

**DETERMINANTS OF COMPLIANCE LEVELS WITH  
RESIDENTIAL INCOME TAX BY PROPERTY OWNERS IN  
NAIROBI COUNTY**

**BY**

**BARBARA MUTESHI LUCINDE**

**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL  
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF  
DEGREE OF MASTERS OF SCIENCE IN FINANCE, SCHOOL OF  
BUSINESS, UNIVERSITY OF NAIROBI**

**DECEMBER 2017**

## DECLARATION

I declare that this research project report is my own original work and that it has not been presented to any other university or institution for academic credit.

Signed..... Date .....

**BARBARA MUTESHI LUCINDE**

**D63/85544/2016**

This research project report has been presented for examination with my approval as the university supervisor.

Signed..... Date .....

**Dr. Mirie Mwangi**

**Senior Lecturer, Department of Finance and Accounting**

**School of Business**

**University of Nairobi**

## **ACKNOWLEDGEMENT**

My special thanks go to The Almighty God for giving me an opportunity to come this far. I also wish to acknowledge the efforts of my family members for their moral support and encouragement throughout the entire research period. I also take this opportunity to salute the guidance and directions accorded to me, also acknowledge the professional efforts of my supervisor, Dr. Mirie Mwangi, for his guidance throughout my research for remarkably never failing to be available when I need his assistance which enabled me to compile this project research.

## **DEDICATION**

I dedicate this research project to my parents, Mr. and Mrs. Lucinde, brothers and sisters, you have been my rock and motivation as I pursued this course. To my wonderful husband John Ogutu, my sons Nathan and Leon Ogutu and my friends who have supported me all through. I would not have made it without your moral as well as financial support, understanding and perseverance during my period of study

# TABLE OF CONTENTS

<b>DECLARATION.....</b>	<b>ii</b>
<b>ACKNOWLEDGEMENT.....</b>	<b>iii</b>
<b>DEDICATION.....</b>	<b>iv</b>
<b>LIST OF TABLES.....</b>	<b>viii</b>
<b>LIST OF ABBREVIATIONS.....</b>	<b>ix</b>
<b>ABSTRACT.....</b>	<b>x</b>
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.1 Background of the Study .....	1
1.1.1 Residential Income Tax Compliance .....	3
1.1.2 Determinants of Residential Rental Income Tax Compliance.....	3
1.1.3 Residential Property Owners in Nairobi County .....	5
1.2 Research Problem .....	6
1.3 Research Objectives.....	8
1.4 Value of the Study .....	9
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>10</b>
2.1 Introduction.....	10
2.2 Theoretical Literature Review .....	10
2.2.1 The Allingham-Sandmo Theory .....	10
2.2.2 Fiscal Exchange Theory.....	11
2.2.3 Social Influences Theory .....	12
2.4 Conceptual Framework.....	17

<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>18</b>
3.1 Introduction.....	18
3.2 Research Design.....	18
3.3 Population of the Study.....	18
3.4 Sampling Size .....	18
3.5 Data Collection .....	19
3.6 Data Analysis .....	19
3.6.1 Analytical Model.....	19
3.6.2 Measurement of the x Variables.....	20
3.6.3 Test of Significance.....	22
 <b>CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION .....</b>	 <b>23</b>
4.1 Introduction.....	23
4.2 Factors affecting tax compliance by property owners in Nairobi.....	26
4.2.1 Tax Knowledge.....	26
4.2.2 Income Levels.....	28
4.3 Fines and Penalties.....	29
4.4 Tax Rates .....	30
4.5 Tax compliance levels by Property owners in Nairobi County .....	31
4.6 Residential Tax Compliance by Property owners in Nairobi County.....	32
4.7 Discussion of the Study .....	37

<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ..</b>	<b>39</b>
5.1 Introduction.....	39
5.2 Summary.....	39
5.3 Conclusion .....	41
5.4 Recommendations.....	42
5.5 Limitations .....	43
5.5 Suggestion for Further Research.....	44
<b>REFERENCES.....</b>	<b>45</b>
<b>APPENDICES.....</b>	<b>47</b>
<b>Appendix I:</b> Letter of Introduction .....	47
<b>Appendix II:</b> Questionnaire.....	48

