the relationship between:

   a) Fines and penalties and rental income tax compliance among landlords in Roysambu, Nairobi County.

b) Tax audits and rental income tax compliance among landlords in Roysambu, Nairobi County.

c) Cost of compliance and rental income tax compliance among landlords in Roysambu, Nairobi County.

d) Tax rate and rental income tax compliance among landlords in Roysambu, Nairobi County.

1.4 Research Hypothesis

H_{01}: Fine and penalty has no significant effect on rental income tax compliance among landlords in Roysambu, Nairobi County.

H_{02}: Tax audit has no significant effect on rental income tax compliance among landlords in Roysambu, Nairobi County.

H_{03}: Cost of compliance has no significant effect on rental income tax compliance among landlords in Roysambu, Nairobi County.

H_{04}: Tax rate has no significant effect on rental income tax compliance among landlords in Roysambu, Nairobi County.

H_{05}: Trust in government has no significant moderating effect on the relationship between;

a) Fines and penalties and rental income tax compliance among landlords in Roysambu, Nairobi County.

b) Tax audit and rental income tax compliance among landlords in Roysambu, Nairobi County.

c) Cost of compliance and rental income tax compliance among landlords in Roysambu, Nairobi County.

d) Tax rate compliance and rental income tax compliance among landlords in Roysambu, Nairobi County.

1.5 Significance of the Study

The findings of this study may be of help to tax regulator in Kenya in allowing the tax agency to gain meaningful understanding of the key factors that influence tax compliance amongst landlords across the country.

Study findings may be also helpful to tax practitioners in the country. This is because adapting to the country's ever-changing tax system and laws can help them gain insight into the factors and interrelationships related to tax compliance and thereby build a good relationship between KRAs and taxpayers, especially landlords where you get money from rental income.

1.6 Scope of the Study

The main objective of this study was to determine the moderating effect of trust in the government on the relationship between economic deterrents and compliance with rental income tax among landowners in Roysambu Subcounty. Economic deterrents are fines and penalties, tax audits, compliance costs, and tax rates, while rental income tax compliance is the dependent variable and trust in the government acts as a moderating variable. The target population of this study consisted of selected 320 landlords in Roysambu Sub-County upon which a sample of 177 landlords was determined. The study used primary data that was obtained through the use of close ended questionnaire after being administered to landlords in Roysambu Sub-County. The study was undertaken between January and July 2023.

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview

This chapter discusses the concepts, theories, empirical literature and finally presents the conceptual framework.

2.1 Review of Concepts

2.1.1 The Concept of Rental Income Tax Compliance

In order to comply with the rental income tax laws, taxpayers must accurately calculate their tax obligations, prepare the required tax paperwork, and submit their payments on time to the appropriate regulatory bodies (Ababio & Manguye, 2021). Compliance with rental income tax laws demonstrates taxpayers' willingness to pay rental tax in accordance with statutory requirements. Similarly, from the perspective of the tax authorities, tax compliance refers to a taxpayer's readiness to abide by tax laws, record genuine rental income, and pay taxes that are legitimately due within the specified time frames. According to numerous tax agencies, the amount of rent tax paid is still quite low, despite the fact that the tax authorities are attempting to discover alternative measures to boost taxpayer compliance. Failure to comply with rental income requirements leads to outright tax evasion and a limited understanding of tax laws and taxpayer requirements (Dinis & Martins, 2021).

Promoting tax compliance is necessary to raise public awareness about taxes. Fostering a culture of tax compliance is critical to increasing rental income for property owners (Mutanga *et al*., 2021). It is crucial to remember that rental income taxes are one of the primary sources of income for national governments and local governments all over the world.. Poor tax compliance slows down the administration of the rental income tax, resulting in low state revenues (Nasution *et al*., 2020). Tax compliance requires strict adherence to tax payment laws, including paying taxes on time and filing rent taxes correctly. Taxpayers must submit their returns on time in order to comply with the law, which is strictly prohibited. In collecting taxes that residents owe, the tax authorities similarly display elements of honesty and truth. Compliance with rental income tax laws necessitates a high level of honesty, a thorough comprehension of tax laws, and accurate and timely tax payments (Nasution *et al*., 2020).

2.1.2 Economic Deterrents

Economic deterrents refer to economic factors that acts to deter tax payers against being non-compliant with their tax dues (Dularif & Rustiarini, 2022). The concept of economic deterrents is based on the deterrence model to tax compliance whereby individuals consider the possible punishment in the event where they don’t fully comply with the set tax laws (Dularif & Rustiarini, 2022). Usually, tax payers in most cases are perceived to act as gamblers as they may choose to determined their level of tax compliance based on the set deterrent risk such as risk of tax audit, possibility of being detected as well as the fines and penalties which are likely to be imposed upon them.

It is well recognized that there are essentially two major components to economic deterrents. One the one hand, an honest taxpayer must constantly have faith that he won't be taken advantage of by dishonest taxpayers in order to preserve an efficient tax contract between the taxpayer and the tax authorities (Dularif & Rustiarini, 2022). As a result, putting in place deterrence measures for major violation of set tax codes tend to minimize the issue of selfish tax evasion. Another aspect of the economic deterrent is that individual taxpayers tend to make mistakes when it comes to complying with tax laws. Therefore, the penalty for these taxpayers must be minimal so as not to jeopardize their tax psychological contract. For this reason, it is recommended to create a linear punishment schedule with low penalties for minor tax evasion and high sanctions for self-serving tax fraud (Dinis & Martins, 2021).

2.1.2.1 The Concept of Fines and Penalties

Fines and penalties are regarded as a form of punishments enacted by tax authority to deal with non-compliant taxpayers when filling their tax returns (Dularif & Rustiarini, 2022). As it the case with other deterrent measures, imposing fines and penalties are known to enhance the rate of tax compliance. When there is a mix of effective fee imposition and frequent audits to detect instances of noncompliance, deterrence is effective (Otusanya, Adeyeye & Ovienbour, 2019). The larger the cost, penalty, and audit probability, the stronger the deterrent effect they have on tax evasion. Extremely severe tax penalties are ineffective there is widespread knowledge that there will be no tax audits. The taxation system, however, may be viewed as unjust if the fines and penalties are excessive, and people may use this as an excuse to evade paying taxes (Dularif & Rustiarini, 2022).

To be tax compliant, three key things are required, that is, to assess one tax liability, to file accurate tax return and to pay the amount due to the tax authority by the due date. Behind these obligations, however, is a complicated system of civil and criminal penalties. According to Ottusanya et al. (2019), the tax code, for instance, mandates fines for failing to file a tax return as well as fines and interest charges for failing to pay a tax debt on time. The filing and payment obligations of the taxpayer are uncomplicated, as is the application of the associated penalties. In contrast, the obligation of the taxpayer to self-assess is as obscure and contentious as the substantive tax law. This duty's underlying penalty is considered an accuracy penalty, and it presents challenging interpretation and administration issues for tax laws (Yesegat & Fjeldstad 2020).

Regarding the implementation of fines and penalties as a measure of boosting tax compliance, many models present varying justifications (Dinis & Martins, 2021). According to the conventional deterrence model, taxpayers are obligated to fulfil their tax duties in order to avoid paying fines and other penalties, which are likely to be more costly than compliance. This is especially supported by the deterrence model which provides that fines and penalties should be severe enough and likely to exceed the costs of compliance, thus, making taxpayers to voluntarily file their accurate tax dues on a timely basis (Olaoye & Ekundayo, 2019). However, this is against the norms model which postulates that imposition of harsh tax fines and penalties is likely to undermine taxpayers' compliance level since taxpayers always forego some of their personal commitments in order to comply with tax laws.

2.1.2.2 The Concept of Tax Audit

Tax audits are investigations carried out by the tax authorities to verify the accuracy of tax returns and find infractions by taxpayers. Numerous studies have shown that audits reduce tax evasion (Dubin, 2020). Tax audits can be quite useful, and their primary goal is to boost voluntarily compliance. The level of scrutiny and thoroughness of the tax audit may motivate taxpayers to be more diligent in providing accurate information on their tax returns, disclosing all sources of income, and requesting the deductions required to calculate their tax liabilities. In contrast, people who have never had their tax returns audited could be compelled to overstate their income and make bogus deduction claims. The depth and frequency of audits may motivate taxpayers to be more diligent in completing SPTs, disclosing all income, and asking the appropriate deductions to ascertain their tax liabilities. According to

Olaoye and Ekundayo (2019), taxpayers who have never had their tax returns audited can be motivated to overstate their actual income and make bogus deduction claims.

Tax audits are an important compliance tool in most tax jurisdictions around the world because they can optimize projected tax revenue for governments in both developed and developing countries (Olaoye and Ekundayo 2019). Conducting frequent tax audit makes it possible for tax authorities to easily uncover unfilled taxes (Dubin, 2020). In such event where a taxpayer is detected evading taxes, they are responsible for paying both the accrued taxes and the set penalties. Despite the fact that tax audits has been shown to have a favourable influence in theory, numerous empirical studies have shown that the impact of auditing on tax compliance is not as significant as was anticipated and has a tendency to be inconsistent (Rahmayanti & Prihatiningtias, 2020). There are a number of tax audits that are utilized by tax authorities across the globe in their bid to cub tax evasion including desk/office audit and field audit.

A clerical inspection is carried out at the place of the tax authority. To achieve this, suspected non-compliant taxpayers are required to submit relevant documents to the tax authorities, after which a thorough examination of the submitted documents is carried out by the tax examiner in their office. According to Olaoye and Ekundayo (2019), taxpayers are not informed in advance and only find out about the audit after a written letter to them requesting certain documents or explanations. Tax audits are considered inexpensive by the tax authorities and also allow tax examiners to examine documents and determine the exact tax liability of the taxpayer.

Field tax audit on the other hand is undertaken within the taxpayer's premises (Oladele, Ndalu, & Akani, 2021). Field audit is undertaken mostly after office audit and where it is established more documents and explanations are required in order to make informed decision about taxpayer's tax dues. As such, taxpayers are informed prior to the start of the actual audit so as to make it simple for them to arrange for all the requested documents. Tax auditors physically check the requested papers to certify the accuracy of the information on the tax forms (Oladele *et al.*, 2021).

2.1.2.3 The Concept of Cost of Compliance

Cost of compliance refers to the expenses incurred by taxpayers or other parties, like companies, in order to satisfy the requirements, set forth in order to comply with a particular structure. These costs may be broken down into two categories: direct costs and indirect costs (Mutanga et al., 2021). The costs of compliance can be broken down into the following categories: costs associated with accounting and economics, costs associated with lobbying, costs associated with training, and lost revenue. The sum that is paid to the tax authority is only a portion of the total amount that must be paid in taxes. The most significant expense associated with taxation is complying with the law. The true costs that are incurred in determining the amount of taxes that are owed and paying those taxes are known as compliance costs (Mutanga *et al.*, 2021). These expenditures can be rather significant, particularly for commercial enterprises.

There may be variations in the expenses associated with tax compliance; nevertheless, in contrast to the taxes themselves, compliance costs do not decrease for and they can even reach extremely high levels at times (Musimenta, 2020). Counting the number of hours it takes a firm to calculate and pay its taxes is one way to determine the costs of compliance that are associated with taxation for enterprises. If a company wants to figure out what they owe, calculate it, and then file it, they are going to have to sacrifice time they could be spending on something more productive. Governments have frequently tried to implement tax policies that take the shape of concessions that benefit taxpayers in response to this worry about the costs of tax compliance. These efforts have been in response to the concern that tax compliance costs will increase (Oladele *et al*., 2021). These specific tax benefits often fall into one of two categories: positive benefits, which provide a lower tax rate, an exemption, or an accelerated deduction, or alleviating benefits, which alleviate the taxpayer from restrictions that would otherwise be imposed.

2.1.2.4 The Concept of Tax Rates

According to the applicable tax principles, the tax rate is the amount of tax that the taxpayer is required to pay to the tax office in relation to the tax base (Musimenta, 2020). Thus, a major factor in economic deterrence that is founded on the idea of tax system fairness is the tax rate. According to prevention theory, increasing tax rates reduces the problem of tax evasion (Tilahun, 2019). However, this is not always the case, as various empirical studies from developed and developing countries have shown in the past. Therefore, taxpayers see high tax rates as a reason to avoid taxes; do not report their income and profits to the tax authorities. With increasing tax rates, taxpayer compliance tends to decrease. Reducing taxes, on the other hand, does not inevitably promote tax compliance. Even if the exact influence of the tax rate is still uncertain and contested, it plays a significant role in shaping tax compliance behaviours. In addition, an increase in the marginal tax rate tends to encourage taxpayers to avoid more taxes, while lowering the tax rate does not necessarily lead to better compliance with tax laws and regulations (Musimenta, 2020).

Research by Chindengwike and Kira (2022) examining whether voluntary compliance with tax laws among taxpayers in Tanzania established that if the tax rates are high and the taxpayer's personal disposable income is significantly impacted, then such taxpayer is likely to device means and ways to reduce the amount of tax that payable.

When the government imposes an excessive number of laws and regulations, particularly ones that are difficult to understand, tax evasion is likely to occur. Businesses fairly frequently discover that conducting their operations in accordance with the tax laws and regulations does not result in lucrative business (Tilahun, 2019). Kenya and other less industrialized nations in Africa and Latin America, as well as wealthier nations like the United States, are concerned about high taxes because high taxes may harm the expansion of the economy.

