

**DETERMINANTS OF CAPITAL GAINS TAX PERFORMANCE AMONG
PROPERTY OWNERS IN NAKURU CITY, KENYA**

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**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING AND FINANCE IN PARTIAL FULFILMENT OF THE
REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER IN TAX AND
CUSTOMS ADMINISTRATION IN THE SCHOOL OF BUSINESS AND
ECONOMICS OF MOI UNIVERSITY**

2023

DECLARATION

Declaration by the Student

I declare that this research project is my original work and has not been presented either in full or part for examination or award of a degree in this University or any other. I have also given all the necessary and appropriate credit to the sources used.

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DEDICATION

My family has been a great support throughout my studies, providing me with the energy and support I needed while creating an environment conducive to learning and exploration. It would have been impossible for me to succeed without them.

ACKNOWLEDGEMENT

It has been an amazing journey so far, and I am grateful to the Almighty God for it. My supervisors, Dr. Bruce Ogaga and Dr. Collins Kapkiyai have been highly professional and skillful in their guidance throughout the study. Special appreciation also to my friends and course mates for their support throughout the research process.

ABSTRACT

Tax compliance remains to be a very crucial subject to researchers in many parts of the world across the globe. Despite the increasing need to raise the level of revenue collection, developing countries still face the challenges of low tax compliance. Capital gains taxes for practical and political reasons are perpetually riddled with exemptions and exceptions making them complicated to administer and to comply with. The big complication is determining the true capital gain net of inflation after netting out the purchase price and the cost of maintenance and investment in the asset over the years. The main objective of this study was to establish the determinants of Capital Gains Tax performance among property owners in Nakuru City, Kenya. The specific objectives were to determine the effect of taxpayers' sensitization, systems automation and taxpayers' perception on capital gains tax performance. This study was built on the benefit theory of taxation, universal theory of acceptance and use of technology and social influence theory. The study adopted explanatory research design. The target population was 6,231 property owners with movable and immovable properties in Nakuru City where a sample of 376 property owners was drawn. Primary data collection was employed in the study using structured questionnaires. The study used descriptive statistics and multiple linear regression analysis to establish the effect of the determinants of capital gains tax performance. The study findings showed that taxpayers' sensitization, systems automation and taxpayers' perception had a statistically positive significant effect on capital gains tax performance with evidence of beta values of: taxpayers' sensitization ($\beta_1=0.357$, $p=0.000<0.05$), systems automation ($\beta_2=0.261$, $p=0.003<0.05$) and taxpayers' perception ($\beta_3=0.285$, $p=0.001<0.05$). The study results concluded that taxpayers' sensitization, systems automation and taxpayers' perception had significant influence on capital gains tax performance. Based on the findings, the study recommends that KRA should pay more attention on taxpayers' sensitization that contributes to online payment process being efficient in payment of taxes. The study therefore suggests that future research should be conducted to investigate effect of other variables such as cost and tax knowledge on Capital Gains Tax performance.

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LIST OF ABBREVIATIONS & ACRONYMS

CGT:	Capital Gains Tax
CSR:	Corporate Social Responsibility
FY:	Financial Year
GDP:	Gross Domestic Product
ICT:	Information Communication Technology
IMF:	International Monetary Fund
KNBS:	Kenya National Bureau of Statistics
KRA:	Kenya Revenue Authority
OECD:	Organization for Economic Cooperation and Development
UTAUT:	Universal Theory of Acceptance and Use of Technology
UTAUT2:	The extended version of the Universal Theory of Acceptance and Use of Technology

DEFINITION OF TERMS

Capital Gains Tax: Capital Gains Tax (CGT) refers to the tax that is payable by a company, institution or an individual both resident and non-resident on the transfer of property such as land, buildings and marketable securities, where the transfer is deemed to have taken place when the property is sold, exchanged or disposed (KPMG, 2016).

Capital Gains Tax Performance: This refers to the efficiency and the ability of the capital gains tax payment and filing of these returns to maintain growth over a period of time while also positively adjusting to all factors in the environment (Miller et al, 2013). In this study, the CGT performance will be measured based on the status of registration of the property owners, their willingness to correctly declare and file their returns and payment of the CGT tax.

Property Owner : Is any individual or corporate body who receives any payment or consideration for use or occupation of property (Barak, 2017).

Systems Automation: An automation system is an integration of sensors, controls and actuators designed to perform a function with minimal or no human intervention (Taylor, 1995). In this context, this is used to refer to the automation of the capital gains income tax collection tools.

Taxpayer Perception: An act of being aware of one's environment through physical sensation which denotes an individual's ability to understand (Analogue, 2007) ,which is always basically influenced by the attitude of that individual (Frey, 2006).

Taxpayer Sensitization: This is how much taxpayers understand the prevailing tax laws, regulations and how they can carry out the procedure of submitting Capital Gains Taxes correctly (Andreas, 2015).

CHAPTER ONE

1.0 Introduction

This chapter discusses the background of the study, the statement of the problem, the general objective of the study, specific objectives, research hypotheses, significance of the study and finally scope of the study.

1.1. Background of the Study

In developing countries, the government has to play an active role in promoting economic growth and development because private initiatives and capital are limited. Fiscal policy or budget has become an important instrument in promoting growth and development in such economies. In many countries across the world, governments have to play an active role in promoting economic growth and development due to the limited nature of the private initiative and capital from the private sectors. This means that the countries must implement fiscal policies and budgets in order to achieve the desired goals of promoting growth and development in such economies.

Tax is the most important source of public revenue as the imposition of tax leads to diversion of resources from the taxed to the non-taxed sector. This revenue is allocated on various productive sectors in the countries with a view to increasing the overall growth of the country's economy.

Taxation of property transfers has become an issue of great concern in most governments due to the significant fiscal and economic implication to the economy. For instance, in developing countries, most economic problems are associated with the budget deficit since cash flows have a narrow tax base. There are also massive reliefs and exemptions from taxation that reduce cash flow from taxation. These are some of the factors among others that have contributed to a deficit in the Kenyan budget. The budget deficit has attracted excessive attention and studies from

international and local persons. For example, the World Bank (2018) produced an update on Kenya's economy quoting the budget deficit and how it can be financed.

Capital gains tax (CGT) is referred to as that tax that is levied on transfer of property. CGT is levied on the deemed value of income from the transfer of property. The application and definition of CGT differs from one country to the other. The difference is brought about by the economic position of the country. This difference can be broadly classified into the developed countries' and developing countries' definition of CGT. In developing countries, capital gains are mainly from the sale or exchange of real estate whereas in developed countries, capital gains are from the sale of securities. The taxation of capital gains from shares in developing countries has been hindered by the predominance of capital gains from real estate, the high rate of wealth held in the real estate sector, the dominance in the corporate sector of foreign corporations whose shares are owned by nonresidents who are taxed abroad and the widespread of the bearer shares. These accounts are what bring about the definition of the capital gains performance in developing countries.

The taxation of capital gains is justifiable in that such investments are not socially productive and are highly speculative since in most developing countries, the taxation comes from investments in land. Therefore, capital gains tax discourages investments that are not in line with the social and economic objectives of developing economies. Capital gains tax is on an increment which generally accrues to the high-income group and thus provides an element of progressivity in the tax system. This function is particularly important in developing countries with a high concentration of wealth and with an otherwise regressive tax system. In order to promote equity in taxation, capital gains should be combined with a well-structured progressive income tax and levies on capital in the countries.

Across the world, the local governments mostly rely on property taxation. McCluskey (2017) and Lack (2020) allude that in developed countries like Australia, Canada and the USA, the local governments depend exclusively on property taxation for their day-to-day operations. This is further affirmed by Musunu (2021) who indicated this trend to be geared towards improvement of local governments. This is however not the case in Africa in which property taxation is least tapped to support urban and local governments in Africa.

The general low structure and the nature of the capital gains tax performance in developing countries may have an adverse effect on investments. However, the lock-in effect of the capital gains tax in the states may bring about important repercussions on the mobility and compositions of investments (Amatong, 2018). According to Amatong (2018) IMF report, in advanced countries such as the United States of America, a considerable proportion of capital gains come from the sale of securities. It is also approximated that a fair share of the securities in the United Kingdom would equal that of the USA. This appears to be replicated across majority of the developed countries.

Tax compliance behavior of taxpayers is a very crucial subject of study to researchers in many parts of the world. Capital Gains Tax being one of the taxes is a tax levied on the appreciation of capital assets and is imposed on an increase in value of property through sale or exchange of the property. It was reintroduced in Kenya through the Finance Act 2014 from January, 2015 at the rate of 5% and revised to 15% in 2022 with an aim of widening the tax base, promoting equity in taxation and obtaining funds to bridge the budget deficit in the country. Capital gains taxes are levied only when gains are realized, as opposed to as they accrue over time therefore there may exist a loophole where most taxpayers can avoid paying tax by simply not selling.

1.1.1. Property Owners in Kenya

Nakuru is the capital City of Nakuru County, Kenya. It is located in the northwest of Nairobi, in the Great Rift Valley. Nearby is Lake Nakuru National Park, home to rhinos, giraffes, lions and leopards. Lake Nakuru is an algae-filled soda lake that attracts thousands of flamingos. Lookout points such as Baboon Cliff and Lion Hills offer views of the birds, the lake and mammals including warthogs and baboons. The recent growth of the town has been heightened by growth of service sector especially education and finance (Mukunda, 2018). Residential housing in Nakuru City comprise of wide variety of forms, from publicly aided tenant purchase, mortgage houses and apartments to semi-urban houses. Some residents of Nakuru own a quite number of some rental houses or units and manage them secretively (Mwaniki, 2017). The level of rent charged on such units varies depending on some facts like closeness to a tarmac road, a business center, security, the size of the house and so forth. Rents are usually collected by the owners or the agents appointed by the owners (UN-HABITAT, 2006).

The real estate sector in Kenya can be equally said to be broad in terms of revenue collection, topography and different forms in which they exist. The sector constitutes both high-income, middle-income and low-income persons. The real estate property in Kenya includes mainly land and buildings found in urban and rural areas. The property owners have generally contributed to the growth of the GDP in Kenya with an increase of 21.7% from 2018 to 2021 (Kamer, 2022).

1.2 Statement of the Problem

Capital Gains Tax (CGT) refers to the tax that is payable by a company, institution or an individual both resident and non-resident on the transfer of property such as land, buildings and marketable securities, where the transfer is deemed to have taken place

when the property is sold, exchanged or disposed (KPMG, 2016). Governments across the world continue to grow with the desire to meet the set goals for the economic development of the respective countries. This has been the case in the recent decades, with desired improvement in infrastructure, eradication of poverty and availability of services for its citizens. To achieve this, the available data shows that the states have broadened the scope and patterns of taxation so as to meet the desired revenue by increasing emphasis on broader tax bases. According to OECD (2021) the governments are expanding the tax bases in order to standardize their bases with other states across the world.

It is therefore important to study the key drivers of CGT due to the increase in the number of property transactions that have risen in the recent years. CGT performance has not been up to the required level. CGT was introduced with an aim of widening the tax base of the government of Kenya hence increased tax revenue. However, a summary of the data from KRA shows that CGT performance is yet to meet the set targets on its collection. The data shows that the set target for 2015/2016 was Kshs.10,100 million against a collection of Kshs.3,811 million. In 2016/2017, the collection was Kshs. 2,419 million against a target of Kshs. 3,082 million. In 2017/2018, Kenya Revenue Authority collected Kshs. 16,640 million against a target of Kshs. 18,676 million. In the financial year 2019/2020, the set target was Kshs. 9,122 million, yet the revenue authority only collected Kshs. 4,484 million which represents 49% performance of the target for the fiscal year. This is the same trend as 2020/2021 where the target was Kshs. 6,120 million and the Authority only collected Kshs. 2,554 million being 42% of the targeted collection (KRA, 2022).

From the existing empirical studies, it appears that limited studies have been conducted in Kenya on the factors influencing capital gains tax revenue collection

after CGT was increased to the current rate of 15%. It is further evident that the amendment on the CGT was aimed at addressing the deficit that the country could have faced in 2022/2023 financial year. From the investors and property owners' perspective, it is very prudent and crucial to analyze the determinants of CGT which is the main reason why this study aims at focusing on taxpayers' sensitization, taxpayers' perception and systems automation and their effect on CGT performance.