## LIST OF TABLES

<b>Table 3.1:</b> Measurement of the x Variables .....	22
<b>Table 4.1:</b> Gender.....	23
<b>Table 4.2:</b> Ownership .....	24
<b>Table 4.3:</b> Age.....	24
<b>Table 4.4:</b> Registration of Business with the Government .....	25
<b>Table 4.5:</b> Income .....	25
<b>Table 4.6:</b> KRA Pin.....	26
<b>Table 4.7:</b> Tax Knowledge.....	27
<b>Table 4.8:</b> Income Levels.....	28
<b>Table 4.9:</b> Fines and Penalties.....	29
<b>Table 4.10:</b> Tax Rates .....	30
<b>Table 4.11:</b> Tax Compliance.....	31
<b>Table 4.12:</b> Correlations.....	32
<b>Table 4.13:</b> Model Summary.....	33
<b>Table 4.14:</b> ANOVA <sup>a</sup> .....	34
<b>Table 4.15:</b> Coefficients <sup>a</sup> .....	35
<b>Table 4.16:</b> Summary of Descriptive Statistics.....	36



## **LIST OF ABBREVIATIONS**

**ANOVA** - Analysis of Variance

**KRA** - Kenya Revenue Authority

**PAYE** - Pay as you Earn

**SME** - Small and Medium Enterprises

## **ABSTRACT**

Tax authorities major challenge has always been persuading all the property owners to comply with taxation regulations. The study was aimed at establishing the impact of the various determinants on residential income tax compliance. It was specifically aimed to establish how, tax rates, tax knowledge, income levels, fines and penalties affect residential rental income tax compliance by property owners in Nairobi County. The study used descriptive research design since it was focused on the effects of tax compliance determinants on operational performance of property owners in Nairobi County. The study was guided by Theory of Fiscal policy and Social influence theories. The study used a descriptive statistic in its methodology on property owners in Nairobi County. This study used primary data. Data collection was effected by use of structured questionnaires. Property owners in Nairobi County were the targeted population who were sampled out to be 100 out of the total number of 1000 property owners in Nairobi County. These questionnaires were issued through drop and pick method, coded, keyed and analyzed using both descriptive and regression analysis. The regression model used had four variables. Tax rates, fines and penalties, tax knowledge and income levels were the dependent variables while residential tax compliance was the independent variable. The study findings indicated that tax rates, tax knowledge, income levels, fines and penalties have a positive impact on residential rental income tax compliance. The study provides some preliminary evidence that imposing fines/penalties and education provision among property owners in Nairobi county will improve tax compliance. There should be stiff enforcement of fines and penalties to deter tax evasion. Additionally, tax authorities should simplify processes involved in filing of returns and payment of taxes. Other future academicians should research on residential income tax compliance levels by property owners in a different town rather than Nairobi county or carry out a cross sectional study in Kenya.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

A residential property refers to a land owned by individuals or the government which is predominated by houses, which are basically for domestic use rather than commercial or industrial use (Vadde, 2014). There are various types of residential properties which are in form of flats, stand-alone houses and apartments. Over the past decade there has been an alarming increase in the demand for housing in the urban areas. It is due to high migrations to urban areas in search for employment. It has resulted in massive expansions in investments in the rental property (Gbadegesin, 2015). Thus, understanding the compliance of rental income taxation is highly important for the government and for the reason that taxation of rental income influences the relationship between house owners and house renters (Yesuf, 2013).

Tax is a mandatory financial charge or levy, which is imposed upon taxpayers (an individual or legal entity) by states or functional equivalent to a state in order to fund various public expenditures. Taxation is compulsory money collection by a levying authority, which in most cases is a government. Taxation is a means by which government finances their expenditure by imposing charges on citizens and corporate entities (Vadde, 2014). Funds from these taxes is used by the government to deliver services to its own citizens and carry out development. Efficiency and effectiveness of the tax system is facilitated by compliance on tax laws. There is a high need for knowledge on rental income compliance by property owners since they contribute to high margin of income tax (Taylor, 2004).

Tax compliance refers to the degree to which taxpayers comply with law. It is the act of reporting income earned and expenses incurred by the citizens of a country as per the tax laws. Tax compliance is what the state assumes as legally owed by taxpayers (Kasipillai, 2013). The degree of non-compliance is measured by what is called tax gap. This represents the difference between actual revenue collected and the amount that would have been collected if there was 100% compliance.

Tax evasion and timeliness in payment of tax (tax compliance) is the central part of tax gap definition. In both developing and developed countries, tax is the major source of income (Shavell, 2000). The government should ensure that it sets out strict tax laws which will facilitate tax compliance by its citizens in order to facilitate timely payment of tax. Tax income facilitates daily running of the country's activities. In addition, it facilitates financing of government projects from income raised (Ariffin, 2016).