2.1.2.5 The Concept of Trust in Government

Trust in government refers to the taxpayer’s perception that the government is likely to act responsible by providing effective public goods and services that are financed through the remitted tax revenue (Augustine& Enyi, 2020). In addition, trust in government when it comes to tax matters can be regarded as taxpayers’ perception that the revenue raised through taxation process will be used equitably in the provision of public goods (Kogler, Olsen, Kirchler, Batrancea & Nichita, 2022). Across the globe, tax authorities have been increasingly employing a host of strategies aimed at increasing revenues including digitization to improve efficiency, increased focus on taxing wealth among others. However, one clear thing is that the solution to raising more and better revenue cannot rest on expanding the tax base or even making it easier to pay taxes, but it also requires taking the relationship between the government and taxpayers more seriously (Augustine& Enyi, 2020).

Significant evidence across many countries has clearly indicated that voluntary willingness among taxpayers to be tax compliant is higher when their trust in government is strong. However, such willingness decreases due to issues such as inequitable tax burdens, corruption, lack of transparency, questionable interactions with tax officials, and poor translation of tax revenue into services (Kogler et al., 2022). For example, majority of African countries, have tax administrations that are trusted by fewer than half of their taxpayers, with some countries having trust levels that fall below thirty percent. The level of trust that taxpayers have on their governments can be as low as 26% in Argentina and 17% in Brazil.

Despite this, many governments have not made it their first priority to enhance their citizen's trust in their strive to enhance tax compliance. According to many perception surveys regarding tax compliance, many taxpayers' lower income countries especially in Sub-Sharan Africa, believe that the taxes they pay do not go toward improving the quality of public services (Güzel, Özer, & Özcan, 2019). Therefore, when it comes to providing nations with a fiscal climate that is stable, predictable, and sustainable, and supporting growth that is inclusive, fostering trust and increasing accountability are essential components. Being tax compliant is a major point of interaction between taxpayers and the state, hence, government is likely to face consequences in the event where citizens believe that their taxes are not spent equitably or they feel that they are being treated unfairly by tax officials. In response, the obligation to pay taxes may increase when taxpayers believe the government and other taxpayers will uphold their end of the tax contract (Augustine& Enyi, 2020).

2.2 Theoretical Review

Theoretical review helps in establishing theories that exist related to the research variables, the relationship between them and variables and to what degree such theories have been examined by other researchers. As such, fiscal exchange theory, prospect theory, and rational choice theory were utilized in guiding this study.

2.2.1 Fiscal Exchange Theory

According to the Fiscal Exchange Theory, people can easily be highly motivated to pay their taxes if government spending is used effectively. The theory evolved deterrence and social psychological. According to the theory, tax compliance among taxpayers normally increases with the tax payer's perception of public goods and services being made available for them (Otusanya, Adeyeye & Ovienbour, 2019). This is based on the fact that what worries tax payer's very much is what they will really get as a return for their tax payments. As such, taxpayers are more likely to positively respond to their tax payment when they are faced with public expenditure program that they consider to benefit from. Therefore, the theory considers the existence of a relationship between taxation and provision of public goods and services. Taxpayers will automatically be in compliance with the law when they can appreciate the value of the public goods and services that the government offers (Naeem & Gulzar, 2021).

As a result, the main concern of taxpayers is the direct public goods and services they receive in exchange for their tax dollars. Because of this, the connection between taxpayers and the government is compared to a set of contracts involving taxation and the delivery of public goods and services (Otusanya et al., 2019). People may pay taxes because they recognize the importance of the goods and services provided by the government and because they appreciate the fact that their payments are necessary not only to help fund those goods and services, but also to encourage others to make their contributions. It is possible that the provision of advantageous benefits will improve the likelihood that taxpayers will cooperate freely, without the need for direct coercion. This is what is known as "quasi-voluntary compliance," because compliance is driven by a want to comply but is also supported by force in order to achieve the desired outcome. It is necessary that citizens and businesses in the nation receive something from the government in exchange for paying taxes. Additionally, it means that compliance is always contingent upon other factors and will fluctuate according to how well various governments behave in terms of their integrity (Lee, Gokalp, & Kim, 2021).

One of the main premises of the fiscal exchange theory is that tax negotiations are an important part of the process of building an accountable relationship between the state and society, based on shared rights and obligations and not on patronage and coercion (Alshira 'h & Abdul-Jabbar, 2019). The concept of a social fiscal compact places a significant emphasis on the act of bargaining and negotiating in regards to taxation. It is about promoting effective governance at the interface of state and society in response to the expectations of the people living in the state. It is possible to create a 'virtuous cycle' in which government tax revenues result in an increase in the supply of services, which in turn increases the willingness of the population to pay taxes (Lee, Gokalp & Kim, 2021).

Despite this, fiscal exchange theory has some notable limitations. First, the theory states that people desire to be tax compliant if they perceive that their taxes are being utilized effectively which is not always the case since being tax compliant is a legal requirement for all citizens and not something that one should do when they feel like. However, the Fiscal Exchange principle was essential to the current study since it emphasizes how important it is for the government to use public funds more wisely because the way in which they are used considerably affects how compliant they are overall. The theory was used to support the variable on cost of compliance (Naeem & Gulzar, 2021).

2.2.2 Prospect Theory

Prospect Theory is a behavioural economic theory that explains how individuals choose between risky probabilistic alternatives with known probability of outcomes. The theory was proposed by Tversky and Kahneman (1992). The proponents claimed that people make decisions in accordance with the way in which their brains receive and understand information, and not just on the basis of the intrinsic usefulness that a certain alternative offers for a person who is making a decision. Individuals, according to this theory, are more willing to take risks when they are in the loss domain as opposed to the win domain. As a consequence, the payment of taxes may not only be a burden for taxpayers but the loss framing may also motivate them to take risks leading to tax evasion. Compliance decisions can be presented as a choice between a specific loss (paying taxes) and a larger potential loss (paying taxes plus audit penalties) or a choice between a specific lower profit (net income after taxes) and a larger potential loss. considered Profit (Giovanni, Lamantia & Pezzino, 2020).

If paying taxes is seen as a gain rather than a loss, the theory suggests that this should increase tax compliance. However, when the taxpayer perceives that his condition relates to his nation, whether because he is a collectivist or because he identifies with his nation, then paying taxes is considered a gain rather than a loss. According to Austin, Bobek, and Jackson (2021), if a taxpayer perceives taxes as a national obligation, the income after tax becomes the taxpayer's reference point. As a result, decisions regarding tax compliance are made in the gain domain, which causes taxpayers to adopt a risk-averse attitude. The amount of income before taxes are subtracted will be the taxpayer's reference point if, on the other hand, they see paying taxes as a loss. In this scenario, the taxpayer will most likely engage in behaviours that might be characterised as risk-seeking (Giovanni et al., 2020).

The idea contends that people are risk-averse in connection to prospective profits but risk-seeking in relation to possible losses in an effort to explain how people perceive risk. As a consequence, a person's willingness to take risks will be impacted by the way in which such option is presented to them (Muehlbacher, 2021). If the problem is presented as a loss that is a penalty for auditing, the taxpayer is more willing to take the risk of non-compliance than if the problem is presented as a benefit that is a bonus on the refund. Therefore, how information is communicated to taxpayers can have a significant impact on the willingness of these taxpayers to comply with tax laws (Austin et al., 2021).

The theory is however subject to certain limitations. First, since the theory has certain general complications in estimating parameter values, some scholars believe that prospect theory is not a fully developed theory of decision-making due to the theory's general complexity. In addition, there are still several unanswered problems concerning the applicability of Prospect Theory to explain and simulate a dynamic economic environment, as well as the impact of feedback and learning on recurrent choice. Nevertheless, the theory was significant for the purpose of this study since it helps explain the selection of an alternative that does not, in point of fact, promote the highest possible expected value.

2.2.3 Rational Choice Theory

Rational choice theory was pioneered by Clarke and Marcus (1993). The notion contends that taxpayer decision-making is reasonable. The taxpayers' rationality is founded on the satisfaction they derive from the social transaction. Individuals and businesses consistently aim to maximise the utility of goods and services at the lowest possible cost. Taxpayers always alter their decisions based on their satisfaction with public goods and services (DeCaro, 2018).

Therefore, the theory relates to the behaviour of taxpayers while filing their rental income tax returns. Due to economic limitations, taxpayers may not comply with rental income tax. It is commonly accepted that income and expenditure are the most important determinants of consumer rationality in any system, despite the fact that economic stability may have indirect implications on rental income tax compliance in diverse circumstances. Moreover, according to Akintoye and Tashie (2017), businesses are prone to avoid rental income tax if they fail to make sufficient revenues to pay their financial commitments. Non-compliance with rent tax laws by both the formal and informal sectors is due to weaknesses in the taxation system, lack of education and lack of awareness of a country's population.

Government expenditure accountability is expected to increase citizen involvement and accountability in paying taxes. Law enforcement will help develop measures to prevent tax evasion. This theory is based on the idea that tax collection agencies tend to reduce non-compliance with rental income tax by taxpayers by imposing tax regulations that support rental income tax compliance. VAT compliance will be accelerated if the government creates the widest possible awareness of the benefits of rental income tax for consumers and businesses. Theory is used to support the tax audit variables.

2.3 Review of Empirical Studies

2.3.1 Fines and Penalties and Rental Income Tax Compliance

Globally, Ali, Zahari and Harizan (2020) examined how tax compliance among SMEs in New Zealand was influenced by imposed tax penalties. Knowledge and rate of penalties served as the study independent variables. The questionnaire was distributed to 150 respondents and 130 answered the questionnaire, which corresponds to a response rate of 86.7%. To determine the nature of the relationship between the independent and dependent variables, Spearman's correlation coefficient was calculated for each variable. The findings indicate that overall, knowledge and the rate of penalties had a substantial influence on tax compliance among the SMEs that were selected. It was thus concluded that tax authorities should always to educate taxpayers on the need to be tax compliant and not always punish them by imposing strict fines and penalties.

In Asia, Sinnasamy and Bidin (2017) conducted a study in Malaysia which examined the relationship that exists between tax rates, fines and the fairness of the tax system in terms of excise compliance. A methodical approach was used for this research. A stratified random sampling technique was used. This survey was attended by 500 excise violators from all over Malaysia. According to the findings, importer excise duty noncompliance was found to be favourably associated with the impression of tax rate and penalty rate, but it was adversely associated with tax fairness.

At the regional level, Oladele *et al*. (2019) the relationship that exists between various tax enforcement actions and corporate tax compliance in Ondo State, Nigeria. A survey approach was adopted that uses primary data collected by completing a structured questionnaire to 150 respondents selected from among the staff of the Federal Internal Revenue Service and the state Board of Internal Revenue Service. Respondents were selected using the Taro Yamane formula. Ordinary least squares regression analysis yielded regression coefficients and p-values for tax audits (0.278; p=0.030.05) and tax penalties (0.463; p=0.0000.05), indicating a positive and statistically significant relationship between the two explanatory variables and tax compliance at the significance level.05. It is believed that a slight increase in tax audits and tax penalties will improve tax compliance in Ondo State.

In another study, Lwesy (2019) examined factors that influence voluntary tax compliance among taxpayers in Morogoro and Ruvuma Regions of Tanzania. The survey sampled 38 taxpayers registered in the Morogoro and Ruvuma regions. A case study was used to collect data for use in this study. Linear regression and least squares methods are commonly used in the analysis. Based on the audit results, tax audits have a positive correlation with taxpayer compliance, while fines and interest have a negative correlation. It was concluded that tax audit ought to be conducted on regular basis whereas penalties and interests should be discouraged as they may fuel more tax evasion.

At the local level, Kipkoech and Joel (2016) conducted a study that analyzed the impact of economic factors on corporate tax compliance in the city of Eldoret, Kenya. This study uses a survey approach. Using a stratified random sample, 320 firms were selected from a target population of 1,470. Researchers collected information using a close ended questionnaire before analyzing the data using descriptive and inferential statistics. It was determined in this study that tax auditing had the greatest positive impact on level of tax compliance. On the other hand, tax incentives and actual income had the least positive impact on compliance.

In another study, Ritei (2021) examined how various compliance strategies applied by the government affect tax compliance among SMEs across Mombasa County. A sample of 396 respondents was selected using the proportional stratified random sampling method. Data collection was carried out using a structured questionnaire administered with the drop-and-choose method. To ascertain the relationship and influence of the independent variables on taxpayer compliance, correlation and regression analyses were carried out on the study variables, which were characterized in terms of terms and standard deviations. The study's findings demonstrate that technical development, tax compliance costs, and taxpayer education all have a positive and significant impact on taxpayer compliance.

2.3.2 Tax Audit and Rental Income Tax Compliance

Globally, D'Agosto, Manzo, Modica and Pisani (2020) examine the relationship between tax audits and tax compliance for companies in Italy. In particular, the impact of documentary reviews, on-site reviews, past liability reviews, and registration reviews on tax compliance and transmission of tax revenues is assessed. A predetermined response questionnaire was used to gather the required information. The data obtained were analyzed using a correlation matrix and multiple regression. The results showed that paper checks, on site checks, back-office checks and registry checks had a significant positive effect on taxpayer compliance. It was concluded that of all the variables, on-site verification is the most important.

In Asia, Tjondro, Soegihono, Fernando, and Wanandi (2019) examine the relationship between intergenerational tax audit awareness and voluntary tax compliance in Jakarta, Indonesia. The independent variables consisted of audit probability, audit methods, and auditor behaviour. Survey technique was utilised. The sample size consisted of 113 individual taxpayers who had been issued tax summonses and engaged in conversations with tax authorities about their respective tax issues. Data was analysed through the use of SPSS. It was observed that Millennials and Generation X had different perspectives of tax audits in comparison to Baby Boomers in terms of audit probability, audit procedures, and auditors' behaviours. It was determined that tax audit significantly improved tax compliance, especially among those with sharp perception.