1.3 Objectives of the Study

This section discusses the general objective and the specific objectives of the study.

1.3.1 General Objective

The general objective of the study was to determine the factors that affect capital gains tax performance among property owners in Nakuru City, Kenya.

1.3.2 Specific Objectives

The specific objectives of this study were:

- i. To determine the effect of taxpayers' sensitization on capital gains tax performance among property owners in Nakuru City, Kenya.
- ii. To examine the effect of systems automation on capital gains tax performance among property owners in Nakuru City, Kenya.
- iii. To analyze the effect of taxpayers' perception on capital gains tax performance among property owners in Nakuru City, Kenya.

1.4 Research Hypotheses

The study was guided by the following research hypotheses:

H₀₁: Taxpayers' sensitization has no significant effect on capital gains tax performance among property owners in Nakuru City, Kenya.

H₀₂: Systems automation has no significant effect on capital gains tax performance among property owners in Nakuru City, Kenya.

H₀₃: Taxpayers' perception has no significant effect on capital gains tax performance among property owners in Nakuru City, Kenya.

1.5 Significance of the Study

This study will be of importance to Kenya Revenue Authority, researchers and the Government of Kenya. It will also be educational to the landlords and property owners in Nakuru City, Kenya. This study will enable the Authority to determine strategies to improve the revenue collection based on the factors under the study. Further, the study will enable the Authority to understand the effectiveness of the incentives in place through the factors that influence the tax performance of capital gains tax among property owners, not only in Nakuru City but also in Kenya.

The study will enable the property owners and stakeholders to understand the tax system as far as CGT is concerned. This will enable them to have a clear comprehension of the roles they play in voluntary tax compliance and therefore boost economic development. There exists limited literature on CGT performance among property owners. With the increase in the rate of CGT, this study will update the literature on CGT.

This study will be of great importance as it will enable researchers to firm up their theories and close the literature and research gaps as far as this sector is concerned. The resultant findings from different studies will be of great impact to the tax authority in Kenya to enable them to use their findings to develop effective approaches in order to enhance tax performance from capital gains tax.

1.6 Scope of the study

This study aimed at determining the factors that affect capital gains tax performance among property owners in Nakuru City, Kenya. Specifically, this study was to

investigate on the extent to which taxpayers' sensitization, taxpayers' perception and systems automation affect capital gains tax performance. The research based primary focus on capital gains tax performance among the property owners in Nakuru City, Kenya. The study was done using primary data by means of structured questionnaires administered to a sample of 376 respondents. The study was conducted between January, 2023 to May, 2023.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter discusses the conceptual and theoretical reviews on capital gains tax performance and its determinants. The chapter also gives the empirical review literature, summary of the literature, research gaps, and concludes with the conceptual framework.

2.1. Review of the Concepts

This section discusses on the concepts of the dependent and the independent variables.

2.1.1. The Concept of Capital Gains Tax Performance

Capital gains tax is a tax that is levied against the deemed value of income that arises from the sale or transfer of property by an individual or an entity. Property may include stocks, bonds, or real estate. Most of the countries impose capital gains tax upon the realization of the gains rather than on the accruals (Abbott, 2018). This principle may vary with respect to inflation and relative tax rates from one country to the other. The idea of the realization-based tax makes the capital gains tax unique from other forms of taxation and may be said to be associated with the economic distortions.

This taxation, just like other taxations is normally faced with challenges. A study by Alan (2019) indicated that one of the key challenges facing the taxation is known as the lock-in effect, which is the desire by the property owners to hold appreciated assets in order to defer taxes on gains already accrued. The effect may lead to a situation whereby the property owner accepts a low rate of return before tax than they would for new investments without accrued gains. This in turn results to distorted

allocation of capital and inefficient portfolio selection. Another but yet great challenge is the issue of tax avoidance facilitated by the nature of realization.

In the context of Kenya, capital gains are charged at a flat rate of 15%. Since this taxation is basically collected at local authorities' level, the Kenyan government has placed this mandate on Kenya Revenue Authority due to the nature of the taxes. A study conducted by Omwenga and Ogaga (2022) indicates that most local authorities in African states including Kenya are incapable of implementing the whole process of property tax. However, the government has taken the initiative at local level to educate taxpayers at the county levels so as to improve the performance of the capital gains tax.

Higher CGT generally discourages savings, investments and entrepreneurship, though the investments can be encouraged through other strategies. With the move of the Kenyan government to increase CGT, then the property owners are likely to shy away from the activity of selling of the properties. This study will be steered by the direction to which the capital gains market has taken, while considering that the policy of reducing CGT increases the propensity to save and invest, provides a short-term economic stimulus and boost long-term economic growth.

The move by the Government to reintroduce CGT brought a negative impact in the sector as most investors harvested their gains before the implementation of the tax. This was followed by the dipping of shares in the Nairobi Stock Exchange as investors exiting the market due to the fear of the taxes. In June 2022, the Kenyan government further revised the rate of CGT vide the Finance Act 2022, which increased the rate to 15% with effect from 1 January, 2023 which is regardless of the type of the gain whether from land or assets (The Finance Act, 2022).

Kenya has made significant strides on key economic pillars which have largely resulted into sustained economic growth, social development and political gains over the past decade (CMA, 2018). Despite the milestones achieved, major development challenges still include among others poverty, inequality in income distribution and an economy that is susceptible to both internal and external shocks (NSE Annual Report, 2017). At the center of these challenges is the question of fiscal inadequacies. These are some of the challenges that have brought about the increments of the tax base which includes the capital gains income tax.

This study therefore seeks to establish the determinants of capital gains tax performance. The determinants for the study will include taxpayers' sensitization, taxpayers' perception and systems automation.

2.1.2. The Concept of Taxpayers' Sensitization

Taxpayers' sensitization plays a big role in the performance of any form of taxation. Various researchers have affirmed that one of the key factors in tax compliance of taxpayers is knowledge of taxation which may be acquired through taxpayer education. The aspect of education which generally relates to the understanding about tax regulations can be referred to as the process of acquiring the skills that enables one to understand taxation laws followed by the willingness to comply (Kasipillai et al, 2017).

Tax education is a necessary element in increasing public awareness in regards to the taxation laws, the roles of taxation in national development and in order to explain how and where the revenue collected is spent by the government (Mohd, 2020). This can create a good attitude towards tax compliance since the taxpayer will be well equipped with all the necessary information regarding tax collection and expenditure therefore reducing the doubts that may be there. Capital gains tax income is declared

and paid online using the online taxation system, commonly referred to as iTax. To enable a property owner understand and utilize the iTax system, all the laws and regulations that are affiliated with the Capital Gains Tax, then it is necessary to educate the property owner.

While using the iTax system, the property owner may be required to calculate the amount of tax that they are required to pay from the transfer of property that they have done (Kasipillai, 2017). For the property owner to readily accept to utilize the system, they may be anxious to have the ample knowledge in order to understand how the system works as this will increase their ability to comply with the tax requirements. Thus, education programs organized by the tax authority or other public education institutes are needed to enhance the property owners with the ability to understand the available systems with an aim of increasing their confidence in fulfilling their responsibilities as taxpayers.

Rodriguez (2018) asserted that tax education improves individuals' awareness and ethics which in turn reduces the tendency of non-compliance amongst property owners. The Revenue Authority has put measures in place to educate the taxpayers. These measures include seminars, advertisements and trainings. This study therefore will seek to determine if these measures affect the performance of Capital Gains Tax among property owners in Nakuru City.

2.1.3. The Concept of Systems Automation

Across the world, tax policy makers are exposed to rapid changes through digitalization of the economy and emergence of new business models. New technology data sources and the increasing international cooperation are providing new opportunities for tax administrations to better manage compliance and protect their tax base. Taxation systems have gone through various reforms in the market with

significant shift for online filing of returns as well as payments. Many tax administrations have introduced the use of insights to understand and design practical policies and interventions to improve compliance through technology (Rubayyat, 2019).

In Kenya, collection and accounting for taxes on behalf of the government is mainly done by the Kenya Revenue Authority which was established in 1995 by the Act of Parliament. Evans (2021) indicated that compliance cost of taxpayers as well as administrative cost for revenue authorities continues to flourish over the recent years. Systems automation being a key issue, should not be considered as the objective but instead should be considered as a means of gaining efficiency and also reduce the overall cost of tax administration. According to Zhou (2018) a tax system can never work better than its tax administration since a good tax administration may turn a bad tax system into a well operating system.

This study therefore will seek to address the issue of systems automation and its implication on capital gains tax performance basing on the available procedures of online submission of returns and online payment of taxes.

2.1.4. The Concept of Taxpayers' Perception

The perception of taxpayers towards payment of taxes can be influenced by several factors such as tax fairness, equity, probability of audits, culture and understanding towards the government and taxation. It may be further noted that taxpayers, including the property owners would widely accept a criterion for determining taxes that is fair. Apparently, high tax rates increase the tax burden to the taxpayers and could lead to a perception that they are paying too much taxes in relation to their capital gains as compared to others (Chan, 2017).

Property owners' perception of the government is an important factor in determining whether they will comply with the capital gains tax requirements or not since they may lose or gain motivation of paying taxes depending on the real advantage of the benefits they may get from paying the taxes (Nalishebo, 2019). Furthermore, the taxpayers will consider the equity of taxes such that if the taxes paid and public services provided by the government is considerably equitable, then the taxpayers may tend to comply with the tax laws leading to a positive effect on the performance of a given taxation (Torgler et al, 2018).

This therefore means that the government should develop and adopt policies that increase the cooperation between the taxpayers and the tax authorities since the level of performance of a given tax is mostly influenced by the taxpayer's trust in the government especially against the tax system. Muehlbacher (2020) explains that compliance depends on the taxpayer's perception of the government expenditure and tax policies. Barak (2017) revealed that in general, people act in accordance with the intention or tendency and in accordance with the ability which they believed. Therefore, the behavior of tax compliance will also be determined by the intention of the taxpayer to comply.

Perception of the taxpayer on the government for taxes may also refer to how social groups provide an appreciation or even into opposition over the existing tax system. Taxpayers tend to avoid paying taxes if they assume that the tax system is unfair (Richardson, 2007). This is since compared to the tax rate; the perception of the taxpayer will be affecting tax compliance. The level of voluntary compliance is more influenced by the taxpayer trust in the government, especially on the tax system. In their research in Ghana, Razak and Adafula (2013) proved that the perception of the taxpayer on government has an influence on the intention to comply. This study

therefore focuses on the taxpayers' perception on government expenditure and the taxpayers' perception on the cost of compliance as a determinant of the capital gains income tax performance.

2.2. Theoretical Review

This section reviews the theories that guide this study, their originators and implications and also their importance to the study. It also reviews the theories guiding the formulation and conceptualization of the study: the benefit theory of taxation, universal theory of acceptance and use of technology and the social influence theory.

2.2.1. Benefit Theory of Taxation

The benefit theory of taxation was developed by Wicksell in 1896 and by Lindahl in 1919 who were two economists of Stockholm School. The formulation of the principle was based on income distribution. This approach was further extended by Musgrave in 1959 who argued that this principle extends to tax progressivity, corporation taxes and tax on property and wealth.

Neumark and McLure (2013) define the benefit principle as a concept of theory from public finance that bases taxes to be paid for public goods expenditures on a politically revealed willingness to pay for the benefits received. The principle was initially developed with an aim of assessing the efficiency of taxes and appraising the fiscal policies.

The benefit principle takes a market-oriented approach to taxation and assumes that the taxpayers just like consumers, would pay for what they get. Taxes are more akin to prices that people would pay for government services, consumer sovereignty, efficient allocation of limited resources and that taxpayers would have a better understanding of the costs of public goods.

The primary criticism given for limiting the scope of the benefit principle is that when information about marginal benefits is available only from the individuals themselves, they tend to under report their valuation for a particular good, this gives rise to the preference revelation problem. Each individual can lower his tax cost by under reporting his benefits derived from the public good or service. One solution would be to implement tax choice. If taxpayers had to pay taxes anyway but could choose where their taxes went, without the possibility of secret rebates or similar, then they would have no incentive to hide their true preferences. Dempsey (1960) argues that the value of property depends on its location. Thus, the value of property in areas where the government has invested heavily in infrastructure and other social amenities is likely to be higher than areas where the government has invested less.