Tax compliance levels as per reports from the Kenya revenue authority have remained to be evidently low despite the use of sanctions like fines, monitoring, frequent audits and penalties to those who do not comply to the payment of tax. This has resulted to low tax revenue collections (Karanja, 2014). An improvement in tax compliance facilitates improved economy of a country since the government is able to get adequate revenue for financing its projects (Yidersal, 2014). There exists a wide gap in knowledge on the factors affecting residential income tax compliance levels by property owners in Nairobi County. This research intends to fill this gap in knowledge.

### **1.1.1 Residential Income Tax Compliance**

Residential rental income tax is the tax imposed on income from rent of residential buildings. It can be in form of lease with option to buy, part interest and rental of property also used as your home. Every year the owners of property are required to declare the property they own since any income that is received from renting out a property is legally chargeable to income tax return. This type of income is in the form of renting out building and leasing out buildings (Yesuf, 2013).

According to Feinstein (1998) tax Compliance can be viewed from many perspectives: It can be viewed as problem of public finance, law enforcement, organization design, labor supply, or ethics, or a combination of all of this. Compliance spans the notion of equity, efficiency and incidence. If for instance the wealthy can systematically evade a larger share of their taxes than can the poor, then the effective tax system will be less equitable than the legislated one (Feinstein, 1998).

In Kenya, the government set up a 10% rental income tax rate on gross which applies to all property owners. It applies to rental income received from the month January 2016. Persons eligible are required to file their tax return via i Tax System (Authority, 2015). KRA has implemented measures to encourage tax compliance by property owners. Some of the benefits include simplified tax computation at 10% flat rate on gross rent and not at 10% -30% rates (KPMG, 2015).

### **1.1.2 Determinants of Residential Rental Income Tax Compliance**

Behavior of compliance by the taxpayer has attracted much interest that is helping to develop a better understanding of what motivates taxpayers to comply, or not to comply, with requirements of the tax system (Gilles, 2012). According to Mwangi (2014) one of

the main tax evasion reason is the high personal income tax rates, which tend to lead taxpayers to evade tax. It is generally believed that a high tax rate is the main cause of tax evasion. Incentives to evade tax depend on the marginal rates of taxation because these govern the gains from evasion as a sum of the tax evaded. High tax may be a disincentive to work that can lead to low tax revenue collection (Kolodziej, 2011).

Attitude and perception towards tax and its general compliance levels has also been identified as a major factor that influences compliance of tax (Mukabi, 2014). Attitude may be positive or negative feeling or opinion of an individual about someone or something and so forth. Attitude usually controls an individual's action. Thus, a taxpayer with positive attitude toward tax evasion is expected to be less compliant than a taxpayer with negative attitude (Wahl, 2008).

Income levels are also deemed to influence tax compliance by various individuals and entities. According to Kirchler (2008), most taxpayers do not want to lose their hard earned money by gambling with tax authorities. (Barbuta, 2011) also proposes that the self-employed people are more likely to avoid paying taxes as compared to employed ones.

Enforcement measures are part of the coercive approach, which advocates hard actions against tax non-compliance. Penalties and fines usually encourage tax compliance. The only problem lies with detection of such individuals or entities that are likely to avoid paying taxes (Mukabi, 2014). Thus, it's crucial for the tax authority to have an effective system that can help in detection of non-compliance and penalize or fine tax evaders.

Tax knowledge and education are also considered to be a vital part of attitudes towards tax compliance Kirchler (2008) posits that knowledge of tax is crucial since when an individual knows what is supposed to be done at any time he/she will always comply. Knowledge is power as they say. Poor knowledge on taxation can lead to a distrust and negative attitude towards tax; while good tax knowledge, correlates with a positive attitude towards tax (Wahl, 2008).

### **1.1.3 Residential Property Owners in Nairobi County**

Nairobi County is one of the biggest counties in Kenya with over eighty percent of landlords in Kenya who are estimated to be around one hundred thousand landlords. Nairobi County has attracted a high number of residents being the capital city of Kenya (Murabu, 2014). Nairobi County earns rental income from renting services of buildings for: offices, businesses, homes, warehouses and factories. Residential houses in Nairobi County are majorly found in the estates (Muchira, 2007).