Regionally, Nurebo, Tarakegn and Gutu (2021) examined the extent to which tax audit influenced tax compliance in Ethiopia Hawassa and Jimma tax branches. The study specifically aimed to examine the effect of types of tax audit, frequency of tax audit, and tax compliance as independent variables. Descriptive methodology was applied. A total of 75 tax auditors were sampled. Primary data was obtained for use during the study using a standardised questionnaire. Purposive sampling technique was utilised Multiple regression analysis and descriptive statistics were used. Excel software and SPSS were employed during data analysis. The findings showed that the degree of tax compliance was significantly influenced by the type and frequency of tax audits. It was therefore concluded that tax auditors ought to possess significant professional experience on tax matters in order to aid them in detecting concealed tax issues and enhance the level of tax compliance.

In another study, Karemera (2019) examined the nexus between tax audit and taxpayers' compliance in Rwanda. Descriptive research approach was employed. A stratified sampling approach was applied to select a sample of 88 tax auditors from Rwanda Tax Authority. Data was analysed descriptively. The results show that one of the main benefits of tax audits in meeting revenue objectives is that tax audits reduce tax evasion problems and taxpayers generally do not cooperate with tax audit staff during audits. Therefore, it is concluded that the results are very important to make a significant contribution to both the public finance and institutional environment in terms of improving tax compliance.

Locally, Rotich (2020) examined the key issues affecting tax audit at KRA focusing specifically on the South-Rift region, Kenya. Descriptive research approach was employed. Census approach was utilized to select 80 tax audit officers from across South-Rift region. Data collection was carried out using a questionnaire. Data was analysed using descriptive statistics and inferential statistics. According to the results, audit cases have a direct impact on the effectiveness of tax audits in the South Rift Valley region. According to the general regression model, the tax dispute resolution mechanism and the interpretation of tax laws are unfavorably related to the effectiveness of tax audits in the regions. It was therefore concluded that KRA need to undertake more training forum for its audit staffs in order to allow them to gain more experience and become more effective in their tax audit work.

In addition, Ogutu (2019) examined how tax audit impacted collection of excise duty revenue across Nairobi region, Kenya. The study used secondary data that covered a 5-years' time period between 2013 and 2018. Multiple linear regression was undertaken. According to the findings, the tax audit contributed favourably to the amount of excise duty that was collected over the course of 5 years. Therefore, it was found out that there was a chance for a rise in excise duty compliance, particularly if KRA restructured its tax audit strategy, particularly with regard to excisable goods and services.

2.3.3 Cost of Compliance and Rental Income Tax Compliance

Globally, Nasution *et al*. (2020) conducted research on the determinants of tax compliance of individual taxpayers in South Sumatra, Indonesia. Researchers followed a quantitative research approach, collecting data from the target respondents using a questionnaire based on research variables. 900 individual taxpayers from five main South Sumatra cities who are registered are the target group. According to the study's findings, tax complexity, tax fairness, and tax knowledge had no bearing on taxpayer compliance. SMS Blast program, there are differences in taxpayer compliance.

Pope and Susila (2020) conducted research on the extent to which tax compliance costs affect tax compliance in large companies in Indonesia. A case study approach was used. A sample of 246 questionnaires were dispatched through mail to various corporation across the country. Data was analysed using both descriptive and inferential statistics. The findings indicated that costs of compliance for large taxpayers were high and accounted for accounted for a significant percentage of tax revenue for large corporations. The average cost of tax compliance often varies among the different economic sectors, however it was also determined that the majority of the expenditures are related to human resources.

In addition, Manual & Xin (2016) uses a simple random sampling technique to select 150 self-employed taxpayers to become respondents in this study. The questionnaire survey was conducted using an online distribution technique. The study's findings indicate that self-employed taxpayer compliance behavior and tax deterrent have a substantial link. It has been determined that the expense of tax compliance and knowledge has little bearing on actual tax compliance.

Regionally, Mahangila (2019) examined how SMEs compliance behaviour was impacted by the incurred tax compliance costs in Dar es Salaam Tanzania. In particular, this study aims to examine the impact of vertical and procedural justice on compliance costs. A total of 75 SMEs operating in Dar es Salaam were selected using a random sampling technique. The analyzed data were analyzed using inferential and descriptive statistics. The results showed that increasing compliance efforts significantly increased the degree of non-compliance in SMEs. It was concluded that the cost of tax compliance is likely to play a key role in tax compliance dissatisfaction for SME taxpayers.

Ernest, Danie, and Nicholas (2022) examined the variables influencing the cost of compliance for SMEs in Ghana. A survey case study was adopted upon which a total of 132 SMEs in Ghana. Ordinary Lest Square Regression model was adopted during data analysis. The findings revealed that business size, business age, business sector and technological costs all had substantial determinants on the tax compliance costs incurred by the firms. It was therefore concluded that tax authorities from across the country ought to pay close attention to those factors that tends to affect tax compliance costs in order to enhance tax compliance level.

At the local level, Bernard, Memba and Oluoch (2018) examine how the cost of tax compliance in Kenya affects the level of tax compliance of investors in export processing zones. A cross-sectional survey was used in this study. The study population consisted of 152 farms registered and licensed by the Export Processing Zone Authority. Primary data was collected using a questionnaire. Data analysis includes descriptive and inferential statistical methods. Based on the research results, the level of taxpayer compliance is significantly influenced by the cost of compliance. In addition, the extent to which a company complies with its tax obligations is directly correlated to the costs of compliance. It was concluded that taxpayers will comply more when tax compliance expenses are reduced and tax systems are simplified to a sufficient degree.

In another study, Omondi and Theuri (2019) investigated how tax awareness and related compliance costs affect the overall tax compliance rate of SMEs in Nakuru City, Kenya. The chosen research design is descriptive. A sample of 302 respondents was selected. Questionnaires in a standard format were used to collect data. In addition, data were coded and quantitative analysis was performed using inferential and descriptive statistical methods. According to the study's findings, there is a strong correlation between the degree of taxpayer compliance and tax awareness and education. It was determined that the study's findings might be useful to KRA in developing policies to encourage compliance among small traders, which would ultimately result in increased tax collection.

2.3.4 Tax Rates and Rental Income Tax Compliance

Globally, Alshirah, Magablih and Alsqour (2021) examined how compliance with sales tax among public shareholding firms is affected by the tax rate applied in Jordan. The research utilized a survey approach, and copies of the questionnaire were sent out to 191 of Jordan's publicly traded companies. Only 169 of the survey copies were found to be suitable for analysis after the data were tabulated. To assess the developed study hypotheses, PLS-SEM was used. The results of the study show that the tax rate has no significant effect on sales tax compliance. It was concluded that this study contributes to improving VAT compliance in Jordan by providing information for policymakers and registered Jordanian companies.

In another study, Naeem and Gulzar (2021) evaluated the connection between tax rates and voluntary taxpayer compliance in Pakistan. Using a quantitative survey design, data were collected from 435 individual taxpayers. Questionnaire were distributed to all selected study participants. Structural equation modelling was applied in order to assess whether or not there was a link between the various constructs by means of mediation and moderation. According to the findings, the degree to which tax compliance is made simple appears to have a greater influence on the number of people who file their taxes than do their perceptions on government spending and tax morale. In addition, the impression of justice plays a crucial role as a mediator between the positive relationships between morale, simplicity, government spending, and compliance behaviour.

At the regional level, Chindengwike and Kira (2022) examine the extent to which voluntary compliance with tax laws is affected by tax rates applied in Tanzania. A cross-sectional design was implemented. Due to the random sample, a total of 99 SMEs took part in this study. SPSS was used for data analysis. The results of the study show that tax rates have a negative impact on the willingness of taxpayers to comply voluntarily with tax laws. Here too, the results show that the availability of favorable tax rates contributes to increasing the voluntary compliance of taxpayers. In summary, there is a statistically significant relationship between tax rates in Tanzania and the degree of voluntary compliance of taxpayers.

Mas'ud et al. (2014) conducted research using cross-country data to examine the impact of tax rates on taxpayer compliance in Africa. This study includes all African countries as a population and a tiered sampling approach is used. A negative association was found between tax rates and compliance, indicating that tax rates have a detrimental impact on compliance. It was therefore concluded that, African countries having tax rates above the average should lower their taxes in order to achieve the average rate of compliance.

Locally, Aondo (2018) study evaluated how taxpayers’ knowledge and taxation rates influenced the level of tax compliance among SMEs operating in Nakuru town, Kenya. The research utilized descriptive design. The data gathering process involved posing pre-planned and organized questions to the population sample. A stratified sampling frame was used to select 142 respondents to participate in this study. Using descriptive and inferential statistics, the connection between the dependent variable and the independent variable was examined. According to the regression analysis, taxpayer compliance in SMEs in Kenya's Nakuru District is positively and significantly impacted by taxpayer knowledge and tax rates. Therefore, it can be said that greater tax rates and greater taxpayer awareness both result in greater tax compliance.

In another study, Abdul and McFie (2020) investigated how complexity of tax system influenced compliance behaviour among large and medium sized business tax payers in Kenya. A total of 142 firms from across the country were sampled. Partial Least Square (PLS) approach was utilized during data analysis. The study show that regardless of the nature of the various views of justice, only stock market equity influences the tax compliance behavior of corporate taxpayers. Perceived behavioral control was also found to have a large and detrimental impact on compliance behavior. It was therefore concluded that tax authority in Kenya and other tax jurisdictions that are comparable should work toward achieving exchange fairness and reducing the number of occasions in which tax payers can have unchecked influence over their business activities in order to promote tax compliance.

A study by Lignier and Evans (2017) looked at the of tax compliance expenses for Australia's small business sector. The goal of this study is to evaluate and analyze the costs associated with tax compliance as they affect the small business sector. This study attempts to distinguish between tax compliance activities and core accounting activities in order to identify the business benefits of tax compliance, which taxpayers share in the cost of Compensation for compliance. The survey results found that high taxes and compliance costs tend to deter small businesses from complying with Australian tax law, so the regulation achieves its goal of mitigating some of the impact of the compliance burden.

2.3.5 Moderating Effect of Trust in Government and Rental Income Compliance

Significant evidence across many countries has clearly indicated that voluntary willingness among taxpayers to be tax compliant is higher when their trust in government is strong. However, such willingness decreases due to issues such as inequitable tax burdens, corruption, lack of transparency, questionable interactions with tax officials, and poor translation of tax revenue into services (Kogler et al., 2022). As such, trust in government can moderate the relationship between economic deterrents and rental income compliance since when taxpayers have trust on how the government spends the collected revenue, then they are unlikely to feel the effects of economic deterrents such as fines and penalties, tax audits, cost of compliance and tax rates as illustrated by the following studies.

Kumpias, Leonardo and Martinez (2020) examine the relationship between trust in government and tax compliance. It makes use of data from a global survey conducted by World Values Survey and Freedom House between 1981 and 2014, including 92 nations in six waves of surveys. This study discovers that tax morale is positively impacted by trust in government entities, depending on the conditional level of political rights and civil liberties. Additionally, the findings demonstrate that citizen trust in output-side organizations, such as lawmakers and CEOs that develop policies, has a substantially less impact on tax compliance than does citizen trust in government institutions that implement and provide public goods and services to citizens.

Güzel, Özer and Özcan (2019) examined how perceptions of tax fairness and trust in the government affect the level of tax compliance in Turkey. A sample of 392 professional accountants was selected. Correlation and regression analyses were performed. The findings revealed a positive and statistically significant relationship between tax compliance and perceptions of tax justice, a positive and statistically significant relationship between trust in the government and tax compliance, and a positive and statistically significant relationship between these three variables. Trust in the government is inversely correlated with tax compliance and the impression of tax justice. Conclusion: Taxpayer compliance is positively impacted by taxpayer perceptions of tax justice and trust in how the government spends the money it collects in taxes.

Kogler *et al*., (2022) conducted a cross-cultural study examining perceptions of trust and authority regarding tax compliance in 44 countries around the world. Based on experimental data with 14,509 participants, country/region-level indices of trust and power were calculated in relation to rankings of the informal economy and, as an alternative indication of inconsistency, corruption indices. According to research findings, the degree of corruption and the size of the informal economy are inversely correlated with trust and authority. These findings highlight the significance of both SSF traits in discouraging tax evasion and other forms of antisocial conduct.

In another study, Batrancea *et al*., (2019) the effect of trust and political power on taxpayer compliance with the five contents. Using the "Slippery Slope" tax compliance framework, it was found that tax authorities that purportedly regulated tax evasion effectively recorded the highest levels of enforced tax compliance. As indicated by the negative interaction effect, the data show that contrary to some previous studies, trust and power are not fully complementary. Notwithstanding certain differences between nations, trust and power are universally recognised as significant factors of tax compliance. These findings have strong consequences for tax authorities around the world who must select the most effective tax collection methods.

The relationship between trust relationships and the amount of tax compliance in Lagos, Nigeria's informal economy, was examined by Adekoya, Agbetunde, and Lawal (2022). The relationship between trust and the political, economic, and social advantages that citizens receive from the government as a result of their tax contributions was investigated. Survey research approach was utilized. As ample of 400 potential taxpayers from informal sector was selected. In order to analyze the data, descriptive statistics were utilized. According to the findings, majority of the people who participated in the survey had the potential to pay taxes, and all of them believe that the tax authority was trustworthy and does not engage in corrupt practices while dealing with tax affairs. Therefore, it was concluded that the state government was open and trustworthy on the manner in which it spends the money it receives from taxes.