Real estates in developed areas are likely to attract high capital gains within a short time period compared to those in remote areas. For example, an article in the Daily Nation dated (Thursday June 18 2015) observed that the cost of buying a house in Athi River three years ago, was about Kshs. 3.9 million but as at 2015 it was costing Kshs.18.4 million. Thus, the cost for a four-bedroom bungalow sitting on a quarter-acre piece of land in 2011 was Kshs. 3.9 million and the value exponentially increased to Kshs.18.4 million by 2015. This depicts how things have changed for Nakuru City due to increased accessibility to the area and its proximity to the capital city Nairobi and furthermore being recently chartered as a City in Kenya. Since the government has pumped more resources in developing infrastructures in this area, the Benefit Theory of Taxation requires that the land and real estate owners in this area pay higher capital gains tax annually compared to those areas which have benefited less from government resources. However, when information about marginal benefits is available only to real estate owners, they tend to under report their capital gains so as

to lower their tax liability. This will mean they pay less than the benefit they get from the public revenue or resources. Paying less tax will lead to increased net profits and thus the managers of real estate businesses and the landlords can rely on the information asymmetry to reduce the taxes they pay hence reducing the capital gains tax collected thereby affecting the performance of the capital gains tax.

2.2.2. Universal Theory of Acceptance and Use of Technology

This model was built upon and extends beyond the well-established Technology Acceptance Model by Davis in 1989. Venkatesh et al (2017) proposed a more comprehensive model, Universal Theory of Acceptance and Use of Technology model which unified the various models of information technology acceptance that integrated the elements of eight prominent models, namely Theory of Reasoned Action, Technology Acceptance Model (Davis et al ,1989),Motivational Model (Davis,1992), Combined Technology Acceptance Model -Theory of Planned Behavior (Taylor, 1995), Model of Personal Computer Utilization (Thompson, 1991), Innovation Diffusion Theory (Roger, 1995) and Social Cognitive Theory (Bandura, 1986).

The theoretical model of UTAUT suggests that the actual use of technology is determined by behavioral intention. The perceived likelihood of adopting the technology is dependent on the direct effect of four key constructs, namely performance expectancy, effort expectancy, social influence and facilitating conditions. The effect of predictors is moderated by age, gender, experience and voluntariness of use (Venkatesh, 2017). This theory was initially developed with an aim of explaining and predicting the acceptance of technology in an organization context and later tested in non-organization context (Thong & Xu, 2018). The theory has shown its widespread application since it was developed. This has enhanced the

generalization of UTAUT. With the variation of information communication technology (ICT) and the continuous improvements in the sector, various researchers have extended the theory to adapt to their context in regards to the advancements (Venkatesh, 2017).

Technology Acceptance Model (TAM) has been largely adopted due to its ability to predict the use of technology by individuals (Fishbein, 2017). Davis (1989) argues that the perceived ease of use affects the intention for adoption and perceived usefulness. TAM has however been linked with hurdles despite being resourceful in the study of adoption and use of technology such as failing to consider the organization's setting, generality and parsimony during the initial stages of designing the model and disregarding the factors which moderate ICT adoption (Sun & Zhang, 2006). This theory has influenced explorations on technology acceptance. In this research, TAM will be used to explore the manner in which persons and individuals have been slowly embracing the use of mobile banking in order to save time and cut costs thus better business performance. In this study, TAM will be utilized to ascertain how the use of automation of tax services has enhanced tax compliance in Kenya.

This theory continues to be modified based on four main approaches including the modification to different contexts, alteration of the theory to fit endogenous variables, modification to fit addition of attitudinal antecedents and examination of various moderating variables. For instance, the first group of research based on this theory was applied to adoption of new technology focus on new segments and to examine the new technology in new geographical and cultural settings (Gupta, 2018). A study by Casey and Wilson (2012) modeled the theory on introduction of web-specific constructs such as trust and personal web innovativeness to explore how well the theory will predict the use of the web tools. In another case, the theory was

incorporated by Sun, Bhattacharjee and Ma (2009) to find out the effect of additional endogenous variables on the acceptability and use of the new variable. This is evident in the study by Maillet, Mathieu and Sicotte (2015) who studied satisfaction levels and continuous intention endogenous variable. This theory has further been used to scrutinize additional determinants of use of technology and behavioral intention such as task technology fit and personality traits evident in a study by Zhou, Lu and Wang (2010). Grant and Edgar (2012) further incorporated the UTAUT by introducing new contextual and moderating variables such as culture, ethnicity, religion, employment, language, income, education and geographical location to establish their effect on acceptability of new technology.

The various studies on the modification of this theory have helped in understanding the applications of the theory, however, most of them concentrated in organization settings. This means that the literature had limited evidence about user behavioral model which could explain the utilization of technology amongst individuals rather than employees in an organization. The determinant of technology use in organizational level may be different from the individual's level; therefore, it is important to explain the determinants at individual level. This saw the introduction of UTAUT2 by Venkatesh (2017) with an aim of addressing the challenge and explaining the acceptance at individual level. This model was designed in that it does not have a specific focus as compared to the previous models; instead, the main intention was to represent an overarching framework for examining technology acceptance and having a higher precision in explaining the user behavior. The UTAUT2 was developed by introducing three new constructs and altering some of the initial relationships in the original model to adapt it to the individual technology use context. This therefore created a new theoretically justified mechanism for predicting

technology acceptance which has been broadly endorsed by various researchers (Moris, 2017).

The UTAUT2 has resulted in a number of theoretical contributions. This model explains 74% of the variance in behavioral intentions and 52% of the technology use and acceptance. This means that the theory is valid when applied to an individual. UTAUT2 has been validated in different countries with contrasting cultures, economies and level of technology penetration. In Jordan, mobile banking adoption was not affected by social influence (Alalwan, 2017). In a separate study the theory was used in the adoption of education technology in Korea, Japan and the US, both the strength of the relationships and the significance of the effects were different across samples. For Korean users, the intention to use e-learning correlated with habit and perceived efficacy. Finally, Jung and Lee (2020) while studying on the technology acceptance in Japan, they studied the behavioral intention denoted by habit, price value and social influence. However, in the study, it was found that the technology being tested did not demand any effort as it was widely accepted. When the model was used to explore the acceptance of enterprise resource planning (ERP) software training, three out of four predictors of use intention were found to be significant. While effort expectancy, performance expectancy and facilitating conditions influenced employees' intention to adopt training tools, the effect of social influence was not supported. Such findings were probably due to the instrumental nature of ERP software and the high contingency of its use on utility factors that overshadow the role of social influence on users' decisions (Chauhan & Jaiswal, 2016).

This theory is relevant to this study in that it explains the ability of the property owners to accept the technology used using the available ICT tools and their

understanding of the technology used by Kenya Revenue Authority. This will guide the study to establish the effect of technology on Capital Gains Tax performance among property owners in Nakuru City, Kenya.

2.2.3. The Social Influence Theory

Social influence theory explains the compliance behavior of individuals to be influenced by their individual behaviors and social norms. The theory further indicates that individual behavior is influenced by social interactions like other forms of behaviors. This theory was developed in the year 1958 by Herbert Kelman. It states that, basically social norms and individual behaviors are the major influencers of tax compliance. It assumes that individual behaviors towards taxation is majorly affected by social interactions like other forms of behavior (Ali et al., 2020).

According to this theory, individuals are more likely to comply with tax requirements as per the law if they believe. The theory asserts that taxpayers mostly comply with tax requirements as per the decisions of the members of their reference group, whereby if the members of the reference group comply, they also comply with the tax requirements and do not if they do not comply too (Walsh, 2012). This theory asserts that social interactions greatly influence behaviors of tax compliance (Bello & Danjuma, 2014). In addition to that, fear of stigmatization socially is a great cause of tax compliance by taxpayers. Existence of various social norms in the society have a great impact on the compliance behaviors (Kirchler, 2008).

This theory is relevant to property owners in that they are greatly affected by social norms, social groups, family members, friends who greatly affect their decisions on the tax compliance and payment of capital gains income tax. The fear of stigmatization due to deterrence measures is also factored in by Kirchler (2007) as a drive to tax compliance as the existence of social norms has an effect on tax

compliance behavior. This theory is relevant to the study as the compliance behavior of the property owners in Nakuru City, Kenya is likely to be influenced by social groups, family members, friends, business partners and other property owners' ability to comply with the tax requirements of capital gains tax.

2.3. Empirical Review

This section reviews various literatures available on the determinants of capital gains tax performance and the factors contributing to the revenue collection. This section also presents the significance of the effects of capital gains tax on the economy. It is evident that the contribution of capital gains tax to the economy has attracted the attentions of various scholars to study the various factors that influence the capital gains tax collection.

A person's knowledge of the taxation process can affect the person's compliance with the taxation requirements. According to a study by Anule et al. (2017) people have the general approach to the taxation system where they feel pinched by losing their hard-earned money. This means that property owners are likely to avoid taxes by not selling their properties. Even though the government has tried to curb this by using fines and penalties, the problem that emerges is that the overall taxation process is faced by inability to detect non-compliance in that the detection of non-compliance is not guaranteed therefore bringing an advantage to the taxpayers who take the chance to avoid taxation.

Descriptive research on rental owners in Thika, Kenya by Adelaide (2016) suggested that there exists a strong positive correlation between tax knowledge and tax compliance. Gerenew (2017) asserts in his quantitative research that after the analysis, 50% of the respondents believed that tax awareness was a key requirement for compliance.

Tax compliance is anchored on taxation policies that cut across all industries. A series of studies have established that regulatory burdens fall disproportionately on specific industries where the worst affected industries are the small and medium industries. The real estate business has over the past years experienced rapid growth. In the last financial year, that is 2021/2022, a relative GDP growth rate of 7.9% was recorded in the real estate sector (Economic Survey, 2022). Due to the challenges associated with difficulties in taxation of informal segments of the economy, growth in these sectors may translate into loss to the government revenue. Tax evasion is also found to be driven by the taxpayer's incentive to comply with the tax system and highly depends on an assessment of the relative benefits and cost of complying versus non-compliance.

Kirchler (2007) revealed that factors that influence compliance differ from one country to another and from one individual to another. Cohen (2018) gives some of the factors considered to be the core drivers of compliance as taxpayers' perception of the tax system and revenue authority, peer attitude or subjective norms, taxpayers' understanding of the tax systems or laws, motivations like rewards and punishments such as penalties.

Silvani (2021) outlines the importance of the fact that the taxation system should be simple from the taxpayers' interface. This is because a tax authority may deem its tax system to be simple and easy to complete but the taxpayer may view it as a complex system. This calls for a series of pilot tests for the system to be implemented to validate that the system is actually simple and easy to complete. A taxpayer who has little knowledge on taxation may be able to file their returns accurately provided that the system is simple, clearly explained and consistent.

The technology used should be consistent such that the system is similar to the previous system even with the improvements made on it. This is so since most researchers focusing on complexity of the tax system established a relationship between complexity and compliance though the extent of the association still remains uncertain. Capital gains are not left out in this context of compliance and complexity of the system. Dawidowicz (2020) explains that simplicity of the tax system enables the property owners to declare their capital gains and compute their tax liability correctly. Sheffrin (2022) is of the contrary opinion as he argues that simplicity of the tax system might not necessarily have an effect on compliance. Therefore, this study is important as it will find the role of the simplicity of the tax system on compliance.

2.3.1. The Capital Gains Tax Performance

The Kenya Revenue Authority (2015) defines Capital Gains Tax as the tax chargeable on the gains that accrue to an individual or a company on the transfer of property situated in Kenya. The eighth schedule of the Income Tax Act defines properties to include marketable securities, buildings and land. CGT has been significant to the government since through it, the government can expand its tax base hence increasing its amount of revenue from taxes. It also influences investment in the property since the profit generated from the exchange of properties is charged to tax.