Residential housing comprises of wide variety of forms, from publicly aided tenant purchase, mortgage houses and apartments to semi-urban houses. Some residents of Nairobi County own quite a number of rental houses or units and manage them secretly (Mwangi, 1997). The level of rent charged on such units varies depending on some facts like closeness to a tarmac road, proximity to business centre, 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). Thus, residential rental houses in Nairobi County collect rent income, which is subject to taxation.

Tax compliance in Kenya, especially among the property owners in Nairobi County is generally very low. Property owners located in Nairobi County have a significance potential in contributing to the country's GDP due to their enhanced governance structures amongst other factors. In addition, the cost of enhancing tax compliance in Nairobi County by the revenue authority would be minimal compared to any other county (GoK, 2006; ILO, 2008). There are a number of determinants of tax compliance by property owners in Nairobi County which include, perception and attitudes, tax knowledge, tax costs, penalties and there is need to examine why this is so. As such, this study will examine determinants of tax compliance by property owners in Nairobi County.

## **1.2 Research Problem**

Globally and even locally, the aspect of tax compliance is a very crucial aspect which has attracted the interests of many researchers. Basically more than fifty percent of third world countries classify rental income as being economic transactions which cause difficulties in the detection of actual amount of tax, due to high number of citizens involved (Yidersal, 2014) (Palil, 2010). Generally, the taxation systems in the whole world faces a number of challenges. Rental income tax being one of them also faces a number of challenges too, both on the side of the tax payers and the officials (Yesuf, 2013).

In Kenya, taxation has been the main source of revenue to the government. The taxes are used by the government to provide public goods and/or services to general public. Over the past years, though revenue collections by the Kenya Revenue Authority have increased, the revenues collected have not been sufficient to fund the budget proposals resulting into budget deficits Alegana (2014). In addition, the rise in government expenditure has forced



the government to bring each and every sector into taxation bracket so as to be able to fund such crucial goods and services to the public. Thus, there is need to examine the factors influencing residential rental income tax compliance by property owners in Nairobi county.

A number of studies have been done globally on the aspect of tax compliance: (Palil, 2010) conducted a study on tax compliance and tax awareness in a self-assessment system in Malaysia. As per his study, he asserted that tax compliance is largely influenced by probability of being audited, penalties, and personal financial. Hargreaves (2008) in his study on the effect of tax system on New Zealand's housing market, he found out that a large number of owner occupiers are not tax compliant since they do not remit their taxes from rental income. (Dube, 2014) Carried out a case study in Zimbabwe on how taxes are administered in the informal sector where he concluded that issues of high taxes and ignorance are the major contributors to non-compliance to tax payments in the informal sector resulting to low income tax revenue collected. However, the above international studies did not concentrate on residential rental income taxes.

In Kenya, a study by Wathira (2016) explored the determinants of residential income tax by property owners in Thika town, where she asserted that, tax rates and tax knowledge significantly affects tax compliance by property owners. Osebe (2013) researched on factors which affect tax compliance in Kenya real estate sector where he found out that factors like education, penalties, compliance costs, knowledge of tax and the perceived tax evasion opportunities have a great influence on tax compliance. Ejakait (2011) researched on the tax compliance by manufacturing sector, a case study of medium taxpayer's office where she concluded that there are no differences between educated and non-educated

taxpayers in terms of payee remittances. (Mwangi, 2014)In addition, also carried a study on the SME's in the industrial area on the factors which influence their tax compliance where he asserted that factors like revealed high tax rates, lack of adequate information on tax matters and costs of tax compliance affected tax compliance.

All the previous studies both global and local have majorly focused on other sectors like SMEs, manufacturing sector, real estate market, Thika Town, Malaysian continent and no research has been conducted on determinants of residential income tax compliance levels of property owners in Nairobi County. Nairobi County holds almost 80% of the real estate in the country. This study therefore is geared towards evaluating if the same determinants that affect property owners in other towns in Kenya affect landlords in Nairobi County too. There exists a gap in knowledge on determinants of residential income tax compliance levels of property owners in Nairobi County. In addition research studies previously done in Kenya were based on the old taxation method where landlords were taxed at a rate of 30% on their net rental income in comparison to the current 10% tax rate on gross income. Since the residential rental income tax regime was introduced as an incentive to attract more people into the tax net, the main drive or purpose of this study to carry out a study on determinants of compliance levels of property owners in Nairobi County. This research therefore seeks to answer the following research question:

What are the determinants of residential income tax compliance levels of property owners in Nairobi County?