2.4 Summary of Literature and Research Gaps

Table 2. 1: Summary of Literature and Research Gaps

Author and Year	Objective	Findings	Research Gap	Filling the Gaps
Ali *et al*., (2020)	How tax compliance among SMEs in New Zealand was influenced by imposed tax penalties. Knowledge and rate of penalties served as the study independent variables	Knowledge and the rate of penalties had a substantial influence on tax compliance among the SMEs that were selected.	The study presented a conceptual gap since it was undertaken in New Zealand	The current study was undertaken in Kenya focusing on rental tax compliance among Landlords
Nurebo *et al*., (2021)	The extent to which tax audit influenced tax compliance in Ethiopia Hawassa and Jimma tax branches	The results indicated that both the type and frequency of tax audit had significant effect on the level of tax compliance	The study targeted individuals working in tax offices across Ethiopia.	The current study targeted landlords in Roysambu, Sub-County.
Rotich (2020)	The key issues affecting tax audit at KRA focusing specifically on the South-Rift region, Kenya	According to the findings, the selection of audit cases had a direct bearing on the efficiency of tax audits in the South Rift Valley Region	The study was undertaken in South Rift region and it targeted tax audit officers.	The current study targeted landlords in Roysambu, Sub-County.
Pope & Susila (2020)	The extent to which tax compliance costs affected tax compliance among large corporate taxpayers in Indonesia	The findings indicated that the gross costs of compliance for large taxpayers were high and accounted for accounted for a significant percentage of tax revenue for large corporations	The study presented a conceptual gap since it was undertaken in Indonesia	The current study was undertaken in Kenya focusing on rental tax compliance among Landlords

Omondi & Theuri (2019)	How tax awareness and corresponding costs of compliance affected overall tax compliance level among SMEs in Nakuru town, Kenya.	According to the findings, there was a positive and significant relationship between tax awareness and cost of compliance and the degree of tax compliance.	The study presents a contextual gap since it targeted SMEs in Nakuru town.	The current study targeted landlords in Roysambu, Sub-County.
Alshirah *et al.*, (2021)	How compliance with sales tax among public shareholding firms is affected by the tax rate applied in Jordan.	Study results indicated that the tax rate does not have a significant effect on sales tax compliance.	The study looked at sales tax among public shareholding firms in Jordan	The current study was undertaken in Kenya focusing on rental tax compliance among Landlords
Aondo (2018)	How taxpayers' knowledge and taxation rates influenced the level of tax compliance among SMEs operating in Nakuru town, Kenya	The findings of the regression showed that tax payer knowledge and tax rates had a positive and substantial effect on tax compliance among SMEs in Nakuru County, Kenya	The study presents a methodological gap since it was based on descriptive research design.	The current study utilized cross-sectional research design.

Source; *Researcher, (2023)*

2.5 Conceptual Framework

The relationships between a study's independent and dependent variables are schematically represented by the conceptual framework. In this case, the independent variables are fines and penalties, and tax audits, compliance fees, and tax rates, while the dependent variable is rental income tax compliance.

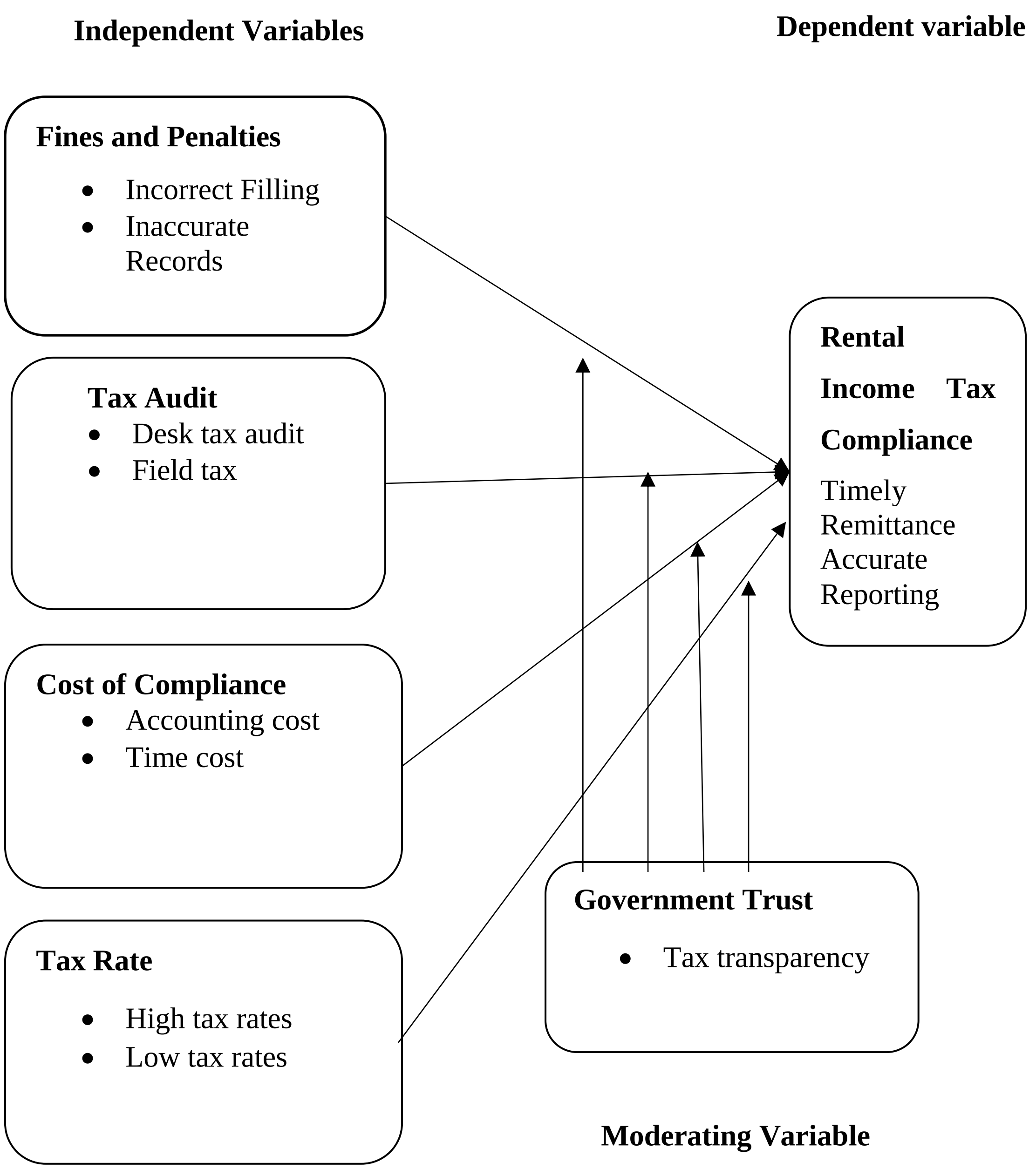


Figure 2.1: Conceptual Framework
Source; *Researcher, (2023)*

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Overview

The chapter outlined the methodology adopted for achieving the study's objectives. This provided a brief description of the research design, population, sampling methods, techniques of collecting data, test reliability and validity, and the analytical procedures to be used. In particular the section discussed the research design, sample size, data collection, data analysis, data presentation and ethical consideration.

3.1 Research Design

Research design is considered as the general strategy that a researcher normally adopts so as to make the integration of various research components possible so as to achieve a logical and comprehensible flow (Dannels, 2018). Research design is normally very essential in research since it makes it possible for the researcher to comprehensively address the research problem under the study. The study adopted an explanatory research design. Explanatory research design is a method that is utilized to investigate a phenomenon that has not been studied or explained properly. Explanatory research design fits into the current study since it makes it possible for the researcher to gain thorough understanding of the study topic, ascertain why a particular phenomenon is occurring within the study and also be able to predict future occurrences in regards to residential income tax compliance.

3.2 Target Population

The target population usually refers to the entire group of subjects or individuals from whom the study intends to draw a small number of subjects to ensure full representation of the overall population. The target group of this study consisted of 320 landlords from the Roysambu sub-district (KRA, 2023). The study targeted landlords around Roysambu Sub- County as it was much easier to access them during data collection and, thus, minimizing the overall cost of the study.

3.3 Sampling Technique and Sample Size

3.3.1 Sampling Technique

The sampling technique refers to a detailed approach in which a representative sample is selected from the main sample for inclusion in the study. In this investigation, a straightforward random sample method was employed. With simple random sampling, every person of the population has an equal chance of being chosen for the study. The researcher used a straightforward random sample strategy in this study to eliminate bias while choosing the study participants.

3.3.2 Sample Size

Determining sample size involves selecting the number of observations or replicates to include in a statistical sample (Taherdoost, 2017). Any empirical study that seeks to infer information about the sample population must take the sample size into consideration. The Yamane (1967) formula was therefore used to calculate the sample size for this study. Using this formula, the sample size is calculated using a 0.05 significance level and a 95% confidence interval as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where;

n =Sample Size,

N=Population Size,

e= level of Precision

This formula will be used to calculate the sample sizes for the study as follows:

$$n = \frac{320}{1 + 320(0.05)^2}$$

$$n = 177$$

3.4 Data Collection and Measurement of Variables

Data collection refers to the process that entails obtaining of the key information that is to be used when undertaking a survey from among the targeted study subjects (Igwenagu, 2016). This study uses a questionnaire as a data collection tool. The questionnaire used has a Likert scale of 5 points (1-5) with (1-strongly disagree, 2-strongly disagree, 3-neutral, 4-strongly agree and 5-strongly agree). The questionnaire was used in this study because it offers the researcher the prime opportunity to obtain the required information from the target group in the shortest possible time and also in the most cost-effective manner.

3.5 Reliability Test

Reliability is the degree to which a research tool can produce the same results even after being tried repeatedly. The reliability of this study was determined by giving the same scale/measurement to the same respondents at two different points in time. A total of two weeks later, the same responders received the same instruments. Researchers then calculated Cronbach's alpha once the instruments had been delivered a second time in order to determine the instrument's internal consistency, i.e., how closely linked the replies are as a group. If the results of the Cronbach’s Alpha obtained were at least 0.7 then the instrument was to be deemed reliable for the purpose of being used to obtain data for use in the completion of the study.

3.6 Validity Test

Validity refers to the accuracy of the research tool (Mugenda & Mugenda, 2013). Furthermore, validity is defined as the extent to which the research results obtained accurately reflect the problem under consideration. To check the validity of the research instrument, the Kaiser-Meyer-Olkin (KMO) test was used. KMO test is a form of statistical measure that is applied in order to determine how suitable a particular data is before conducting factor analysis.

3.7 Diagnostic Assumptions

3.7.1 Normality Test

The level of normality affects the likelihood that the random variables underlying the data set are also normally distributed and if the data is normally distributed. Histograms and skewness distributions are two examples of normality tests. Normal P-P plot normality test is used in this instance to verify the results of the normality test. When the data points fall along the diagonal line, the data set is normally distributed.

3.7.2 Multicollinearity Test

Multicollinearity occurs when the explanatory variables are highly correlated. In these cases, implicit assumptions are usually made, especially when the least squares method is commonly used, because in such cases the explanatory variables are uncorrelated. The inflation variance factor (VIF) is used to calculate the correlation and the strength of the correlation between the independent and dependent variables of the study in order to discover multicollinearity. By computing the inflation variance factor (VIF) and its tradeoffs, it is put to the test. Based on the premise that a VIF of less than 5 indicates a low correlation between this predictor and other predictors, a value between 5 and 10 indicates a moderate correlation, and a VIF value greater than 10 indicates a significant and unacceptable correlation, tolerance is based on these assumptions.

3.7.3 Homoscedasticity Test

The Breusch-Pagan test was utilized in order to investigate the heteroscedasticity test for residuals. The alternative hypothesis of heteroscedasticity was compared to the null hypothesis of homoscedasticity in order to determine whether one was correct. Breusch and Pagan (1979) state that the null hypothesis of homoscedasticity is accepted if the p values that correspond to the chi-square test statistics are greater than the 5 percent level of significance. On the other hand, the null hypothesis of homoscedasticity is rejected if the p values that correspond to the chi-square test statistics are less than the 5 percent level of significance

3.8 Data Analysis and Presentation

Data analysis is a comprehensive process in which the information collected is packaged, organized, and structured into its main components in such a way that the results can be communicated easily and effectively (Igwenagu, 2016). After data collection was completed, all questionnaires were reviewed to exclude incomplete and damaged questionnaires for analysis. Then, a social science statistical package was used to analyze the data using descriptive and inferential statistics and present the results as mean and standard deviation information based on the research objectives. The analyzed data is then presented in the form of frequency tables, numbers, average values and standard deviations to facilitate understanding.