Cullen (2022) claims that positive or negative perception may be developed by taxpayers based on the state of affairs of whether the tax revenue is being spent by the government wisely or unwisely. In a context where there is a perception by taxpayers that the capital gains revenue is being spent wisely by the government for the intended purpose, for example, in providing public goods like health, safety, education and transportation, the taxpayers will increasingly become faithful. Where taxpayers feel that the government spends their taxes

badly and poorly, they will be unfaithful and look for means to evade taxes.

Across the world and mostly in developed countries, the taxpayers' behavior towards tax system has evoked great attention among many revenue collection agencies. However, it is debatable on the measures taken towards the study of taxpayers' behavior in regards to the tax system in developing countries. It is evident that most developing countries tend to concentrate more in studies which would increase their budgets bottom-line in terms of huge revenue collection and enforcement efforts at the expense of studies on taxpayers' behavior which would lead to an increase in the collection of tax revenues to be realized and enforcement efforts work. Perhaps the less developed countries are not to blame as they run on budget deficits hence scarce resources to see through such studies which are perceived as adding no direct value to revenue collection (Porcano,2021).

Erosa (2017) argues that the impact of CGT can be measured through the lock in effect and capitalization effect. The lock-in effect concept views the impact of capital gains taxes from the perspective of the seller. The theory seeks to discuss the impacts of capital gains taxes on the supply of properties. The lock-in effect measures how CGT affects the supply of securities in the securities market. Lock-in effect is measured by the reduction in the supply of some securities in the market. The capitalization effect concept analyzes the capital gains tax effect from the perspective of the buyers. It discusses the impact of capital gains tax on demand for property. Zhonglan et al (2018) argue that where capital gains taxes are charged, people buying securities will negotiate to acquire the securities at a lower price to be compensated for the future tax liability. This effect is known as the capitalization effect. The increased process of securities due to the presence of capital gains taxes leads to

decreased demand of the securities among the buyers. It is measured using the reduction in the demand for securities in the market.

2.3.2. Taxpayers' Sensitization and Capital Gains Tax Performance

The influence of taxpayers' sensitization on compliance behaviors has been assessed in various researches since through taxpayer education, the taxpayer may gain knowledge which in turn affects their attitude towards compliance. In many cases, knowledge on taxation presents a positive attitude towards compliance while inadequate knowledge leads to negative attitudes that affect compliance negatively. Ogega (2018) indicated that capital gains tax nature can be said to be complex necessitating sufficient taxpayers' sensitization on the current tax laws and regulations in order to compute the actual capital gains and accurate tax calculations and make the payments. KRA has over time rolled out programs to facilitate taxpayers' education.

The Domestic Taxes Department has played an important role in conducting workshops to sensitize taxpayers. The programs which are done under the umbrella of stakeholder engagement strategy is aimed at enhancing the taxpayers in understanding the needs and concerns by collating and analyzing the views and opinions from across all the levels of the Authority, enhancing taxpayers' understanding of the Authority's administrative process by educating the taxpayers about their obligations and how to fulfill them and communicating clearly the outcomes or benefits or interventions by KRA that aims at reducing the time and cost taken while filing and remitting the taxes.

Despite embracing these strategies, the problem with the overall taxation process is that detection of noncompliance is not guaranteed thus giving the property owners the chance to continue with tax evasion. Taxpayer education encompasses comprehension of all aspects of tax compliance from registration for tax, declaration of income,

records maintenance, filing of tax returns and payment of taxes. Geremew(2017) investigated how different factors influence tax compliance in Hawassa City, Ethiopia. The factors of interest were financial constraints, reference group influence, awareness, perception on fairness, understatement of income, educational status, collection procedures, absence of government incentives and trust in tax assessments. The research involved collection of both primary and secondary data based on descriptive research design. The findings showed that male property owners registered higher than their female counterparts at 92.8% and 7.2% respectively and that 60.8% of the sampled respondents understood the tax laws.

In a separate study by Adelaide(2019) in her descriptive research on the rental owners in Thika, Kenya suggested that a strong positive correlation exists between taxpayer education and tax compliance. The quantitative research by Geremew (2017) confirms this after the analysis showed that 50% believe taxes are paid for a return of public service hence an inference that at least the taxpayers expect a return for their contribution. Both Geremew (2017) and Adelaide (2019) recommend creation of awareness and the development of effective working policy.

2.3.3. Systems Automation and Capital Gains Tax Performance

Technology can be said to be one of the important factors that affect compliance of taxpayers. This factor has been of great interest to researchers as most scholars aim at explaining its contribution to the compliance behavior of the taxpayers. Pattiasina et al (2020) studied the determinants of taxpayer compliance level in East Indonesia. The study found that tax knowledge and sanctions had significant positive effect on technology effect on revenue performance and taxpayers' compliance. This finding was also found in a study to examine the roles of the taxpayers' awareness, tax

regulation and understanding of tax regulations and their influence on taxpayers' compliance (Rahayu,2017).

In order to improve capital gains tax performance, Kenya Revenue Authority has advanced the technology used by advancing the CGT payments from the analogue manual payments to the now digital online payments. The steps used in the online payments has also been made as convenient as possible to the taxpayers. Adopting the online platforms has helped the authority to improve CGT enforcement and collections.

Kenya Revenue Authority twinned the payment of CGT with stamp duty using the online iTax platform. This move was meant to ensure that the property owners declare and pay for the transfers as a prerequisite for stamp duty. This optimal use has enabled the authority to get more revenue which previously went unnoticed. This study therefore seeks to investigate the effect of systems automation on capital gains tax performance.

2.3.4. Taxpayers' Perception and Capital Gains Tax Performance

Peer influence and perceived fairness of the tax system has a great impact on an individual's attitudes and perception. In most studies conducted, tax compliance is highly associated with perceived fairness such that where the tax systems are believed to be fair, then a positive increase in level of compliance. Chau and Leung (2019) revealed that using the Fischer tax model on peer influence, which is a basic key factor in determining the tax compliance level, where the peers of an individual are compliant with the tax requirements, then the compliance of an individual is also likely to be high.

In the Kenyan context, the committee that was set to increase the CGT rate had proposed a gradual increase from the previous 5% to 10% then to 15% over a given

period of time. They argued that the move could have cushioned the investors and property owners from the high significant increase. However, the government considered to increase the rate to the current 15% (The Finance Act,2022). This increase may have had an impact on the perception of the property owners in that they may create an attitude that the taxes are unfair and too high and may choose to not sell their shares or properties meaning that they will not pay the capital gains tax. In contrary, when the property owners are convinced that the government will use the taxes well and that the government needs the tax to meet the daily operations and that this will lead to investment in projects and initiatives that will improve the country's economy and social welfare of the citizens, they will have a positive attitude and likely to comply with CGT regulations thereby improving the performance of CGT.

2.4. Summary of the Literature Review and the Research Gaps

A study by Cullen (2022) on the relationship between Capital Gains Taxes and Tax Evasion in USA demonstrates a methodological gap as the researcher used panel data and found that capital gains taxes have a significant impact on tax evasion on the realization of capital gains sale of corporate stocks at a profit. This study used primary data hence methodological gap.

In another study by White (2020) who studied taxing capital gains in Switzerland ,there exists conceptual gap as the study only focused on the taxing of the capital gains and not the determinants of the capital gains tax performance. Whereas the study by White found that there were glaring deficiencies and problems including the lock-in and loss limitations which appeared to be fairly modest based on available empirical evidence from the study and that there is no perfect way to tax capital gains in a real-world income tax; the current study aims at finding out the effect of different

factors on the performance of the capital gains tax. The current study will be done in Kenya thus contextual gap.

Abdelfattah and Aboud (2020) studied on tax avoidance, corporate governance, and corporate social responsibility (CSR) in Egyptian capital market. The study was aimed at finding the effect of tax avoidance and corporate governance on corporate social responsibility. From the study, there is a conceptual gap in relation to the current study since the study only focused on corporate sector and not individual taxpayers. Furthermore, the study did not address the current factors of study and the performance of the capital gains tax performance therefore leaving a conceptual gap in the literature.

2.5. The Conceptual Framework

Conceptual framework is a set of broad ideas and principles that are taken from relevant fields of enquiry to be used to structure a subsequent presentation (Kombo and Tromp, 2009). Creswell (2013) pointed out that it helps the researcher to define the concept, map the conceptual scope, systematize relations among concepts and identify gaps in literature. It comprises the independent variable which is the presumed cause of the changes of the dependent variable which the researcher wishes to explain (Kothari, 2014). Apparently, conceptual frameworks are vital since they help fill research gap in literature. This study therefore focused on investigating the various factors that influence the performance of capital gains tax of property owners in Nakuru City. In figure 2.1, the independent variables to be investigated that influence the property owners' tax compliance were taxpayers' sensitization, taxpayers' perception and systems automation. On the other hand, the dependent variable was the capital gains tax performance.

The indicators of taxpayers' sensitization were the trainings attended, seminars and advertisements while the indicators for taxpayers' perception included perceived expenditure by the government on the collected revenue and perceived costs of compliance of taxpayers about the tax authorities. For systems automation, the study focused on online submission of returns and online payment of capital gains tax. Indicators for the dependent variable were registration, correct tax declaration, timely filing of tax returns and payment of taxes.

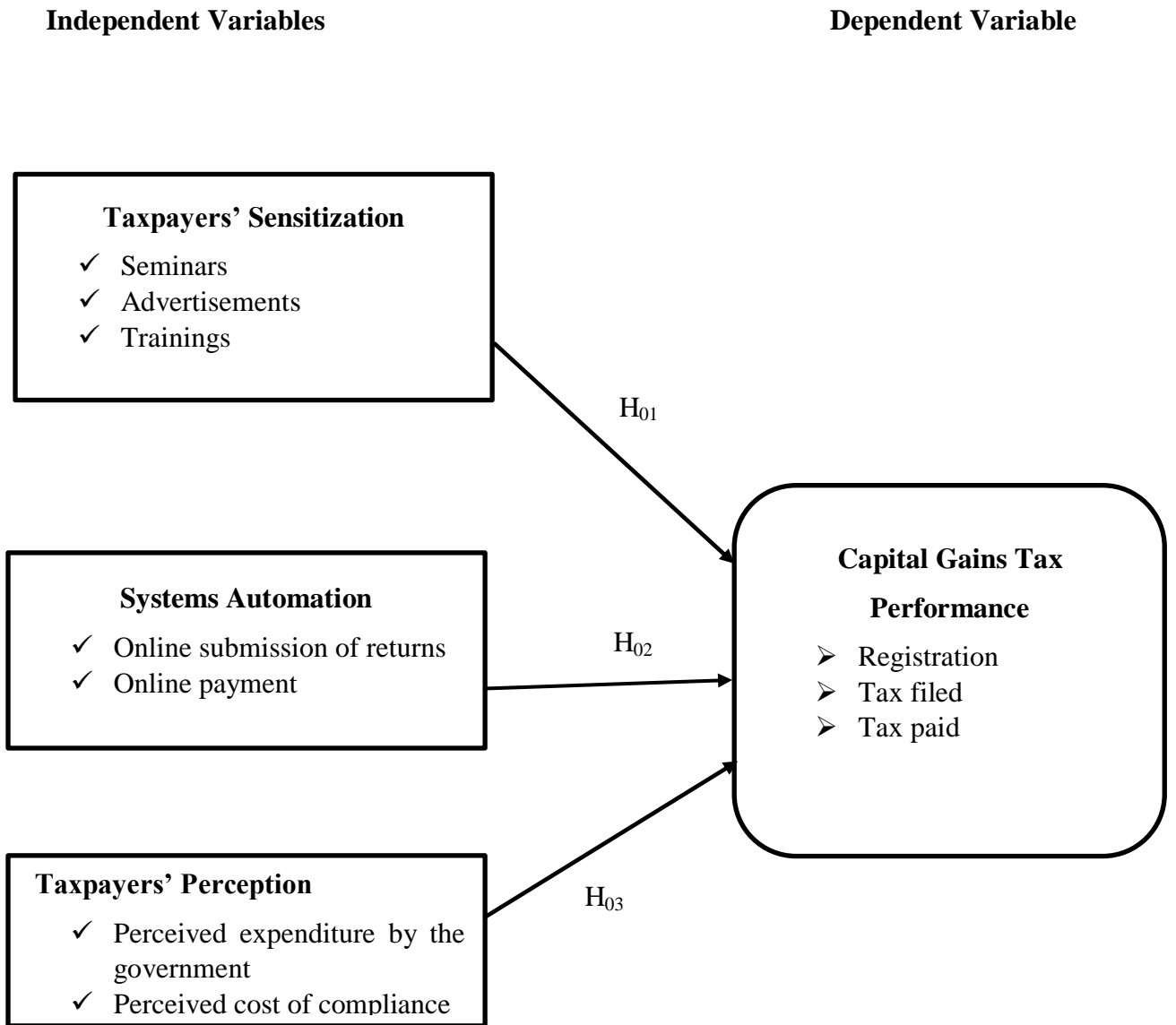


Figure 2.1: Conceptual Framework

Source: Researcher (2023)

CHAPTER THREE

METHODOLOGY

3.0. Introduction

This chapter outlines the methodology that was used to achieve the objectives of the research. The various methodological themes in this chapter include the research design used, target population, sampling, data collection methods and data analysis.