### **1.3 Research Objectives**

To establish how selected determinants affect residential income tax compliance by property owners in Nairobi County.

#### **1.4 Value of the Study**

This study was valuable to various groups of people and stakeholders:

The Kenya Revenue Authority will find this study useful in evaluating the compliance levels of property owners in Nairobi County. Implementation of the results and findings of these study will benefit the county in general in terms of revenue collection. Academicians, students, policy makers and scholars will benefit from this study in that it will be used as a guide for further research on the aspect of tax compliance.

Property owners benefited too from this study in that they understood the various measures that should be taken in order to improve their compliance on payment of residential tax. Government will find this study useful in that it will be able to improve residential tax compliance levels by property owners. In addition the government increased amount of revenue collected from the taxpayers.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter focused on the review of the literature. The review was taken to bring out the gaps and enhance knowledge of factors affecting compliance levels on residential income tax by property owners in Nairobi County. It represents the theoretical literature review, the empirical literature review and conceptual framework.

### **2.2 Theoretical Literature Review**

The study explored the fiscal exchange theory, Allingham-Sandmo (AS) Theory and the social influences theory to explain the concept of tax compliance.

#### **2.2.1 The Allingham-Sandmo Theory**

The Allingham-Sandmo (AS) theory was originally developed in 1972 by Allingham and Sandmo. It is also referred to as the economic deterrence theory. It states that taxpayers are usually influenced by various factors which act as determinants of the costs of evading tax and the benefits accrued (Allingham & Sandmo, 1972). This theory tries to explain the taxpayers decision to reveal only part of their taxable income and evade taxes in this manner. This model looks at each individual taxpayer as someone who is rational, whereby they assess the benefits got from evading payment of taxes which is predetermined by the rates of tax and the related costs of evasion of taxes which are determined by the likelihood of being fined for cases to do with fraud. From these evaluation the various taxpayers decide not to pay taxes in those situations that the benefits of not paying are more than the related costs of paying taxes. (Walsh, 2012). This theory further assumes that taxpayers have a tendency of maximizing the non-compliance tax gamble of expected utilities by ensuring there is equality between benefits accrued from tax lying compared to sanctions and fines from tax evasion (Sandmo, 2005).

Basically taxpayers have a tendency of getting involved in activities that have a high probability of ensuring maximization of returns as well as ensuring they lower their costs. An evaluation is usually done whereby in the instances that there is a high probability of sanctions and the costs involved are very high to outdo rewards of an act, then it won't be done (Mengere, 2014). It asserts that the compliance levels on taxes will largely be dependent on issues like personal and social norms, audits, penalties or fines. In conclusion this study concludes that tax compliance depends more on tax audit and the penalties or fines. Cases of taxpayers high compliance to taxes are due to fear of being sanctioned. Thus, an increase in sanctions or fines and penalties results to increase tax revenue (Awa & Ikpor, 2015). Based on these assumptions that these model advocates for stricter audit and heavy penalties for offenders as a basis for reducing non-compliance (Fjeldstad, Schulz-Herzenberg & Sjursen, 2012). This model is related to the residential rental income tax compliance in that when there are low probability of audit and penalties, tendency for evasion by property owners will be higher, while if there is a high tendency for detection and penalties are severe, fewer property owners will evade residential rental income tax.

### **2.2.2 Fiscal Exchange Theory**

This theory evolved from the economic deterrence and social psychology models. The fiscal exchange theory is built on the existence of a social, relational or psychological contract between the government and the taxpayers (McKerchar & Evans, 2009). It asserts that compliance by tax payers to tax requirements by the government is greatly affected by government expenditures. High compliance levels by taxpayers is facilitated by the government making availability of improved public goods and services to its citizens. The government has the ability to ensure that its citizen comply by offering more improved

public goods and services with the little they collect in form of tax (Ali, Fjeldstad & Sjursen, 2013). Tax bargaining between taxpayers and the government is fundamental to building a relation of major proposition of this theory and the government, which is considered as fundamental to building a relationship of accountability and obligations between state and society (Fjeldstad, et al., 2012).

In addition it asserts that taxpayer compliance is greatly motivated by government expenditures in most cases when there is a high tendency of the taxpayers having a perception on valuing goods and services (Bello & Danjuma, 2014). Due to this factor, taxpayers are more willing to comply with tax requirement when they receive good services from the government and they are satisfied, even in the absence of detection and punishment. Besides that, taxpayers in most cases adjust their terms of trade, by low compliance to tax requirements in instances when they are dissatisfied with services provision from the government, or even in instances that they dislike the way their taxes are spent (Torgler, 2003). The relevance of this theory is that property owners may be willing to pay residential rental income tax since they value public goods and services being offered by their government and believe that the more they pay taxes, they will be offered more improved and better goods and services. Conversely, the property owners may not be willing to comply if they feel that they do not derive any benefit from the taxes collected by the government or that there is wasteful spending and looting in public coffers.