3.9 Testing for Moderator Research Model

The researcher applied the following multiple linear regression hypothetical model for the purpose of presenting the analysed data in order to guess the strength of the link between independent and dependent variables. The study used hierarchical multiple linear regression model to link the independent variables, the moderator and the dependent variable. Following Baron and Kenny (1986).The following regression models were used

Model 1: Testing for direct effect

$RITC = \beta_0 + \beta_1 FP + \beta_2 TA + \beta_3 CC + \beta_4 TR + \varepsilon$……………..(I)

Model 2: Testing for the effect of moderator moderating dependent variable

$RITC = \beta_0 + \beta_1 FP + \beta_2 TA + \beta_3 CC + \beta_4 TR + \beta_5 GT + \varepsilon$……….(II)

Model 3: Entering the first interaction term of independent variable *moderator

$$RITC = \beta_0 + \beta_1 FP + \beta_2 TA + \beta_3 CC + \beta_4 TR + \beta_5 GT + \beta_6 GT * FP + \varepsilon$$

Model 4: Entering the second interaction term of independent variable *moderator

$$RITC = \beta_0 + \beta_1 FP + \beta_2 TA + \beta_3 CC + \beta_4 TR + \beta_5 GT + \beta_6 GT * FP + \beta_7 GT * TA + \varepsilon$$

Model 5: Entering the third interaction term of independent variable *moderator

$$RITC = \beta_0 + \beta_1 FP + \beta_2 TA + \beta_3 CC + \beta_4 TR + \beta_5 GT + \beta_6 GT * FP + \beta_7 GT * TA + \beta_8 GT * CC + \varepsilon$$

Model 6: Entering the fourth interaction term of independent variable *moderator

$$RITC = \beta_0 + \beta_1 FP + \beta_2 TA + \beta_3 CC + \beta_4 TR + \beta_5 GT + \beta_6 GT * FP + \beta_7 GT * TA + \beta_8 GT * CC + \beta_9 GT * TR + \varepsilon$$

Where;

α = Constant

β_1, β_2 & β_3 = Partial regression coefficient

RITC = Tax compliance

FP= Fines and Penalties

TA= Tax Audit

CC= Cost of Compliance

TR= Tax Rate

GT= Trust in government

ε = Error term

To test moderation hypothesis, Baron and Kenny (1986) method was adopted. To achieve this, three regressions as stipulated by Baron and Kenny were adopted as follows:

1. Independent variable predicting the dependent variable
2. Independent variable predicting the mediator
3. Independent variable and mediator predicting the dependent variable

3.10 Measurement of Variables

Table 3.1: Measurement of Variables

Variable	**Nature of Variable**	**Indicators**	**Measurement Scale**	**Source**
Fines and Penalties	Independent Variable	Incorrect Filling Inaccurate Records	Ordinal	Ali *et al.*, (2020)
Tax Audit	Independent Variable	Desk tax audit Field tax audit	Ordinal	Nurebo *et al.*, (2021)
Cost of Compliance	Independent Variable	Accounting cost Time cost	Ordinal	Mahangila (2019)
Tax Rate	Independent Variable	High tax rates Low tax rates	Ordinal	Chindengwike & Kira (2022)
Trust in Government	Moderating Variable	Tax transparency Corruption	Ordinal	Güzel et al., (2019)
Rental Income Tax Compliance	Dependent Variable	Timely remittance Accurate reporting	Ordinal	Omondi & Theuri (2019)

Source; ***Field data, (2023)***

3.11 Ethical Consideration

During the study, the researcher observed a number of measures that were aimed to regulate against any possible ethical issue. First, the researcher obtained personal introductory letter from KESRA. In addition, a letter granting the researcher permission to collect data was obtained from National Commission for Science, Technology & Innovation (NACOSTI). During data collection, the researcher explained to participants about voluntary nature of their participants and that they could opt not to participate at any given. To ensure confidentiality, the researchers instructed study participants not to write their names on the questionnaire, or to leave any traces that could identify them. Finally, the researcher assured the participants that all data that the researcher received from the participants should be kept confidential and only be used for academic purposes related to this study.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSIONS

4.0 Overview

This chapter presents the study findings. Specifically, the chapter is structured into analysis of the respondent's basic information, diagnostic assumptions, and descriptive statistics of based on the study objectives, as well as the inferential statistics. The last section of the chapter presented a detailed discussion of the study results obtained.

4.1 Response Rate

The study had sampled a total of 177 landlords within Roysambu Sub-County. However, out of the sampled 177 landlords upon which questionnaires were administered. Only 149 fully filled questionnaires were obtained implying that the response rate was 84%. This response rate is considered reliable for data analysis purposes because it is consistent with Mugenda and Mugenda (2009) who stated that for generalization purposes, a survey response rate of 50 percent is sufficient for analysis and reporting. 60 percent is acceptable and 70 percent or higher is very good. The high response rate was due to the chosen data collection method, in which the researcher personally administered the questionnaires. In addition, respondents were given sufficient time to fill out the questionnaire.

Table 4.1: Response Rate

Response Rate	**Frequency (n)**	**Percentage**
Returned Questionnaires	149	84
Non-Response	28	16
Total	**177**	**100**

Source; Field data (2023)

4.2 Reliability Test

To measure the internal consistency of items, the study used Cronbach's Alpha which measured the six variables under study. Table 4.12 below revealed the test results and it was evident that all the six constructs had met the recommended reliability threshold of 0.7. Penalties and fines had a Cronbach's Alpha coefficient of 0.721. This was followed by cost of compliance with a Cronbach's Alpha value of 0.740. Thereafter, tax audit was next with a Cronbach's Alpha value of 0.754. Tax compliance had a Cronbach's Alpha value of 0.775. The two variables with the highest scores were: Trust in government that recorded a Cronbach's Alpha value of 0.786 followed by tax rate construct with a Cronbach's Alpha value of 0.946.

Table 4.2: Reliability test results

	No. of Items	Cronbach Alpha Coefficients	Decision rule
Tax compliance	5	0.775	Accept
Tax audit	5	0.754	Accept
Cost of compliance	5	0.740	Accept
Tax rate	5	0.946	Accept
Penalties and fines	5	0.721	Accept
Trust in government	5	0.786	Accept

Source; Field data (2023)

4.3 Validity Test

Table 4.13 below revealed the test results and it was evident that all the six constructs had met the recommended KMO and Bartlett's threshold of 0.5.

Table 4.3: Validity test results

	No. of Items	KMO and Bartlett's Test	Decision rule
Tax compliance	5	0.821	Accept
Tax audit	5	0.776	Accept
Cost of compliance	5	0.774	Accept
Tax rate	5	0.834	Accept
Penalties and fines	5	0.781	Accept
Trust in government	5	0.798	Accept

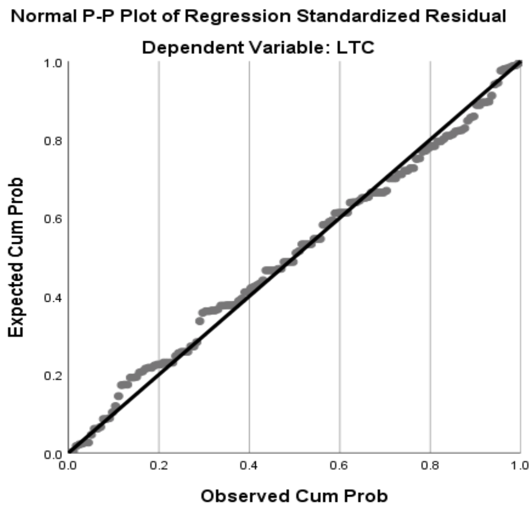
Source; Field data (2023)

4.4 Linear Regression Assumptions

A number of linear regression assumption tests were undertaken including normality and multicollinearity.

4.4.1 Normality Test

In order to validate the hypothesis that the data set followed a normal distribution, normality test was carried out with the use of normal P-P plots. The normal P-P plot, which can be seen above in Figure 4.1, revealed that the data points were close to the diagonal line. This was shown to be the case when the plot was examined. It is possible to draw the conclusion that the normalcy assumption was verified, and as a result, the data set was suitable for use in the investigation. These findings are comparable to those that were found by Engotoit et al. (2016), who discovered that normality in a data set is present when the data points in the P-P plot are located in close proximity to the line that provides the greatest fit.



4.4.2 Multicollinearity Test

A test for multicollinearity was carried out in order to ascertain whether or not the predictor variables of the study share a significant degree of correlation with one another. In order to investigate multicollinearity, this study makes use of VIF. VIF values below 5 indicate that a predictor has a low correlation with other predictors, VIF values between 5 and 10 indicate that a predictor has a moderate connection with other predictors, and VIF values over 10 indicate that a predictor has a high and unwanted correlation with other predictors. According to the findings, the VIF values for all of the variables that were investigated are less than 5, which suggest that the dataset does not contain any instances of multicollinearity.

Table 4.4: Variable Inflation Factor

	Collinearity Statistics	
	Tolerance	**VIF**
(Constant)		
Tax Audit	.521	1.920
Cost of Compliance	.722	1.385
Tax Rates	.752	1.330
Fines and Penalties	.484	2.068

Source; Field data (2023)

4.4.3 Heteroscedasticity Test

The Breusch-Pagan test was utilized in order to investigate the heteroscedasticity test for residuals. The alternative hypothesis of heteroscedasticity was compared to the null hypothesis of homoscedasticity in order to determine whether one was correct. Breusch and Pagan (1979) state that the null hypothesis of homoscedasticity is accepted if the p values that correspond to the chi-square test statistics are greater than the 5 percent level of significance. On the other hand, the null hypothesis of homoscedasticity is rejected if the p values that correspond to the chi-square test statistics are less than the 5 percent level of significance. The model has no problem of heteroscedasticity or the error variance is constant since the p-value is not significant, meaning that p-value is 0.314 which is greater than 0.05. Consequently, the null hypothesis was not rejected the error variance is constant.

Table 4.5: Heteroscedasticity Test

Source	chi2	Df	Prob>chi2
Heteroscedasticity	22.502	13	0.314

Source; Field data (2023)

4.5 Descriptive Statistics

4.5.1 Fines and Penalties

The respondents were requested to indicate the degree to which they were in agreement with the following Likert statements by using a scale of between 1 and 5 whereby (1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5- Strongly agree). Based on the survey results, it was found that respondents thought that the fines and penalties for non-compliance with the rental income tax law were less than their tax savings, as evidenced by the average score of 4.685. Moreover, with an average score of 4.678, respondents strongly agree that fines and penalties for non-compliance are not sufficient to prevent rent tax non-compliance. In addition, respondents agreed that regular exemptions from fines and penalties can encourage tax compliance and that fines and penalties are highly punitive for business owners, as indicated by their respective average scores of 4.134 and 4.121. Finally, respondents moderately agree that landlords file their rent taxes on time to avoid fines and penalties for non-compliance with tax regulation I, as indicated by an average score of 3.987.

Table 4.*6*: Fines and Penalties

	N	Mean	Std. Deviation
Fines and penalties are very punitive to business owners	149	4.121	0.725
I think that breaking rental income tax laws will result in less in fines and penalties than I will save in taxes.	149	4.685	0.466
Periodic fines and penalty relief could promote tax compliance.	149	4.134	0.713
Fines and penalties for noncompliance are not sufficient deterrence mechanisms against non-compliance with rental income tax	149	4.678	0.469
Landlords file their rental tax on timely basis to avoid fines and penalties of noncompliance on the I Tax system	149	3.987	0.637

Source; Field data (2023)

4.5.2 Tax Audit

The respondents were requested to indicate the degree to which they were in agreement with the following Likert statements by using a scale of between 1 and 5 whereby (1-Stronly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5- Strongly agree). The results obtained indicated that respondents strongly agreed that KRA tax auditors are friendly and informative to them whenever they visit us as indicated by the mean score of 4.395. Respondents also wholeheartedly agreed that the results of their tax audits were always provided to them in a timely manner and the possibility of being visited by KRA officials for a thorough tax audit meant that they complied with their rental income tax regulations. As indicated by the mean scores of 4.395 and 4.342, respondents agreed that they were well briefed by their tax auditors about all major tax audit standards and also that they were afraid of tax audits, so they kept proper books of account and reported tax returns properly. time, as indicated by the mean scores of 3.966 and 3.939, respectively.

Table 4.7: Tax Audit

	N	Mean	Std. Deviation
Probability of being visited by KRA officials for in-depth tax audit induces us to be compliant with rental income tax regulations	149	4.342	0.225
We are well informed about all crucial tax audit standards from our tax auditors	149	3.966	0.672
Tax audit findings are always availed to us on timely basis	149	4.295	0.587
KRA tax auditors are friendly and informative to us whenever they visit us	149	4.395	0.568
I am afraid of tax audits, so I keep proper books of accounts and file timely returns	149	3.939	0.595

Source; Field data (2023)

4.5.3 Tax Rates

The respondents were requested to indicate the degree to which they were in agreement with the following statements by using a scale of between 1 and 5 whereby (1-Stronly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5- Strongly agree). Based on the survey results, respondents found that the current rental tax rate charged by KRA is too high, with an average score of 4.745. Respondents also strongly agreed that the formula for calculating rental income tax is rather complicated for the average taxpayer and the rental income tax rate is expensive, as indicated by the average values of 4.067 and 4.000 respectively. In addition, respondents agree that the complexity of settling rental income tax contributes to erroneous tax returns and a reduction in tax rates will encourage and positively encourage voluntary tax compliance, as indicated by the average scores of 3.960 and 3.886 respectively.

Table 4.8: Tax Rates

	N	Mean	Std. Deviation
The formula for calculating the rental income tax is a bit complicated for ordinary tax payer	149	4.067	0.75
Rental income tax rate currently charged by KRA is too high	149	4.745	0.792
Rental income tax filling complexity adds to incorrect tax returns	149	3.96	0.625
The rate of rental income tax is prohibitive	149	4	0.658
Reduction of tax rates would encourage and positively promote tax compliance	149	3.886	0.653

Source; Field data (2023)

4.5.4 Cost of Compliance

The respondents were requested to indicate the degree to which they were in agreement with the following Likert statements by using a scale of between 1 and 5 whereby (1-Stronly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5- Strongly agree). According to the findings, it was revealed that respondents strongly agreed that it is not costly to keep all records required for rental income tax purposes as indicated by the mean score of 4.349. Respondents also strongly agreed that the cost of travelling in order to file a return is low as depicted by the mean score of 4.107. However, respondents agreed that they had engaged the services of an accountant to maintain adequate rent tax records; Hiring and employing tax professionals to calculate and file rental income tax is expensive, and in addition, the cost of acquiring, installing, and maintaining an ETR includes the highest rental income tax compliance costs, as evidenced by an average of 4.074. 4.034 and 4.20, respectively.