3.1. Research Design

Creswell (2012) defines a research design as a framework that guides the researcher in answering the problem of the study. It is a blueprint that discusses how the researcher gathered and analyzed the data that was useful in attaining the objectives set for the study. A good research design should assist the researcher in obtaining rational answers for the research questions. This study adopted explanatory research design as the design uses hypotheses to account for the forces that caused a certain phenomenon to occur, in this case, the forces that influence tax performance.

3.2. Population

Population can be referred to as every element in a given field of research (Zikmund, Babin, Carr and Griffin, 2010). In the previous financial year, that is FY 2021/2022, KRA reported that 6,231 property owners in Nakuru City, Kenya had declared capital gains tax (KRA, 2022). This study therefore targeted 6,231 property owners in the City. According to Kothari (2004), effective analysis of a population is made easier through an analysis of a subset that bears the characteristics of the population from which it is drawn. This study used the stratified sampling method to choose 376 property owners from the population of property owners in Nakuru City, Kenya.

Table 3.1: Target Population

Location (STRATA)	Target Population
CBD	1349
Section 58	1254
Naka	1158
White House	1274
Mawanga	1196
TOTAL	6231

Source: Kenya Revenue Authority CGT report 2021/2022

3.3. Sampling Methods

This section aims at discussing the sampling method for the study while presenting the best model to be used in determining the sample size for the study. The section further discussed the sampling frame and sampling design that ensured that the sample selected for the study is justified.

3.3.1. Sample Size

According to Cooper and Schindler (2003), a big sample size is associated with improved accuracy of the estimating parameters and minimization of the error terms. Consequently, the generated statistical mean is closer to the true mean of the population. The sample size is expected to exceed 10% of the population hence meet the threshold suggested by Cooper and Schindler (2003).

Since the population is known, then the sample size (n) was calculated by using the Yamane method:

$$n = N / (1 + Ne^2)$$

Where,

n = Sample size,

N = population size

e = Margin of error (MoE)

For this study, e=0.05, N=6,231

$$n = 6,231 / (1 + 6,231(0.05)^2) = 376$$

Therefore, the study used a sample size of 376.

3.3.2. Sampling Technique and Sampling Frame

The target population for this study is fairly small hence a stratified sampling technique was utilized in this research. According to Taherdoost (2019), stratified sampling is primarily based on probability in that every element of the set stands an equal chance of being selected for the study. To obtain the sample, the property owners were categorized according to where their property is located within Nakuru City, Kenya. These locations formed the strata. Yamane's formula was then used to calculate the sample size.

The sampling frame for a particular sample can be referred to as a representative population from where it is derived from. Based on this, the sample frame of this study was defined based on property owners from Nakuru City, particularly those that have their capital gains tax and stamp duty under examination by KRA.

This study adopted the Neyman's formula of proportionality to allocate a sample size for each stratum.

The Neyman's allocation is given by:

$$n_h = (N_h / N) * n$$

where:

n_h is the sample size for stratum h ,

N_h is the population size for stratum h ,

N is total population size,

and n is total sample size.

Table 3.2: Sampling Frame

Location (STRATA)	Target Population	Sample
CBD	1349	81
Section 58	1254	76
Naka	1158	70
White House	1274	77
Mawanga	1196	72
TOTAL	6231	376

Source: Researcher (2023)

From each of the strata, all property owners have equal chances of being selected for the study. The samples were therefore randomly selected from each stratum to come up with the sample size indicated.

3.4. Data Collection Methods

This study is concerned with getting information directly from the property owners and therefore the nature of its information was primary data. As a result, the methods of obtaining information from the respondents who are property owners of Nakuru City will include the use of structured questionnaires. The questionnaires had two sections namely: Section one which covered the background information of the respondents and section two which covered the various variables that affect compliance levels on capital gains tax performance among property owners in Nakuru City, Kenya. The questionnaires were well designed in a manner that attract important responses to the questions presented.

3.5. Pilot Test

A pilot study is a small-scale preliminary study conducted before the actual study which aims at evaluating the feasibility, time, cost and adverse effects in order to improve upon the study design prior to the actual research (Hulley, 2007). The pilot study for this study was done on 37 property owners within Gilgil Town where questionnaires were administered on the selected taxpayers who were property owners. This is to be in accordance with the endorsement of Kothari (2012), that pilotage should comprise of a minimum of 10% of the research sample. Gilgil was preferred for the pilot study since it borders Nakuru City and could give a close guide on the outcome of the study. This is because both Gilgil Town and Nakuru City are in the same economic environment. The questionnaires were analyzed to evaluate the feasibility, the time taken so as to establish the expected time for the study and the cost for administering the research. The pilot test acted as a determinant of the main study.

3.5.1. Validity Test

Validity test which is a measure on the appropriateness of the instruments to predict the outcome of a similar measure (Dikko, 2016) was conducted for the study. The test conducted was to seek opinions and advice from professionals in this field, especially guidance from lecturers and supervisors in order to ensure that the outcome is not biased and can be used to make efficient conclusions. This study adopted the content validity test which assesses whether a test is a representative of all aspects of all the relevant variables. Factor analysis is a statistical test which was used to identify the underlying relationships among the variables.

3.5.2. Reliability Test

The Cronbach test was utilized as a reliability test for the study. After the development of the questionnaire, a pilot research study was conducted on 37 property owners and was undertaken in Gilgil Town to test for the reliability of the instrument. A test-pretest was done to the property owners. Finally, the Cronbach's coefficient was computed to determine if the instrument meets the reliability coefficient of 0.70 as a threshold (Bryman,2017).

3.6. Diagnostic Test

In scientific research, diagnostic tests are usually carried out to empirically determine the quantitative effect of study design shortcomings of estimates of diagnostic accuracy (Lijmer et al., 1999). In this study, several diagnostic tests were done before data analysis was conducted to authenticate the accuracy of the research findings. The tests include normality test, multicollinearity test and homoscedasticity test.

3.6.1. Normality Test

For this study to be accurate there was need for the error terms to have a normal distribution with zero mean and a constant variance. This is because the dependent variable is affected by additional factors that are not accounted for in the model and these additional elements are captured by the error term. However, it is thought that the ignored variables have a negligible influence and are, at most, random. The error term has to be regular in order to use OLS (Gujarati, 2004). The Shapiro-Wilk test was used in this study to determine the normality of the data.

3.6.2 Multicollinearity Test

Multicollinearity test assumes that there shouldn't be correlation between the independent variables of the study. Ignoring imperfect multicollinearity results in high standard errors whereas ignoring perfect multicollinearity results in indeterminate regression coefficients and infinite standard errors. The variance inflation factor (VIF) was used in this study's multicollinearity test. A VIF score above 10 denotes a multicollinearity issue, while one below 10 indicates no multicollinearity (Thompson et al, 2018).

3.6.3 Homoscedasticity test

Homoscedasticity test was conducted to check whether the variance or spread of errors from the regression line is constant. Gary (2016) explains that an important assumption of linear regression is that the spread of the residuals is constant across the graph and when the assumption is violated, the statistical results may not be fit since there is presence of biased coefficients. If variance of errors from the regression line is not constant it is said to be heteroscedastic. The Breusch-Pagan test was used to test homoscedasticity in a linear regression model. The test assumes the hypotheses:

H₀: There is homoscedasticity

H_a: There is heteroscedasticity

Fail to reject the null hypothesis if the p-value > 0.05.

3.7. Data Analysis

The analysis involved the use of both qualitative and quantitative information. First, editing of the data was done for consistency and completeness of information. This was followed by data analysis by means of computer software which in this case, Statistical Packages for the Social Sciences (SPSS) was used. Descriptive statistics such as standard deviation and mean were recorded along with correlation and regression analysis for subsequent model testing. For the purpose of testing causality, the relationship between variables; dependent and independent, a multiple regression method was adopted. The formula for this study was:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Y = Capital gains tax performance

α = Intercept

$\beta_1, \beta_2, \beta_3, \beta_4$ = Corresponding coefficients of independent variables

X_1 = Taxpayers' Sensitization

X_2 = Taxpayers' Perception

X_3 = Systems Automation

ϵ = Error term

3.8. Operationalization and Measurement of Variables

The variables that were measured included: taxpayers' sensitization, systems automation and taxpayers' perception. These variables were not measured directly.

Therefore, measurable indicators were identified to take the place of the variables. The measurements of the variables were done using the Likert Scale points. The total number of items per variable were 331 units.

Table 3.3: Operationalization and Measurement of Variables

Variable	Author	Indicator	Instrument	Measure	Data Analysis
Taxpayers' Sensitization	Wadesango and Mwandambira (2018)	Seminars	Questionnaire	5-Point likert scale	Multiple Linear Regression Analysis
		Advertisements	Questionnaire	5-Point likert scale	
		Trainings	Questionnaire	5-Point likert scale	
Taxpayers' Perception	Usman (2019)	Perceived expenditure	Questionnaire	5-Point likert scale	Multiple Linear Regression Analysis
		Perceived cost of compliance	Questionnaire	5-Point likert scale	
Systems Automation	Kongare (2017)	Online submission of returns	Questionnaire	5-Point likert scale	Multiple Linear Regression Analysis
		Online payment of taxes	Questionnaire	5-Point likert scale	
Capital Gains Tax Performance	Wadesango and Mwandambira (2018)	Registration	Questionnaire	5-Point likert scale	Multiple Linear Regression Analysis
		Correct tax declaration	Questionnaire	5-Point likert scale	
		Timely filing of tax returns	Questionnaire	5-Point likert scale	
		Payment of taxes	Questionnaire	5-Point likert scale	

Source: Researcher (2023)

3.9. Ethical Considerations

An informed consent was obtained from National Commission For Science, Technology and Innovation (NACOSTI) to conduct the research. Also, a consent from Moi University to conduct the research was obtained. The respondents were informed about the voluntary nature of the exercise such that they were not obligated to take part in the questionnaire and they were therefore requested to sign the informed consent form which gave the authority for their data to be used for research in line with the Data Protection Act of Kenya. The respondents were also informed that the research was not to be for any other purpose other than studying their tax compliance as part of the necessity for a student to meet part of the requirements for the award of a degree of Masters of Tax and Customs Administration (Tax Administration). The collected data was handled with a lot of confidentiality and no alteration was done to meet any hidden or personal interest.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction

In this chapter, an analysis, presentation and interpretation of findings for the data collected from the factors that affect capital gains tax performance among property owners in Nakuru City, Kenya is done. The pilot study is presented, response rate of the study is discussed, followed by the demographic characteristics of the respondents. Descriptive statistics using means and standard deviations were also presented for each objective. Inferential statistics focusing on correlation, using the Pearson's correlation matrix and regression analysis were presented.

4.1. Pilot Test Result

A pilot test was conducted at Gilgil Town with an aim of ascertaining the dependability of the research instruments; the questionnaire in particular. For the purpose of the study, 37 landlords were presented with the structured questionnaires. The reliability of the study instrument was tested through Cronbach's alpha. The analysis outcome of reliability scores of the independent variables revealed that all the variables had a score of over 0.7. In confirming reliability, the Cronbach's alpha was used. The findings were found to be acceptable and therefore reflected on the validity of the instrument used. This is supported by Sekaran (2003) who pointed out that the commonly acceptable Cronbach alpha value has to be well above 0.7.

Statistics shown on Table 4.1 indicate that taxpayers' sensitization had an alpha of 0.943, systems automation had an alpha of 0.787, taxpayers' perception had an alpha of 0.914 and lastly capital gains tax performance had an alpha of 0.775. The benchmark value of 0.7 is commonly used for the reliability whereby alpha values above 0.7 are considered acceptable and satisfactory, above 0.8 are considered good

and above 0.9 are considered to reflect exceptional internal consistency (Mohajan, 2017). The Cronbach's alpha coefficient of 0.7 was used as the benchmark for this study and all variables had met the threshold.

Table 4.1: Reliability Results

Variable	Number of Items	Cronbach's Alpha Score	Conclusion
Taxpayers' sensitization	5	.943	Reliable
Systems automation	5	.787	Reliable
Taxpayers' perception	5	.914	Reliable
Capital gains tax performance	5	.775	Reliable

Source: Researcher (2023)

4.4.1 Factor Analysis

The factor analysis matrix gives loading that is the correlation between each variable and each factor. A factor is an underlying dimension that accounts for several observed variables (Mugenda, 2002). The findings below show items clustered into four components: Factor 1 (taxpayers' sensitization), Factor 2 (systems automation) and Factor 3 (taxpayers' perception). Factor loadings are a measure of the correlation between the observed variables and factors. From the findings on table 4.2, all the factor loadings are greater than 0.5 implying that the variables are useful indicators that can measure or predict the underlying factor. Kervin (2009) suggested that any factor loading below 0.4 is weak and those between 0.5 and 0.6 are moderate while for values which are less than 0.3, the results of the factor analysis probably will not be very useful in the research. Factor analysis is to test the accuracy of the data to

make the research credible and the extent to which a test measures what is to be measured.

Table 4.2: Factor Analysis

	TS	SA	TP
Taxpayers' Sensitization			
I understand the reason for paying the taxes	0.830		
I am well conversant with the timeframe.....	0.962		
I can access all the information of taxes...	0.775		
I am well informed of how to calculate the CGT....	0.814		
I am aware of where to get all the information...	0.831		
Systems Automation			
Online payment shortens my tax payment process...		0.781	
Online payment process is efficient...		0.800	
It is easier to file taxes online than the manual...		0.814	
Online tax tutorials guide taxpayers...		0.942	
KRA uses its social media pages to pass information....	0.959		
Taxpayers' Perception			
The government spends the revenue collected...			0.946
Political goodwill influences perception towards tax compliance...			0.993
Paying the capital gains tax in time contributes to the economic growth.			0.725
I perceive KRA to be efficient in tax administration...			0.811
Compliance costs have direct impact on voluntary compliance...			0.821

Extraction Method: Principal Component Analysis

Source: Researcher (2023)

4.2. Response Rate

The research targeted 376 respondents in collecting data regarding factors that affect capital gains tax performance among property owners in Nakuru City. 376 questionnaires were distributed by the researcher out of which 331 questionnaires were filled correctly hence accepted which represent a response rate of 88 %. Given the prejudices that taxpayers normally harbor towards tax compliance questions, this rate was commendable. A 50% response rate is adequate, 60% good and above 70% is rated very good (Mugenda and Mugenda, 2003). A similar assertion was confirmed by Kothari (2004) and therefore, based on these views, a response rate of 88% for this research was good.

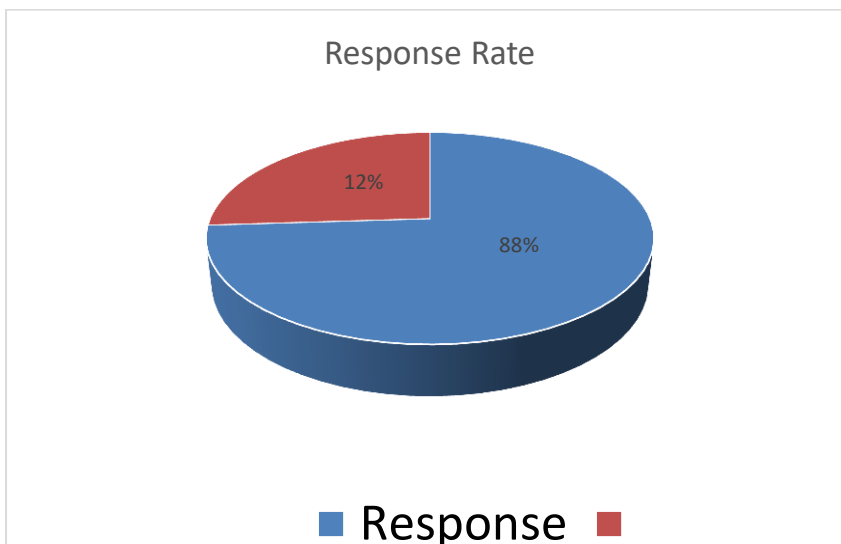


Figure 4.1: Response Rate

Source: Researcher (2023)

4.3 Respondents' Social and Demographic Information

The respondents' social and demographic information included their gender, age and years in the property sector.

4.3.1 Gender Distribution of the Respondents

As summarized in table 4.3, 38.1% of the respondents which is 126 were male while 61.9% which is equal to 205 were female. This could be attributed to the continuous female empowerment programs that have been developed over time. These empowerment programs have seen more ladies venturing into investments. According to an insight by Kantaria (2020), there is a continuous growth of women who invest especially in the 21st Century. This could not be a different case with Nakuru City as more ladies could be investing in the property sector than men.

Table 4.3: Respondents' Gender Distribution

Gender	Frequency	Percentage
Male	126	38.1
Female	205	61.9
Total	331	100

Source: Researcher (2023)

4.3.2 Age

The study also implored the respondents to state their age bracket. Results in table 4.4 reveal that majority of the property owners in Nakuru City are aged above 59 years of age followed by middle aged individuals.

Table 4.4. Age of respondents

Age	Count of Age	percentage
Below 18	6	1.81%
19 to 38	32	9.67%
39 to 58	34	10.27%
59 to 78	136	41.09%
Above 79	123	37.16%
Grand Total	331	100.00%

Source: Researcher (2023)

4.3.3 Years In Property Sector

Asked about the period they have been in the property sector, the respondents indicated that they had been in the property sector in less than 5 years at 3%. These were followed by those who said that they were in the sector between 6-10 years at 16%. The respondents indicated that they had been in the property sector between 10-15 years at 40.5% while the other respondents said that they had been in the property sector for 15-20 years at 30.8%. Lastly, respondents said that they had existed for more than 20 years at 9.7%. A summary of these findings is given in table 4.5.

Table 4.5: Years in property sector

Years	Frequency	Percentage
Less than 5years	10	3
6 – 10years	53	16
10 – 15years	134	40.5
15 – 20years	102	30.8
Above 20years	32	9.7
Total	331	100

Source: Researcher (2023)

4.4. Descriptive Statistics

4.4.1. Taxpayers' Sensitization

As Table 4.6 illustrates; the statement, "As a property owner, I understand the reason for paying the taxes" has a mean=3.70 and standard deviation= 1.277; the statement, "I am well conversant with the timeframe for filing of returns" has a mean=3.29 and standard deviation= 1.027; the statement, "I can access all the information of taxes collected and the corresponding expenditure" has a mean=2.76 and standard deviation= 1.195; the statement, "As a taxpayer, I am well informed of how to calculate the capital gains taxes and when to submit taxes and file the returns" has a mean=4.16 and standard deviation= 2.336 and lastly the statement, "I am aware of where to get all the information and assistance I may need on capital gains taxation" has a mean=4.34 and standard deviation= 0.667.

Table 4.6: Taxpayers' Sensitization

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

	Mean	Std. Dev	Skewness	Kurtosis
As a property owner, I understand the reason for paying the taxes.	3.70	1.277	-.791	-.542
I am well conversant with the timeframe for filing of returns.	3.29	1.027	-.158	-.622
I can access all the information of taxes collected and the corresponding expenditure.	2.76	1.195	.217	-.812
As a taxpayer, I am well informed of how to calculate the capital gains taxes and when to the submit taxes and file the returns.	4.16	2.336	1.343	2.958
I am aware of where to get all the information and assistance I may need on capital gains taxation.	4.34	0.667	-.204	2.752

Source: Researcher (2023)

4.4.2 Systems Automation

Table 4.7 illustrates that the statement, "Using online payment shortens my tax payment process and saves on time" has a mean=4.44 and standard deviation= 0.646; the statement, "Online payment process is efficient in payment of taxes" has a mean=4.17 and standard deviation= 0.936); the statement, "It is easier to file taxes online than the manual filing of returns" has a mean=3.76 and standard deviation= 1.048; the statement, "Online tax tutorials guide taxpayers on the basics of tax" has a mean=4.20 and standard deviation= 0.824 and lastly the statement, "KRA uses its social media pages to pass information to various taxpayers" has a mean=4.50 and standard deviation= 0.519.

Table 4.7: Systems Automation

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

	Mean	Std. Dev	Skewness	Kurtosis
Using online payment shortens my tax payment process and saves on time.	4.44	.646	-.798	-.095
Online payment process is efficient in payment of taxes.	4.17	.936	-.684	-.801
It is easier to file taxes online than the manual filing of returns.	3.76	1.048	-.401	-1.019
Online tax tutorials guide taxpayers on the basics of tax	4.20	.824	-1.278	1.639
KRA uses its social media pages to pass information to various taxpayers	4.50	.519	-.329	-.477

Source: Researcher (2023)

4.4.3 Taxpayers' Perception

Table 4.8 illustrates that the statement, “The government and relevant authorities spend the revenue collected on the desired expenditures” with a mean=4.41 and standard deviation= 0.665; the statement, “Political goodwill and fair distribution of public resources influences perception towards tax compliance” with a mean=4.28 and standard deviation= 0.638; the statement; “ As a property owner, I believe that paying the capital gains tax in time contributes to the economic growth” with a mean=4.08 and standard deviation= 0.707; the statement, “I perceive KRA to be efficient in tax administration and therefore likely to catch up with tax evaders” with a mean=4.23 and standard deviation= 0.726 and lastly the statement, “Compliance costs have direct impact on voluntary compliance with capital gains taxation” with a mean=3.50 and standard deviation= 0.799.

Table 4.8: Taxpayers' Perception

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

	Mean	Std. Dev	Skewness	Kurtosis
The government and relevant authorities spend the revenue collected on the desired expenditures.	4.41	.665	-.684	-.599
Political goodwill and fair distribution of public resources influences perception towards tax compliance.	4.28	.638	-.319	-.685
As a property owner, I believe that paying the capital gains tax in time contributes to the economic growth.	4.08	.707	-.117	-.988
I perceive KRA to be efficient in tax administration and therefore likely to catch up with tax evaders.	4.23	.726	-.375	-1.038
Compliance costs have direct impact on voluntary compliance with capital gains taxation.	3.50	.799	.409	-.440

Source: Researcher (2023)

4.4.4. Capital Gains Tax Performance

Table 4.9 illustrates that the statement, “It is my responsibility to register as a property owner and be provided with a KRA PIN” with a mean=4.11 and standard deviation= 2.345; the statement, “As a property owner, I have a KRA PIN which I use to file returns” with a mean=4.08 and standard deviation= 0.73; the statement, “As a property owner, I understand the need to keep a clear record of my transfer and sale of

property for tax purposes” with a mean=4.09 and standard deviation= 0.665; the statement; “As a property owner I understand that when I sell or transfer a property, I should pay capital gains tax on time” with a mean=4.28 and standard deviation= 0.880 and lastly, the statement, “As a property owner, I remit the correct capital gains tax when I transfer my property and I pay on time” with a mean=4.47 and standard deviation= 0.765

Table 4.9: Capital Gains Tax Performance

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

	Mean	Std. Dev	Skewness	Kurtosis
It is my responsibility to register as a property owner and be provided with a KRA PIN.	4.11	2.345	1.147	2.198
As a property owner I understand the need to have a KRA PIN.	4.06	.730	-.118	-1.110
As a property owner, I understand the need to keep a clear record of my transfer and sale of property for tax purposes.	4.09	.665	-.107	-.742
As a property owner I understand that when I sell or transfer a property, I should pay capital gains tax on time.	4.28	.880	-1.394	1.456
As a property owner, I remit the correct capital gains tax when I transfer my property and I pay on time.	4.47	.765	-.532	-1.110

Source: Researcher (2023)

4.5. Diagnostic test results

Prior to performing the inferential analyses, statistical assumptions were tested to establish if the data met the normality, linearity, homogeneity of variance and collinearity assumptions and it was on the basis of these results that tests of associations and prediction were performed.