Table 4.9: Cost of Compliance

	N	Mean	Std. Deviation
The greatest expense associated with complying with rental income tax is the cost of purchasing, installing, and maintaining ETRs.	149	4.020	0.642
It is expensive to hire and engage tax experts for the purpose of computing and filling rental income tax.	149	4.034	0.662
I have engaged the services of an accountant to maintain sufficient rental income tax records.	149	4.074	0.727
The cost of travelling in order to file a return is low	149	4.107	0.649
It is not costly to keep all records required for rental tax purposes	149	4.349	0.677

Source; Field data (2023)

4.5.5 Trust in Government

The respondents were requested to indicate the degree to which they were in agreement with the following Likert statements by using a scale of between 1 and 5 whereby (1-Stronly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5- Strongly agree). The findings of the study indicate that respondents strongly agreed that the quality of public goods/services influence the rate of rental tax compliance as indicated by the mean score of 4.678. Respondents however agreed that enforcement of high tax legislations influence the level of tax compliance and also that lack of accountability on the part of the government make taxpayers to be apprehensive of the need to be tax compliant as shown by the mean scores of 3.987 and 3.967 respectively. Lastly, respondents further agreed that transparency of rental tax use influence the rate of tax compliance and also that corruption practices within the government hinders voluntary compliance with rental income laws as shown by the mean scores of 3.926 and 3.906 respectively.

Table 4.10: Trust in Government

	N	Mean	Std. Deviation
Transparency of rental tax use influence the rate of tax compliance	149	3.926	0.594
Corruption practices within the government hinders voluntary compliance with rental income laws	149	3.906	0.616
The quality of public goods/services influence the rate of rental tax compliance	149	4.678	0.469
Enforcement of high tax legislations influence the level of tax compliance	149	3.987	0.637
Lack of accountability on the part of the government make taxpayers to be apprehensive of the need to be tax compliant	149	3.967	0.637

Source; Field data (2023)

4.5.6 Rental Income Tax Compliance

The respondents were requested to indicate the degree to which they were in agreement with the following Likert statements by using a scale of between 1 and 5 whereby (1-Stronly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5- Strongly agree). The survey results show that respondents strongly agree that they have never failed to pay taxes on their rental income to the IRS, which is reflected in the average score of 4.395. In addition, respondents strongly agree that it is important for them to report their rent tax every month and also submit details of their rent tax to the tax authorities, as reflected in their respective average scores of 4.342 and 4.269. Finally, respondents agreed that they correctly reported their monthly rental income to the IRS, as indicated by an average score of 3.966.

Table 4.11: Rental Income Tax Compliance

	N	Mean	Std. Deviation
I file my rental tax returns on monthly basis without fail	149	4.342	0.525
I correctly declare my monthly rental income to the tax authority	149	3.966	0.672
I document my rental income tax file records with the tax authority	149	4.295	0.587
I have never forfeited to pay my rental income tax to the tax authority	147	4.395	0.568

Source; Field data (2023)

4.6 Inferential Statistics

This study uses Pearson's correlation analysis to determine the strength and direction of the relationship between the independent variables and the dependent variable. If two or more variables have a strong relationship, it means that there is a high correlation, otherwise it is said to be a weak correlation, that is, the relationship between these variables is not good. In addition, multiple regression analysis was performed to determine the effect of each independent variable on the dependent variable.

4.6.1 Correlation Analysis

The study performed a Pearson correlation analysis to determine the strength and direction of the relationship between the independent variables and between the independent and dependent variables. Correlation between 0.1 to 0.3 indicates a weak relationship, 0.4 to 0.5 moderate relationships, and 0.6 to 0.8 a strong relationship. Based on the results, it was found that there was a fairly positive and significant relationship between fines and penalties and compliance with rental income tax by landlords in Roysambu, Nairobi County (0.611, P-value <0.05). It was also found that there is a strong positive and significant relationship between tax audit and rental income tax compliance by landlords in Roysambu, Nairobi District (0.545, P-value <0.05). Cost of compliance was found to have a weak negative but had significant relationship with rental income tax compliance landlords in Roysambu, Nairobi County (-0.471, P-Value < 0.05). Further, a weak negative and significant relationship was established between tax rates and rental income compliance landlords in Roysambu, Nairobi County (-0.451, P-Value < 0.05). Lastly, a weak positive and significant relationship was observed between trust in government and rental income compliance landlords in Roysambu, Nairobi County (0.511, P-Value < 0.05).

Table 4.12: Pearson correlation

		RITC	**TA**	**CC**	**TR**	**FP**	**TG**
RITC	Pearson Correlation	1					
	Sig. (2-tailed)						
TA	Pearson Correlation	.545**	1.000				
	Sig. (2-tailed)	0.000					
CC	Pearson Correlation	-.471**	-.227**	1			
	Sig. (2-tailed)	0.000	0.005				
TR	Pearson Correlation	-.451**	-.090	.477**	1		
	Sig. (2-tailed)	0.000	0.272	0.000			
FP	Pearson Correlation	.611**	.686**	-.331**	-.247**	1	
	Sig. (2-tailed)	0.000	0.000	0.000	0.002		
TG	Pearson Correlation	.511**	.303**	-.300**	-.198*	.325**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.015	0.000	

Source; Field data (2023)

4.7 Regression Analysis Results

A regression analysis was conducted to determine how well the model explains the relationship between dependent and independent variables. To do this, a total of five analytical models were run in order to draw conclusion of each model as illustrated below.

4.7.1 Testing direct effect of Economic Deterrents on Rental Income Tax Compliance

The analytical model sought to analyse the effect of the four independent variables (fines and penalties, tax audit, cost of compliance and tax rates) on rental income tax compliance among landlords in Roysambu Sub-County. From the finding of the model summary, it was observed that R-Squared value was 0.538 or 53.8%. The result is an indication that 53.8% of rental income tax compliance that is affected by fines and penalties; tax audit, cost of compliance and tax rates.

Table 4.13: Model Summary

Model	R Square	Adjusted R Square	Std. Error of the Estimate
	0.538	0.525	0.0259

Source; Field data (2023)

A regression analysis was conducted and results were presented in Table 4.14.

The first hypothesis (**H_{01}**) stated that *fines and penalties had no significant effect on rental income tax compliance among landlords in Roysambu Sub-County.*

However, based on the study findings illustrated under Table 4.15, it was revealed that fines and penalties had a significant effect on rental income tax compliance (β=0.239, P-Value < 0.05). The finding is an indication that the null hypothesis (**H_{01}**) was rejected since fines and penalties was found to have significant effect on rental income tax compliance among landlords in Roysambu Sub-County. The study finding is an indication that when holding all other factors constant, a unit change in fines and penalties will result in 23.9% positive change in rental income tax compliance among landlords in Roysambu Sub-County.

The findings are consistent with the work of Ali, Zahari and Harizan (2020) who found that rate of penalties had a substantial influence on tax compliance. Oladele et al., (2019) further concluded that there exists a positive and statistically significant relationship between fines& penalties and tax compliance. The fear of financial penalties and legal repercussions serves as a powerful motivator for landlords to adhere to tax regulations. When landlords are aware of the potential fines for non-compliance, they are more likely to accurately report their rental income, claim allowable deductions, and meet tax filing deadlines. This not only ensures that the government receives the tax revenue it is owed but also encourages landlords to maintain proper financial records and transparency in their rental property operations, promoting overall tax compliance.

Fines and penalties can act as a deterrent against tax evasion and underreporting of rental income. Landlords who attempt to underreport or hide their rental income in order to reduce their tax liability risk facing significant financial penalties, audits, and legal consequences. These consequences not only result in financial strain but can also damage a landlord's reputation and lead to long-term legal troubles. As a result, the potential for fines and penalties serves as a deterrent for landlords to engage in tax evasion, ultimately promoting greater compliance with tax laws and regulations in the rental income sector. In summary, the specter of fines and penalties plays a vital role in encouraging landlords to meet their tax obligations and maintain transparency in their rental income reporting.

The second hypothesis (**H_{02}**) stated that *tax audit had no significant effect on rental income tax compliance among landlords in Roysambu Sub-County*.

Rax audit had a significant effect on rental income tax compliance among landlords in Roysambu Sub-County (β=0.340, P-Value < 0.05). The finding is an indication that the null hypothesis (**H_{02}**) was rejected since tax audit was found to have significant effect on rental income tax compliance among landlords in Roysambu Sub-County. The study finding is an indication that when holding all other factors constant, a unit change in tax audit will result in 84.8% positive change in rental income tax compliance among landlords in Roysambu Sub-County.

The findings support D'Agosto, Manzo, Modica and Pisani (2020) conclusion that tax audit had a positive significant influence on tax compliance. Tjondro, Soegihono, Fernando and Wanandi (2019) also established that tax audit played a significant role in enhancing tax compliance. Knowing that they may be subject to an audit, landlords are more likely to accurately report their income, claim legitimate deductions, and maintain proper financial records to support their tax filings. This fear of scrutiny encourages landlords to adhere to tax regulations, ultimately resulting in greater compliance.

Tax audits help level the playing field in the rental income sector. When landlords are aware that tax authorities are actively monitoring compliance, it creates a sense of fairness and discourages those who might be considering evading taxes. This encourages law-abiding landlords and property owners by ensuring that their competitors are not gaining an unfair advantage by engaging in tax evasion. In this way, tax audits promote a more equitable and transparent rental income tax system, benefiting both landlords who comply with the law and the government's efforts to collect the revenue it is owed.

The third hypothesis (**H_{03}**) stated that *cost of compliance had no significant effect on rental income tax compliance among landlords in Roysambu Sub-County*.

Cost of compliance had a significant effect on rental income tax compliance among landlords in Roysambu Sub-County (β =-0.077, P-Value < 0.05). The finding is an indication that the null hypothesis (**H_{03}**) was rejected since cost of compliance was established to have significant effect on rental income tax compliance among landlords in Roysambu Sub-County. The obtained result is an indication that holding other factors constant, a unit change in cost of compliance will cause -7.7% negative changes in rental income tax compliance among landlords in Roysambu Sub-County when holding all other factors constant.

The findings concur with those of Mahangila (2019) that tax compliance costs tend to play a key role in causing unsatisfactory tax compliance level. However, the study findings disagree with Manual & Xin (2016) argument that tax compliance costs are insignificant to cost of compliance. Landlords are required to adhere to a complex set of tax regulations, which often necessitates professional assistance, such as hiring accountants or tax advisors. The fees associated with these services can be a significant financial burden for landlords, particularly those who own smaller properties or are part-time landlords. These costs can lead to reluctance in complying with tax regulations as landlords may try to minimize their expenses by cutting corners in their tax reporting or avoiding certain taxable transactions altogether. As a result, the high cost of compliance can be a barrier to landlords, pushing them towards non-compliance.

Additionally, the complexity of tax regulations and the associated compliance costs can be a source of frustration and confusion for landlords, especially those who are not well-versed in tax matters. This complexity can lead to unintentional errors or omissions in tax filings, potentially triggering audits and penalties. The fear of making mistakes and facing financial consequences can discourage landlords from actively engaging in the tax compliance process. In some cases, landlords might even avoid reporting their rental income altogether to avoid dealing with the complexities and costs associated with tax compliance, leading to tax evasion. In summary, the high cost and complexity of compliance can act as deterrents for landlords, making them less likely to fully and accurately comply with rental income tax regulations.

The fourth hypothesis (**H_{04}**) stated that *tax rates had no significant effect on rental income tax compliance among landlords in Roysambu Sub-County*.

Tax rates were found to have significant effect on rental income tax compliance among landlords in Roysambu Sub-County (β =-0.185, $P<0.05$). This is an indication that the null hypothesis **(H_{04})** was rejected since tax rates were established to have significant effect on rental income tax compliance among landlords in Roysambu Sub-County.

The findings contradict with results by Alshirah, Magablih and Alsqour (2021) that tax rate does not have a significant effect on tax compliance. However, the findings are consistent to Mas'ud et al., (2014) argument that tax rates have a detrimental impact on compliance. When tax rates are high, landlords may feel a greater financial burden from their tax liabilities. This can create an incentive for them to explore ways to reduce their tax liability, potentially leading to non-compliance. Landlords may be more inclined to underreport rental income or claim excessive deductions when they perceive high tax rates as an obstacle to their profitability. This inverse relationship between tax rates and compliance is particularly pronounced when landlords believe that they can evade detection or that the likelihood of facing penalties or audits is low.

Conversely, when tax rates are low, landlords are more likely to view compliance as a less onerous obligation. With lower tax rates, they may be content with their tax liability, making them less inclined to engage in tax evasion or underreporting. They may also perceive fewer incentives to invest time and resources in complex tax avoidance schemes. In such situations, landlords tend to be more willing to comply with tax regulations, as the potential financial benefits of non-compliance are reduced, and the perceived risks of facing consequences for non-compliance become less pronounced. Thus, the level of tax rates can significantly influence the degree of rental income tax compliance among landlords

Table 4.14: Regression Coefficient for Direct Effect

	Unstandardized Coefficients		**Standardized Coefficients**		
Model	B	Std. Error	Beta	**t**	**Sig.**
(Constant)	.435	.053		8.260	.000
TA	.340	.096	.278	3.551	.001
CC	-.077	.028	-.183	-2.756	.007
TR	-.185	.045	-.266	-4.091	.000
FP	.239	.066	.294	3.620	.000

Source; Field data (2023)

4.7.2 Testing the effect of Trust in Government on Rental Income Tax Compliance

The study aimed to determine the effect of the moderator on the outcome variable. The findings in Table 4.16 indicates that trust in government has a positive and significant effect on rental income tax compliance (β =0.259, P<0.05). This is an indication that trust in government results has an enhancing effect on rental income tax compliance among landlords.