4.5.1 Test of Normality

The Shapiro-Wilk test was employed to test for normality. This test establishes the extent of normality of the data by detecting existence of skewness or kurtosis or both. Shapiro-Wilk statistic ranges from zero to one with figures higher than 0.05 indicating that the data is normal (De Vos, Strydom, Fouche & Delpont, 2011).

Normality was tested using the Shapiro-Wilk test and the results showed that all the variables were above 0.05 ($p > 0.05$) hence confirming data normality. Normality assumes that the sampling distribution of the mean is normal. P-values for the Shapiro-Wilk test were 0.230 for taxpayers' sensitization, 0.079 for systems automation, 0.162 for taxpayers' perception and 0.113 for capital gains tax performance. Since all the p-values were greater than the cutoff point of 0.05 at 95% confidence level, this confirms that the data was collected from a population which is normally distributed.

Table 4.10: Tests of Normality

	Shapiro-Wilk	
	Statistic	Sig
Taxpayers' sensitization	0.854	0.230
Systems automation	0.990	0.079
Taxpayers' perception	0.872	0.162
Capital gains tax performance	0.760	0.113

a. Lilliefors Significance Correction

Source: Researcher (2023)

4.5.2 Multicollinearity Test

Multicollinearity is the undesirable situation where the correlation among the independent variables is strong. It increases the standard errors of the coefficients using collinearity statistics to get tolerance and variance inflation factor (VIF). In order to test for multicollinearity, VIF was computed using Statistical Packages For Social Sciences (SPSS). Multicollinearity increases the standard errors of the coefficients and thus makes some variables statistically not significant while they should otherwise be significant (Osborne and Waters, 2014).

Tolerance is the amount of variance in an independent variable that is not explained by the other independent variables. Bowerman and Connell (2006) stated that lower levels of VIF are better while higher levels of VIF are known to affect adversely the result associated with a multiple regression analysis. In the current study, tolerance ranged from 0.643 to 0.928 and therefore its reciprocal, the VIF was between 1.231 and 1.899, which is below the maximum threshold value. A common rule of thumb is that VIFs of 10 or higher points to severe multi-collinearity that affects the study. A tolerance threshold value of below 0.2 indicates that collinearity is present (Ary, Jacobs & Sorensen, 2015). The results revealed no problem with multicollinearity. The variables of the study indicated VIF values of between 1.231 and 1.899 which is less than 10. This indicated that the data set displayed no multicollinearity.

Table 4.11: Multicollinearity Test

(Constant)	Collinearity Statistics	
	Tolerance	VIF
Taxpayers' Sensitization	0.643	1.481
Taxpayers' Perception	0.928	1.899
Systems Automation	0.719	1.231

Dependent Variable: Capital gains tax performance

Source: Researcher (2023)

4.5.3 Homoscedasticity test

The Breusch-Pagan test is used to test homoscedasticity in a linear regression model.

The results from Table 4.12 show the results from the Breusch-Pagan test analysis of variance. The results from the homoscedasticity test showed $p\text{-value}=0.6291 > 0.05$.

The test results concluded that the assumption for homoscedasticity is not violated.

Table 4.12: Homoscedasticity test: Breusch-Pagan Test

Prob > chi2	= 0.6291
-------------	----------

Source: Researcher (2023)

4.6. Correlation Analysis

Pearson correlation coefficient (r) was used to assess strength of association between the study variables. Where (r) is more than 0.7, variables indicate strong correlation.

The findings of the correlation study are shown in Table 4.13. As indicated, taxpayers' sensitization had a positive and statistically significant correlation with capital gains tax performance with $r=0.449$ and $p=0.000 < 0.05$. Systems automation had a positive and statistically significant correlation with capital gains tax

performance with $r=0.646$ and $p=0.003<0.05$. Lastly, taxpayers' perception had positive and statistically significant correlation with capital gains tax performance with $r=0.533$ and $p=0.003<0.05$.

Table 4.13: Correlation Analysis

		Capital			
		gains tax	Taxpayers'	Systems	Taxpayers'
		performance	sensitization	automation	perception
Capital gains tax performance	Pearson				
	Correlation	1			
	Sig. (2-tailed)				
	N	331			
Taxpayers' sensitization	Pearson				
	Correlation	.449**	1		
	Sig. (2-tailed)	.000			
	N	331			
Systems Automation	Pearson				
	Correlation	.646**	.381**	1	
	Sig. (2-tailed)	.003			
	N	331			
Taxpayers' perception	Pearson				
	Correlation	.533**	.352**	.392**	1
	Sig. (2-tailed)	.002			
	N	331			

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

Source: Researcher (2023)

4.7. Regression Analysis

The broad objective of the study was to determine the factors that affect capital gains tax performance among property owners in Nakuru City, Kenya. To achieve this objective, three specific objectives and three corresponding questions were set and formulated respectively. Subsequently, to achieve the set objectives and to answer the questions, the study used various inferential statistical tools and multiple regression analysis was used.

The results in Table 4.14 indicate that taxpayers' sensitization, systems automation and taxpayers' perception had a positive correlation with capital gains tax performance up to 73.8% or ($R = 0.738$). The results reveal that taxpayers' sensitization, systems automation and taxpayers' perception caused a variation of 54.5% or ($R^2 = 0.545$ and adjusted $R^2 = 0.529$) on capital gains tax performance. This implies that the remaining 45.5 % of the change was caused by other factors not included in the model.

Table 4.14: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.738 ^a	.545	.529	.69921

a. Predictors: (Constant), Capital Gains Tax Performance

Source: Researcher (2023)

4.7.1 Analysis of Variance

Further, ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.15 show an F statistics value of 101.938 with a significance level of 0.000 which was less than the conventional probability of 0.05 significance level, hence establishing that the model is statistically significant. The implication is that each independent variable (taxpayers' sensitization, systems automation and taxpayers' perception) contributes significantly to changes in the dependent variable (capital gains tax performance).

Table 4.15: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	14.986	3	4.995	101.938	.000 ^b
Residual	16.178	327	.049		
Total	31.164	330			

a. Dependent Variable: Capital Gains Tax Performance

b. Predictors: (Constant), taxpayers' sensitization, systems automation and taxpayers' perception

Source: Researcher (2023)

Joint Effect of Taxpayers' Sensitization, Systems Automation and Taxpayers' Perception on Capital Gains Tax Performance

Table 4.16: Model Summary

Model	Standardized Coefficients		Unstandardized Coefficients		Sig.
	B	Std. Error	Beta	T	
(Constant)	.380	.063		6.032	0.000
Taxpayers' sensitization	.357	.041	.250	8.707	0.000
Systems automation	.261	.078	.240	3.346	0.003
Taxpayers' perception	.285	.052	.432	5.481	0.001

a. Dependent Variables: Capital gains tax performance

Source: Researcher (2023)

Regression Equation

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3;$$

Where;

Y= capital gains tax performance

X₁ = taxpayers' sensitization

X₂ = systems automation

X₃=taxpayers' perception

α = constant term

$\beta_1, \beta_2, \beta_3$ = regression coefficients of X₁, X₂ and X₃

Regression Equation :

$$Y = .380 + .357X_1 + .261X_2 + .285X_3$$

The regression equation shows that the relationship between the independent variables and the dependent variable (capital gains tax performance) was statistically significant

with $p=0.000<0.05$ between taxpayers' sensitization and capital gains tax performance; $p=0.003<0.05$ between systems automation and capital gains tax performance and $p=0.001<0.05$ between taxpayers' perception and capital gains tax performance. A unit change in taxpayers' sensitization leads to an increase of capital gains tax performance by 0.357. A unit change in systems automation leads to an increase of capital gains tax performance by 0.261 and a unit change of taxpayers' perception leads to an increase of capital gains tax performance by 0.285.

4.7.2 Hypotheses testing

The first hypothesis tested was H_{01} : Taxpayers' sensitization has no significant effect on capital gains tax performance among property owners in Nakuru City, Kenya. The findings indicate that taxpayers' sensitization had a statistically significant effect on capital gains tax performance among property owners in Nakuru City, Kenya as evidenced by $\beta_1=0.357$, $p=0.000<0.05$, thus the null hypothesis is rejected.

The second hypothesis tested was H_{02} : Systems automation has no significant effect on capital gains tax performance among property owners in Nakuru City, Kenya. The findings show that systems automation had a statistically significant effect on capital gains tax performance among property owners in Nakuru City, Kenya as evidenced by $\beta_2=0.261$, $p=0.003<0.05$, thus the null hypothesis is rejected.

The third hypothesis tested was H_{03} : Taxpayers' perception has no significant effect on capital gains tax performance among property owners in Nakuru City, Kenya. The findings show that taxpayers' perception had a statistically significant effect on capital gains tax performance among property owners in Nakuru City, Kenya as evidenced by $\beta_3=0.285$, $p=0.001<0.05$, thus the null hypothesis is rejected.

Table 4.17: Summary of Hypothesis Testing

Hypothesis	P-value	Decision
H₀₁ : Taxpayers' sensitization has no significant effect on capital gains tax performance among property owners in Nakuru City, Kenya.	0.000	Reject H₀₁
H₀₂ : Systems automation has no significant effect on capital gains tax performance among property owners in Nakuru City, Kenya.	0.003	Reject H₀₂
H₀₃ : Taxpayers' perception has no significant effect on capital gains tax performance among property owners in Nakuru City, Kenya.	0.001	Reject H₀₃

Source: Researcher (2023)

4.8. Discussion of the Findings

4.8.1. Effect of Taxpayers' Sensitization on Capital Gains Tax Performance

The first objective of the study was to determine the effect of taxpayers' sensitization on capital gains tax performance among property owners in Nakuru City, Kenya. From the findings of the study; taxpayers' sensitization was statistically significant with $\beta_1=0.357$, at a p-value of 0.000 which is less than 0.05 probability significance level ($p= 0.000 < 0.05$). The study is in agreement with Xin (2015) who asserted that tax education improves individuals' awareness and ethics which in turn reduces the tendency of non-compliance amongst property owners. The Kenya Revenue Authority has put measures in place to educate the taxpayers. These measures include seminars, advertisements and trainings. In a separate study by Adelaide (2019), in her descriptive research on the rental owners in Thika, suggested that a strong positive correlation exists between taxpayer education and tax compliance.

4.8.2. Effect of Systems Automation on Capital Gains Tax Performance

The second objective of the study was to establish the effect of systems automation on capital gains tax performance among property owners in Nakuru City, Kenya. From the findings of the study, it shows that systems automation was statistically significant with $\beta_2=0.261$ at a p-value of 0.003 which is less than 0.05 the conventional probability significance level ($p= 0.003 < 0.05$). The study concurred with Pattiasina et al (2020) who did a study on determinants of taxpayer compliance level in East Indonesia. The study found that tax knowledge and sanctions had significant positive effect on technology effect on revenue performance and taxpayers' compliance and according to Zhou (2018) a tax system can never work better than its tax administration since a good tax administration may fail to turn a bad tax system into a well operating system.

4.8.3. Effect of Taxpayers' Perception on Capital Gains Tax Performance

The third objective of the study was to establish the effect of taxpayers' perception on capital gains tax performance among property owners in Nakuru City, Kenya. From the findings of the study, it shows that taxpayers' perception was statistically significant with $\beta_3=0.285$, at a p-value of 0.001 which is less than 0.05, the conventional probability significance level, $p= 0.001 < 0.05$. The study is in agreement with Ajzen (1991) who revealed that in general, people act in accordance with the intention or tendency and in accordance with the ability which they believed. Therefore, the behavior of tax compliance will also be determined by the intention of the taxpayer to comply. Chau and Leung (2019) revealed that using the Fischer tax model on peer influence, which is a basic key factor in determining the tax compliance level, where the peers of an individual are compliant with the tax requirements, then the compliance of an individual is also likely to be high.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the study in a summary and makes conclusions based on the results. The recommendations from the findings and areas for further research are also presented.