Trust in government plays a pivotal role in promoting rental income tax compliance among landlords. When landlords have confidence in the government's ability to fairly collect and utilize tax revenue, they are more likely to willingly and accurately comply with tax regulations. A high level of trust fosters a sense of social responsibility and a belief that taxation is necessary for public welfare. Landlords are then motivated to pay their fair share of taxes, as they perceive it as a contribution to societal well-being.

Furthermore, trust in government leads to greater cooperation between landlords and tax authorities. When landlords believe that the government will use tax revenue for public services, infrastructure, and social programs effectively and transparently, they are more likely to participate willingly in the tax system. This cooperation can lead to a smoother tax collection process, reduced tax evasion, and a more efficient allocation of resources, benefiting both landlords and the broader community. In this way, trust in government positively influences rental income tax compliance, contributing to a fair and sustainable tax system.

Table 4.15: Moderation results

	Unstandardized Coefficients		**Standardized Coefficients**		
Model	B	Std. Error	Beta	**t**	**Sig.**
(Constant)	.308	.056		5.454	.000
TA	.288	.090	.235	3.181	.002
CC	-.056	.027	-.133	-2.098	.038
TR	-.174	.042	-.251	-4.104	.000
FP	.209	.062	.257	3.364	.001
TG	.259	.056	.267	4.625	.000

Source; Field data (2023)

4.7.3 Testing the Moderating effect

Based on the findings in Table 4.16, models 1 to 6 shows a goodness of fit as indicated by R- square values of between .538 and .678.

According to the findings, the null hypothesis (**H_{05a}**) that trust in government has no significant moderating effect on the relationship between tax audit and rental income tax compliance among landlords. The findings indicate that the interaction effect of trust in government and tax audit in determining rental income tax compliance was positive and significant (β= 0.035, $p < 0.05$). The null hypothesis was therefore rejected. The findings agree with assertion by Kogler et al. (2022) that trust in government can moderate the relationship between economic deterrents and rental income compliance since when taxpayers have trust on how the government spends the collected revenue, then they are unlikely to feel the effects of economic deterrents. Figure 4.1below shows that tax compliance is high with high tax audit and high trust in government.

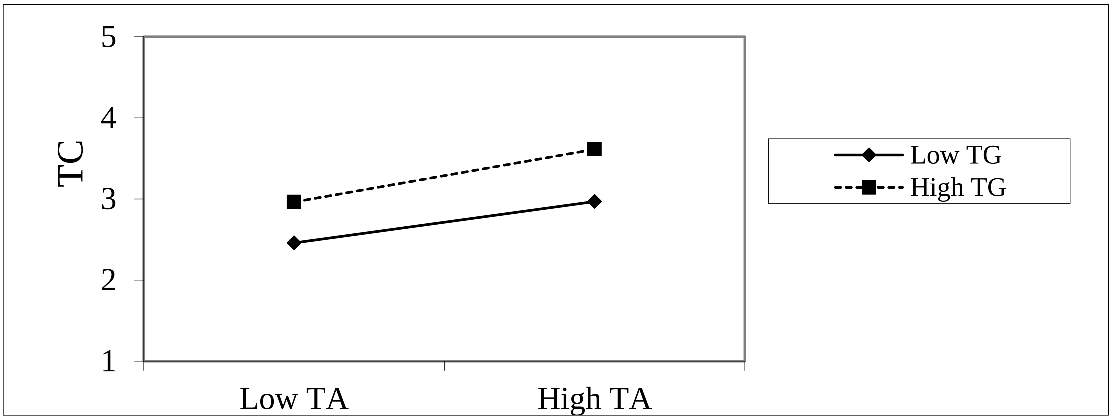


Figure 4.1: Modgraph on Trust in government on TA and TC

The findings also indicate that the interaction effect of trust in government and cost of compliance in determining rental income tax compliance was negative and significant (β= 0.027, $p < 0.05$). The results imply that trust in government has a positive moderating effect on the relationship between cost of compliance and rental income tax compliance. According to the findings, the null hypothesis (**H_{05b}**) that trust in government has no significant moderating effect on the relationship between cost of compliance and rental income tax compliance among landlords is rejected. The findings agree with Koumpias, Leonardo and Martinez (2020) argument that trust in government organizations that implement and deliver public goods and services to the citizenry that has a significantly larger impact on tax morale. Figure 4.2 below shows that tax compliance is high with moderate cost of compliance and high trust in government.

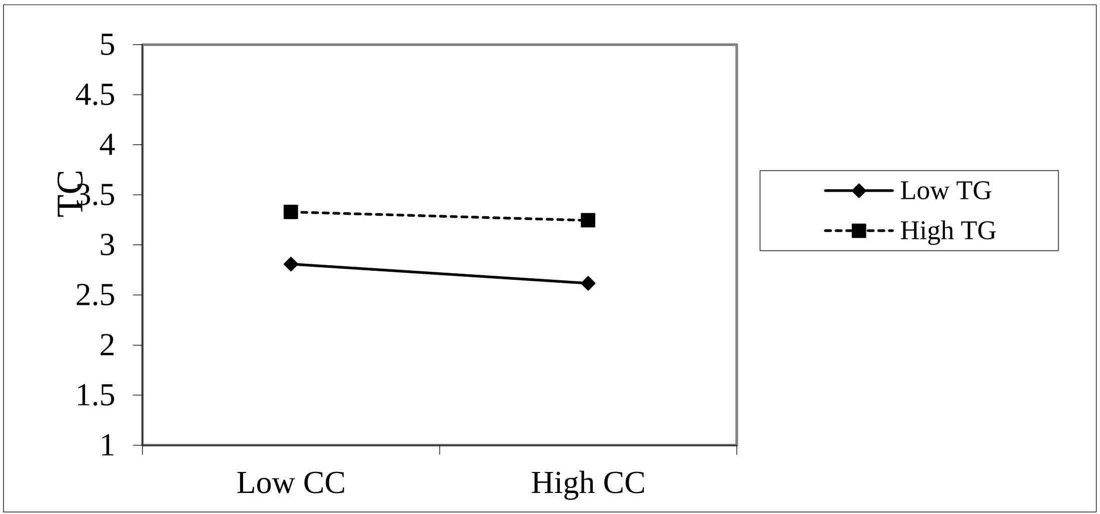


Figure 4.2: Modgraph on Trust in government on CC and TC

The findings further shows that the interaction effect of fines & penalties, tax rates and trust in government in determining rental income tax compliance was statistically significant ($\beta = 0.109$, $p < 0.05$). The results imply that trust in government does moderate the relationship between fines & penalties, tax rates and rental income tax compliance. According to the findings, the null hypothesis (**H_{05c}**) that trusts in government has a moderating effect on the relationship between fines & penalties and rental income tax compliance among landlords is rejected. The results therefore indicate an enhancing effect of trust in government on the relationship between fines and penalties and tax compliance. Figure 4.3 below shows that tax compliance is high with high fines an penalties and high trust in government.

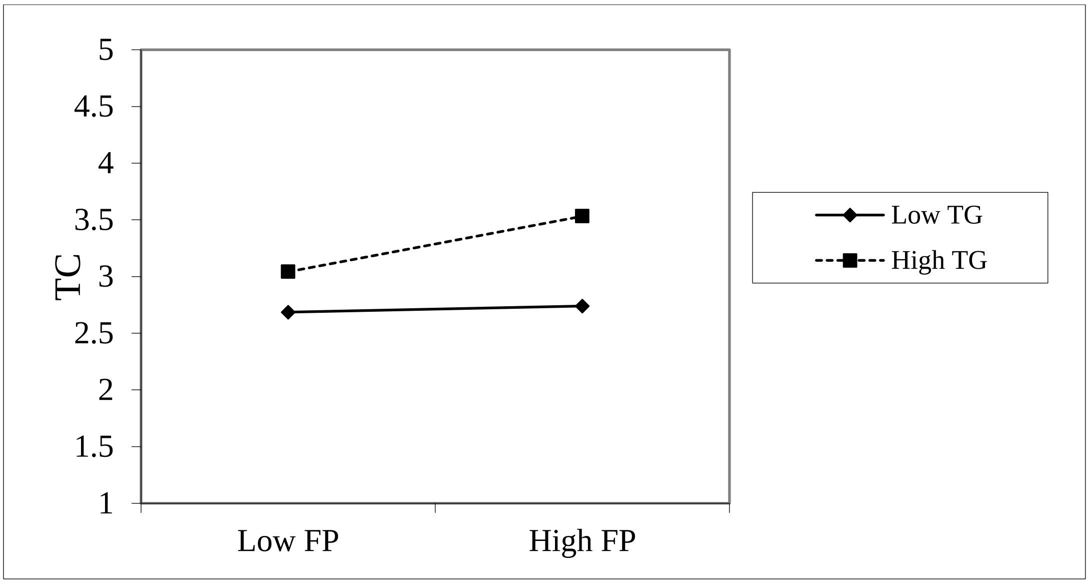


Figure 4.3: Modgraph on Trust in government on FP and TC

The findings also indicate that the interaction effect of trust in government and tax rates in determining rental income tax compliance was positive and significant (β= 0.020, $p < 0.05$). The results imply that trust in government has a positive moderating effect on the relationship between tax rates and rental income tax compliance. According to the findings, the null hypothesis (**H_{05d}**) that trust in government has no significant moderating effect on the relationship between tax rate and rental income tax compliance among landlords is rejected. Figure 4.2 below shows that tax compliance is high with moderate tax rates and high trust in government.

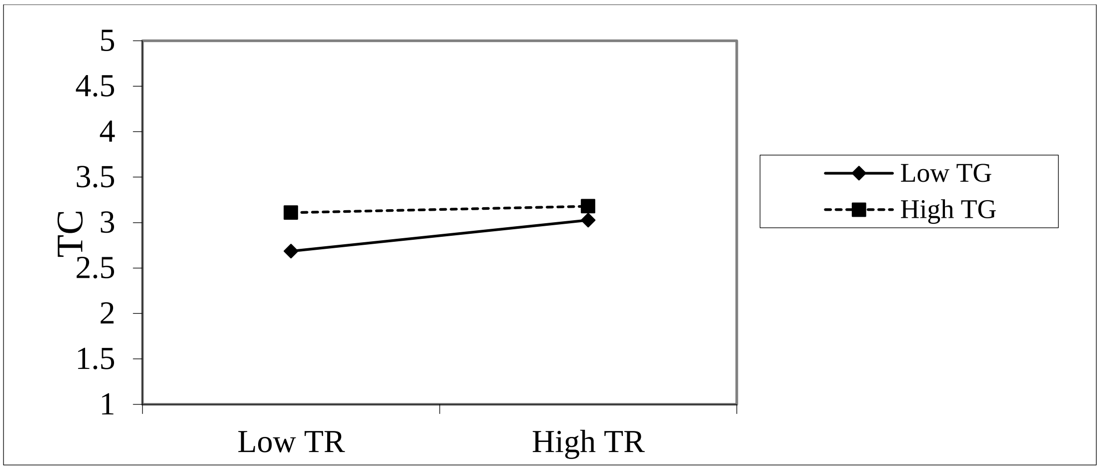


Figure 4.4: Modgraph on Trust in government on TR and TC

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	.337	.056		6.028	.000
TA	.290	.085	.235	3.415	.001
CC	-.069	.025	-.163	-2.797	.006
TR	-.172	.039	-.248	-4.364	.000
FP	.136	.060	.170	2.277	.024
TG	.287	.056	.296	5.147	.000
FPTG	.109	.026	.273	4.171	.000
TATG	.035	.010	.201	3.346	.001
CCTG	.027	.008	.193	3.422	.001
TRTG	.020	.008	.125	2.397	.018

Source: Field data (2023)

Table 4.16: Summary moderation Results

	Model 1 Coef. (Std. Err.)	**Model 2 Coef. (Std. Err.)**	**Model 3 Coef. (Std. Err.)**	**Model 4 Coef. (Std. Err.)**	**Model 5 Coef. (Std. Err.)**	**Model 6 Coef. (Std. Err.)**
_cons	.435 (0.053) *	.308(.056) *	.365(0.058)	.356(.056)*	.316(.056)	.337(.056)
TA	.340(0.096)*	.288(.090)*	.259(.090)	.289(.088)	.308(.086)	.290(.085)
CC	-.077(0.028)*	-.056(.027)*	-.072(.026)*	-.069(.026)	-.065(.025)	-.069(.025)
TR	-.185(.045)*	-.174(.042)*	-.198(.042)*	-.190(.041)*	-.173(.040)*	-.172(0.039)
FP	.239(.066) *	.209(.062)	.201(.062)	.165(.061)	.128(.061)	.136(.060)
TG		.259(.056)	.242(.055)*	.251(.054)*	.312(.056)	.287(.056)
FP*TG			.052(.022)*	.093(.025)	.122(.026)	.109(.026)
TA*TG				.033(.011)*	.038(.010)*	.035(.010)*
CC*TG					.024(.008)*	.027(.008)*
TR*TG						.020(.008)
R-square	.538	.597	.618	.642	.665	.678
R2 change	0	.069	.021	.024	.023	.013
F statistic	42.135	42.724	38.212	36.16	34.73	32.55
Prob > F	0.000	0.000	0.000	0.000	0.000	0.000

*p<0.05; standard errors in parentheses

Source: Field data(2023)

Table 4.17: Hypotheses testing Summary

Hypothesis	B	P value	Decision
H_{01}: To determine the effect of fines and penalties on rental income tax compliance among landlords in Roysambu, Nairobi County.	0.239	p<0.05	Reject
H_{02}: To investigate the effect of tax audit on rental income tax compliance among landlords in Roysambu, Nairobi County.	0.340	p<0.05	Reject
H_{03}: To examine the effect of cost of compliance on rental income tax compliance among landlords in Roysambu, Nairobi County.	-0.077	p<0.05	Reject
H_{04}: To examine the effect of tax rate on rental income tax compliance among landlords in Roysambu, Nairobi County.	-0.185	P<0.05	Reject
H_{05a}: To examine the effect of trust in government as a moderating variable on Fines and penalties and rental income tax compliance among landlords in Roysambu, Nairobi County.	0.109	P<0.05	Reject
H_{05b}: To examine the effect of trust in government as a moderating variable on Tax audits and rental income tax compliance among landlords in Roysambu, Nairobi County.	0.035	p<0.05	Reject
H_{05c}: To examine the effect of trust in government as a moderating variable on Cost of compliance and rental income tax compliance among landlords in Roysambu, Nairobi County.	0.027	p<0.05	Reject
H_{05d}: To examine the effect of trust in government as a moderating variable on Tax rate and rental income tax compliance among landlords in Roysambu, Nairobi County	0.020	P<0.05	Reject

Source: Field data (2023)

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Overview

The findings of the study were critical and important not only to tax agents, but also important to enhance policy and streamline practise. This section was therefore critical to ensure that the findings of the study are well summarised, and the conclusions are well drawn from the study. The recommendations are then well stated, while study limitations are highlighted. The areas for further research are then identified.

5.1 Summary of Study Findings

The main objective of this study was to examine the moderating effect of trust in the government on the relationship between economic deterrents and rental income tax compliance among landlords in Roysambu Subcounty. In particular, this study examines the impact of fines, tax audits, tax rates, and the cost of compliance with rental income tax. In addition, this study examines the moderating effect of trust in government on the relationship between economic deterrents and rental income tax compliance.

5.1.1 Fines and Penalties and Rental Income Tax Compliance

The first objective of this study is to determine the impact of fines and penalties on rental income tax compliance. The results showed that fines and penalties had a positive and significant effect on rental income tax compliance ($\beta=0.239$, $P\text{-value}<0.05$). Hence the study observed that fines and penalties is a significant predictor of rental income tax compliance.

5.1.2 Tax Audit and Rental Income Tax Compliance

The second objective is to assess the impact of a tax audit on compliance with rental income tax for landlords. The results showed that tax audits had a positive and significant effect on rental income tax compliance for landowners in Roysambu District (β=0.340, P-value <0.05). Hence the study observed that tax audit is a significant predictor of rental income tax compliance.

5.1.3 Cost of Compliance and Rental Income Tax Compliance

The third objective of this study was to examine the impact of compliance costs on rental income tax compliance among landlords. The results showed that compliance costs had an inverse but statistically significant effect on rental income tax compliance among landowners (β = -0.077, P-value <0.05). Therefore, this study finds that compliance costs are an important indicator of rental income tax compliance.

5.1.4 Tax Rates and Rental Income Tax Compliance

The fourth objective of this study was to examine the impact of tax rates on rental income tax compliance among landlords. The results showed that the tax rate also had an inverse effect and was not statistically significant on compliance with rental income tax for landowners (β = -0.185, P <0.05). Therefore, this study finds that the tax rate is not the main indicator of rental income tax compliance.

5.1.5 Trust in government as a Moderating Variable on FP, TA, CC, TR

The fifth objective aims to examine the effect of mitigating trust in the government on the relationship between economic deterrents and compliance with rental income tax on landowners. The results showed that trust in the government had a significant positive moderating effect on the relationship between tax audits and rental income tax compliance (β= 0.035, $p<0.05$). The results revealed that trust in the government has a significant positive moderating effect on the relationship between compliance costs and rental income tax compliance (β= .027, $p<0.05$). Furthermore, the results showed that trust in the government did not significantly weaken the relationship between fines and penalties, tax rates, and compliance with rental income tax for landowners.

5.2 Conclusion

Fines and penalties have a positive and significant effect on rental income tax compliance by landowners in Roysambu Subcounty. The bottom line is that increasing fines and penalties will significantly increase rental income tax compliance. The tax revision has a positive and significant effect on landlord income tax compliance in Roysambu Subcounty. The implication is that increase in tax audit would significantly enhance rental income tax compliance.

Cost of compliance has a negative and significant effect on rental tax compliance for landowners in Roysambu Subcounty. The bottom line is that increased compliance costs will significantly complicate rental income tax compliance. Tax rates have a negative but not significant effect on rental income tax compliance by landowners in Roysambu Subcounty. It was concluded that the tax rates imposed on rental income did not play a major role in increasing tax compliance, particularly among landowners in Roysambu Subcounty.

Trust in government had a clear positive moderating effect on the relationship between tax audits and rental income tax compliance. Trust in government also has a clear negative moderating effect on the relationship between compliance costs and rental income tax compliance. This has the implication that trust in government would enhance and rental income tax compliance through tax audit and cost of compliance.

5.3 Recommendations

5.3.1 Policy Implication

According to the findings of the study, the KRA ought to conduct a policy review about the preventative steps they take. In particular, KRA should work to enhance fines and penalties, as well as the procedures for conducting tax audits. Additionally, there is a requirement to bring down the cost of compliance. In addition to this, the KRA should evaluate the efficiency of the policy regarding tax rates.

The government ought to make fostering and preserving the public's trust a top priority in all of its initiatives. This can be accomplished by the open and efficient communication of tax policies and benefits, as well as through the elimination of corruption and inefficiency that exists within the system that administers taxes. The government has the opportunity to mitigate the potentially harmful effects of economic deterrence techniques on tax compliance if it works to cultivate trust among the populace. Therefore, authorities should consider investing in taxpayer education and engagement programs, as well as anti-corruption activities, to improve trust, which will ultimately increase tax compliance.

Tax officials need to take a more sophisticated approach to taxing by understanding the interplay between economic deterrence and faith in government. This is necessary in order to ensure that taxation is fair and equitable. Instead of depending primarily on punitive tactics to increase tax compliance, they should evaluate the potential unintended implications on trust and avoid relying solely on these methods. Public policy ought to be to achieve a state of equilibrium in which economic dissuasion and actions designed to promote confidence coexist. This might involve the implementation of a tax system that places as little of a burden as possible on taxpayers while still ensuring that public services are delivered effectively and that the tax collection procedures are open to public scrutiny. In addition, policies must to be formulated with the recognition that regional and local variations should be taken into consideration. In the instance of Roysambu Subcounty, it is possible that it is needed to adjust tax laws to satisfy the one-of-a-kind demands and conditions of landlords in the area in order to improve both trust and compliance.

5.3.2 Implications to Theory

The results of this study contributes to the boundaries of knowledge by complementing existing literature and empirically confirming that fines and penalties, tax audits, compliance fees, and tax rates have an impact on rental income tax compliance among landowners in Roysambu Sub-County. The study findings further support arguments by various theories including fiscal exchange theory, prospect theory, and rational choice theory. The findings confirmed theoretical arguments that economic deterrents affect rental income tax compliance.

5.3.3 Managerial recommendations

Proactive cooperation and adherence to tax obligations can help foster trust, ultimately reducing the impact of economic deterrence measures on compliance. Additionally, landlords should consider participating in taxpayer education programs or associations that can provide them with relevant tax information and assistance in navigating the tax system, which can contribute to a stronger sense of trust in the government's tax collection processes.

While it is important to be aware of the consequences of non-compliance, landlords should also focus on enhancing their trust in government as a means to improve compliance. This may involve maintaining accurate financial records, seeking professional tax advice, and staying informed about changes in tax policies. Additionally, property owners could explore opportunities for tax incentives or benefits provided by the government to encourage compliance. By adopting a multifaceted approach that combines trust-building efforts and awareness of economic deterrence, landlords can not only mitigate the negative consequences of punitive measures but also contribute to a more cooperative and mutually beneficial relationship with tax authorities.

5.4 Suggestions for Further Studies

First, an examination of the factors influencing trust in government among landlords, including socio-demographic variables and historical experiences, would provide valuable insights. Additionally, a longitudinal study could investigate how trust evolves over time and its impact on compliance behaviour. Furthermore, a comparative analysis across different regions or countries could shed light on the generalizability of findings. Lastly, considering the dynamic nature of taxation and policy changes, a study on the role of government communication and tax education initiatives in building and maintaining trust, and subsequently improving tax compliance, would be a fruitful area of investigation.

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APPENDICES

Appendix I: Questionnaire

SECTION A:

A: Fines and Penalties and Rental Income Tax Compliance

Kindly indicate the extent to which you agree with the following statements regarding fines and penalties and rental income tax compliance among landlords in Roysambu, Nairobi County. Use a scale of 1-5, where (1-Stronly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5- Strongly agree).

Statements	**1**	**2**	**3**	**4**	**5**
Fines and penalties are very punitive to business owners"					
I believe that fines and penalties are lower than my tax saving due to not complying with rental income tax laws."					
Periodic waiver of fines and penalties could encourage tax compliance"					
Penalties for noncompliance are not sufficient deterrence mechanisms against non-compliance with rental income tax					
Landlords file their rental tax on timely basis to avoid fines and penalties of noncompliance on the I Tax system					

Source; ***Researcher, (2023)***

B: Tax Audit and Rental Income Tax Compliance

Kindly indicate the extent to which you agree with the following statements regarding tax audit and rental income tax compliance among landlords in Roysambu, Nairobi County. Use a scale of 1-5, where (1-Stronly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5- Strongly agree).

Statements	**1**	**2**	**3**	**4**	**5**
Probability of being visited by KRA officials for in-depth tax audit induces us to be compliant with rental income tax regulations.					
We are well informed about all crucial tax audit standards from our tax auditors					
Tax audit findings are always availed to us on timely basis					
KRA tax auditors are friendly and informative to us whenever they visit us					
"I am afraid of tax audits, so I keep proper books of accounts and file timely returns"					

Source; *Researcher, (2023)*

C: Cost of Compliance and Rental Income Tax Compliance

Kindly indicate the extent to which you agree with the following statements regarding cost of compliance and rental income tax compliance among landlords in Roysambu, Nairobi County. Use a scale of 1-5, where (1-Stronly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5- Strongly agree).

Statements	1	2	3	4	5
Costs of acquiring, installing and maintaining ETRs comprises the highest rental income tax compliance cost					
Costs of hiring a tax consultant comprises the highest rental income tax compliance cost					
Accountancy costs comprises the highest rental income tax compliance cost					
The cost of travelling in order to file a return is low					
The cost of filing a tax return is fair					

Source; *Researcher, (2023)*

D: Tax Rate and Rental Income Tax Compliance

Kindly indicate the extent to which you agree with the following statements regarding tax rate and rental income tax compliance among landlords in Roysambu, Nairobi County. Use a scale of 1-5, where (1-Stronly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5- Strongly agree).

Statements	1	2	3	4	5
The formula for calculating the rental income tax is a bit complicated for ordinary tax payer.					
Rental income tax rate currently charged by KRA is too high					
Rental income tax filling complexity adds to incorrect tax returns.					

The rate of rental income tax is prohibitive					
Reduction of tax rates would encourage and positively encourage tax compliance					

Source; *Researcher, (2023)*

E: Trust in government and Rental Income Tax Compliance

Kindly indicate the extent to which you agree with the following statements regarding the moderating effect of political trust rental income tax compliance among landlords in Roysambu, Nairobi County. Use a scale of 1-5, where (1-Stronly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5- Strongly agree).

Statements	**1**	**2**	**3**	**4**	**5**
Transparency and accountability level of use remitted tax influence tax payers morale thus leading to non-compliance					
Corruption practices within the government hinders voluntary compliance with rental income laws					
Taxpayers are more willing to be tax compliant when the government uses taxes paid wisely when offering public goods/services					
Enforcement of high tax legislations influence the level of tax compliance					
Lack of accountability on the part of the government make taxpayers to be apprehensive of the need to be tax compliant					

Source; *Researcher, (2023)*

F: Rental Income Tax Compliance

Kindly indicate the extent to which you agree with the following statements regarding rental income tax compliance among landlords in Roysambu, Nairobi County. Use a scale of 1-5, where (1-Stronly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly agree).

Statements	**1**	**2**	**3**	**4**	**5**
"I file my rental tax returns on monthly basis without fail"					
"I correctly declare my monthly rental income to the tax authorities"					
"I document my rental income tax file records with the tax authority"					
"I have never forfeited to pay my rental income tax to the tax authority"					

Source; ***Researcher, (2023)***

THANKS FOR YOUR TIME

Appendix II: NACOSTI License

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Appendix III: Plagiarism Report

THE MODERATING EFFECT OF TRUST IN GOVERNMENT ON THE RELATIONSHIP BETWEEN ECONOMIC DETERRENT AND RENTAL INCOME TAX COMPLIANCE AMONG LANDLORDS IN ROYSAMBU SUBCOUNTY

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