5.2 Summary of Findings

The overall objective of this study was to determine the factors that affect capital gains tax performance among property owners in Nakuru City, Kenya. Specifically, the study sought to determine the effect of taxpayers' sensitization on capital gains tax performance among property owners in Nakuru City, Kenya; to establish the effect of systems automation on capital gains tax performance among property owners in Nakuru City, Kenya and to establish the effect of taxpayers' perception on capital gains tax performance among property owners in Nakuru City, Kenya.

5.2.1 Taxpayers' Sensitization and Capital Gains Tax Performance

The study established to determine the effect of taxpayers' sensitization on capital gains tax performance among property owners in Nakuru City, Kenya. The results indicated a positive correlation between taxpayers' sensitization on capital gains tax performance with a correlation coefficient of $\rho=0.000 < 0.05$. In the regression analysis, taxpayers' sensitization was found to have a significant relationship with capital gains tax performance ($\beta_1 = 0.357, \rho < 0.05$).

5.2.2 Systems Automation and Capital Gains Tax Performance

The study sought to establish the effect of systems automation on capital gains tax performance among property owners in Nakuru City, Kenya. The results indicated a positive correlation between systems automation on capital gains tax performance with a correlation coefficient of $\rho=0.003 < 0.05$. In the regression analysis, systems automation was found to have a significant relationship with capital gains tax performance ($\beta_2 = 0.261, \rho < 0.05$).

5.2.3 Taxpayers' Perception and Capital Gains Tax Performance

The study sought to establish the effect of taxpayers' perception on capital gains tax performance among property owners in Nakuru City, Kenya. The results indicated a positive correlation between taxpayers' perception on capital gains tax performance with a correlation coefficient of $\rho=0.001 < 0.05$. In the regression analysis, taxpayers' perception was found to have a significant relationship with capital gains tax performance ($\beta_3 = 0.285, \rho < 0.05$).

5.3 Conclusions

Based on the foregoing findings, the study thus concludes that taxpayers' sensitization has a significant effect on capital gains tax performance among property owners in Nakuru City, Kenya. Taxpayers' sensitization is found to play a significant role on capital gains tax performance. Respondents agreed that they were aware of where to get all the information and assistance they may need on capital gains taxation.

Additionally, the findings of the study indicated that systems automation affected capital gains tax performance among property owners in Nakuru City, Kenya. Respondents agreed that KRA uses its social media pages to pass information to

various taxpayers and that using online payment shortens the tax payment process and saves on time.

Lastly, the study also concluded that taxpayers' perception influenced capital gains tax performance among property owners in Nakuru City, Kenya. The property owners agreed that the government and the relevant authorities spend the revenue collected on the desired expenditures. Also, an agreement was made that political goodwill and fair distribution of public resources influences perception towards tax compliance.

5.4 Limitations of the Study

The use of questionnaires to collect data was prone to biasness since the answers given by the respondents were as a result of their perception towards the items researched on matters taxation which led to some failing to answer correctly. This was curbed by assuring the respondents that the data collected was purely for academic purposes and that the information revealed was to be treated at the highest confidentiality level.

Another challenge was on cost incurred during the study. The use of research assistants required payment of transport expenses and other allowances making the whole process costly. This necessitated use of some of the savings to ensure that these research assistants were well remunerated so as to have morale of helping them collect the questionnaires.

5.5 Recommendations

Based on the conclusions of the study, recommendations have been made for policy, practice and further research.

5.5.1 Implication to Theory

This study will be of great importance as it will enable researchers to firm up their stock of knowledge for future research. The scholars will find this study a useful guide in as far as further discussions or studies are concerned. It will therefore form a basis of further research from interested individuals on the subject of capital gains tax performance and the literature research gaps as far as this sector is concerned. It also reviews the theories: the benefit theory of taxation, universal theory of acceptance and use of technology and the social influence theory guiding the formulation and conceptualization of the study.

5.5.2 Policy recommendations

On the basis of the findings and conclusions, the study recommends that the policy makers will need to keep a closer eye on taxpayers' sensitization, systems automation and taxpayers' perception on capital gains tax performance among property owners in Nakuru City, Kenya. The study recommends that KRA should pay more attention on taxpayers' sensitization and systems automation which contributes to online payment process being efficient in payment of taxes.

5.6 Suggestions for Further Research

The study sought to determine the factors that affect capital gains tax performance among property owners in Nakuru City, Kenya. The study was however limited to taxpayers' sensitization, systems automation and taxpayers' perception. The study therefore suggests that future research should be conducted to investigate effect of other variables such as cost and tax knowledge on Capital Gains Tax performance.

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APPENDICES

Appendix 1: Introductory Letter

Dear Respondent,

RE: DATA COLLECTION

I am Lesupeer Mpukiyan Peter, a student at Kenya School of Revenue Administration. I wish to invite you to take part in this study. This study will be used for partial fulfilment for the degree leading to Masters in Tax and Customs Administration (Tax Administration).

The research conducted is entitled “DETERMINANTS OF CAPITAL GAINS TAX PERFORMANCE AMONG PROPERTY OWNERS IN NAKURU CITY, KENYA”.

I kindly request you to assist in the collection of data by completing the accompanying questionnaire. The questionnaire will take 10 to 20 minutes to be completed and is in a simple language. The data provided will be strictly for academic purpose and will be held in strict confidentiality.

Thank you.

Sincerely,

LESUPEER MPUKIYAN PETER

Appendix II: Questionnaire



Consent Form

DETERMINANTS OF CAPITAL GAINS TAX PERFORMANCE AMONG PROPERTY OWNERS IN NAKURU CITY, KENYA

I agree to participate in the research project titled DETERMINANTS OF CAPITAL GAINS TAX PERFORMANCE AMONG PROPERTY OWNERS IN NAKURU CITY, KENYA conducted by LESUPEER MPUKIYAN PETER of Registration Number KESRA/105/0033/2021 of Moi University and Kenya School of Revenue Administration who has discussed the research project with me.

I have received, read and kept a copy of the information letter. I have had the opportunity to ask questions about this research and I have received satisfactory answers. I understand the general purposes, risks and methods of this research.

I consent to participate in the research project and the following has been explained to me:

The research may not be of direct benefit to me

My participation is completely voluntary

My right to withdraw from the study at any time without any implications to me

The risks including any possible inconvenience, discomfort or harm as a consequence of my participation in the research project

The steps that have been taken to minimise any possible risks

What I am expected and required to do

Whom I should contact for any complaints with the research or the conduct of the research

I am able to request a copy of the research findings and reports

Security and confidentiality of my personal information

In addition, I consent to: audio-visual recording of any part of or all research activities (if applicable) publication of results from this study on the condition that my identity will not be revealed.

Name:

Signature:

Date:

**THE RESEARCHER SEEKS TO INVESTIGATE THE DETERMINANTS OF
CAPITAL GAINS TAX PERFORMANCE AMONG PROPERTY OWNERS IN
NAKURU CITY, KENYA**

Please take time to read through and answer the questions correctly by ticking on the appropriate box.

SECTION A: BACKGROUND INFORMATION

1. What is your gender?

Male

Female

Please select your age bracket?

Less than 18

Between 19 and 28

Between 29 and 38

Between 39 and 48

Between 49 and 58

Between 59 and 68

Between 69 and 78

Above 79

2. For how long have you been in the Property sector?

Less than 5 year

Between 6 and 10years

Between 10 and 15years

Between 15 and 20years

More than 20years

SECTION B: TAXPAYERS' SENSITIZATION ON CAPITAL GAINS TAX PERFORMANCE

3. Kindly answer the following questions by putting a tick in the appropriate box based on how you agree with the following statements. The likert scale is 1= Strongly disagree, 2= disagree, 3=Neutral, 4=Agree and 5=Strongly Agree

Statement	1	2	3	4	5
As a property owner, I understand the reason for paying the taxes.					
I am well conversant with the timeframe for filing of returns.					
I can access all the information of taxes collected and the corresponding expenditure.					
As a taxpayer, I am well informed of how to calculate the capital gains taxes and when to the submit taxes and file the returns.					
I am aware of where to get all the information and assistance I may need on capital gains taxation.					

SECTION D: SYSTEMS AUTOMATION ON CAPITAL GAINS TAX PERFORMANCE

4. Kindly answer the following questions by putting a tick in the appropriate box based on how you agree with the following statements. The likert scale is 1= Strongly disagree, 2= disagree, 3=Neutral, 4=Agree and 5=Strongly Agree

Statement	1	2	3	4	5
Using online payment shortens my tax payment process and saves on time.					
Online payment process is efficient in payment of taxes.					
It is easier to file taxes online than the manual filing of returns.					
Online tax tutorials guide taxpayers on the basics of tax preparation					
KRA uses its social media pages to pass information to various tax payers					

SECTION C: TAXPAYERS' PERCEPTION ON CAPITAL GAINS TAX PERFORMANCE

5. Kindly answer the following questions by putting a tick in the appropriate box based on how you agree with the following statements. The likert scale is 1= Strongly disagree, 2= disagree, 3=Neutral, 4=Agree and 5=Strongly Agree

Statement	1	2	3	4	5
The government and relevant authorities spend the revenue collected on the desired expenditures.					
Political goodwill and fair distribution of public resources influences perception towards tax compliance.					
As a property owner, I believe that paying the capital gains tax in time contributes to the economic growth.					
I perceive KRA to be efficient in tax administration and therefore likely to catch up with tax evaders.					
Compliance costs have direct impact on voluntary compliance with capital gains taxation.					

SECTION E: CAPITAL GAINS TAX PERFORMANCE

6. Kindly answer the following questions by putting a tick in the appropriate box based on how you agree with the following statements. The likert scale is 1= Strongly disagree, 2= disagree, 3=Neutral, 4=Agree and 5=Strongly Agree

Statement	1	2	3	4	5
It is my responsibility to register as a property owner and be provided with a KRA PIN.					
As a property owner, I have a KRA PIN which I use to file returns.					
As a property owner, I understand the need to keep a clear record of my transfer and sale of property for tax purposes.					
As a property owner I understand that when I sell or transfer a property, I should pay capital gains tax on time.					
As a property owner, I remit the correct capital gains tax when I transfer my property and I pay on time.					

Thank you for your participation

Appendix III: Research Letter



PUBLIC

KENYA SCHOOL OF REVENUE ADMINISTRATION

REF: KESRA/NBI/036

6th June 2023

TO: WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: REQUEST FOR ASSISTANCE TO LESUPEER MPUKIYAN PETER OF REGISTRATION NO.: KESRA105/0033/2021 UNDERTAKING MASTERS AT KESRA.

This is to confirm that the above named is a student at Kenya School of Revenue Administration (KESRA) Nairobi Campus pursuing Masters in Tax and Customs Administration.

The named student is undertaking Research on TOPIC: *"Determinants of capital gains tax performance among property owners in Nakuru city, Kenya."*

The purpose of this letter is to request for your kind facilitation in enabling the student progress in his research project by allowing access to any relevant information and/or conduct interviews, which are relevant to the project.


Your support to the student in this regard will be highly appreciated.

Thank you.


Damacrine Masira
Manager Academic Research,
KESRA



Appendix IV: NACOSTI


NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION.
 Date of Issue: **30/June/2023**

RESEARCH LICENSE



This is to Certify that Mr. LESUPEER MPUKIYAN LESUPEER of Kenya School of Revenue Administration, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nakuru on the topic: DETERMINANTS OF CAPITAL GAINS TAX PERFORMANCE AMONG PROPERTY OWNERS IN NAKURU CITY, KENYA for the period ending : 30/June/2024.

License No: **NACOSTI/P/23/27099**
 Applicant Identification Number: **977713**
 Director General
NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

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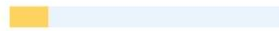
Appendix V: Plagiarism Report



Plagiarism Checker X - Report

Originality Assessment

14%



Overall Similarity

Date: Jul 13, 2023
Matches: 2935 / 20814 words
Sources: 70

Remarks: Low similarity detected, check with your supervisor if changes are required.

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