### **2.2.3 Social Influences Theory**

This theory was developed in the year 2006 by Noah Friedkin. 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., 2013). According to these theory, individuals are more likely to comply with tax requirement 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 they 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 residential rental income tax.

### **2.3 Empirical Literature Review**

Young, Lei and Kwok (2016) carried out a study on China's individual tax compliance. The findings of their study revealed that Confucianism and legalism as Chinese ethical and social values have effect on individual tax compliance. These values have effect on prompting ethical behaviors to regulatory issues. There should be inclusion of both incentives and disincentives in prompting individuals to comply with tax obligations. Kamleitner and Korunka (2012) investigated on tax compliance of small business owners. They carried out these study on small business owners identifying the characteristics of these small business owners. They asserted that the key aspects seem to distinguish small business owners are likely to perceive more opportunities not to comply than employed taxpayers. They lack knowledge on taxation and hence feel taxation as losses.

Bampton (2016) put through a study on Determinants of Tax Morale and Tax compliance, a case study of Jordan. The researchers used questionnaires in data collection and used multivariate tests procedure in as their research methodology. The findings indicated that, individuals tax compliance are positively affected by the tax rates and by the taxation system being perceived as unjust, but declines with increased audit rates and penalty rates. In addition, they concluded that the level and degree of various determinants are dependent on each individual's level of risk aversion, financial constraints and surrounding reference groups. In addition, individual factors play a significant role in determining the level of tax morale. Factors like gender, age, education level, occupation status and religious background to a great extend affect tax morale level.

Doussy (2006) carried out a research on tax compliance obstacles encountered by small and medium manufacturing enterprises in South Africa. This was a case study of the SMEs in South Africa. The findings indicate that lack of adequate tools in administering taxes is a major obstacle in SMEs in South Africa. In addition, the researchers indicated that tax compliance is a stumbling block for the SMEs in South Africa and there is need to reduce compliance requirements.

Maseko (2014) investigated the impact of personal tax knowledge and tax compliance costs behavior of SMEs in Zimbabwe. The findings of the study revealed that unlike large companies, SMEs face different business conditions which make them to endure high tax compliance load. Adeke (2011) assessed. Taxpayers education and tax compliance: An analysis of PAYE from the manufacturing sector in Kenya: a case study of medium taxpayers office. The researcher used fifty five firms as the sample size. Data used was both primary and secondary whereby data was collected by use of questionnaires were administered to respondents. The researchers concluded that there exists no difference



between trained and non-trained taxpayers in terms of PAYE remittances and filling from univariate analysis. The t test on the differences between trained and untrained taxpayers tax remittances indicate low significant levels at 5%.

Wathira (2016) investigated the determinants of residential rental income tax compliance levels by property owners in Thika town. A total of 193 property owners as per the Thika town list indicated were used. A sample of 58 property owners were selected. Data was collected using questionnaires. Data used was both primary and secondary. Findings indicated that there is a positive correlation between tax rates, knowledge of tax compliance. Income levels, fines and penalties negatively influence residential income tax. Jabbar (2006) in their study on whether gender and ethnicity differences occur in relation to tax compliance attitude and behavior. The researcher used questionnaires as a method of data collection. Their findings indicated that male and female both have the same attitudes towards tax compliance attitudes same to ethnicity. Besides, there was a high positive relationship between gender, education, individual tax preparation and non-compliance attitude. They indicated that they are strong causes of non-compliance.

Musau (2015) carried out study on the factors influencing tax compliance among SMEs in Nairobi County. He used a sample of 398 respondents as the sample size. Data was collected by use of questionnaires which were administered to the respondents. The researchers used regression model as a method of data collection. The researcher found out that there is a high increase in the likelihood of tax compliance among SMEs in Nairobi County with increased individual perception about difficulties of evading taxes. In addition there is a high level of tax compliance among individuals who are satisfied with what the government is offering as public goods, have adequate information on taxes, have trust in the government officials handling their taxes, and have perceptions that tax filling procedures are less complex are likely to comply with tax payment.

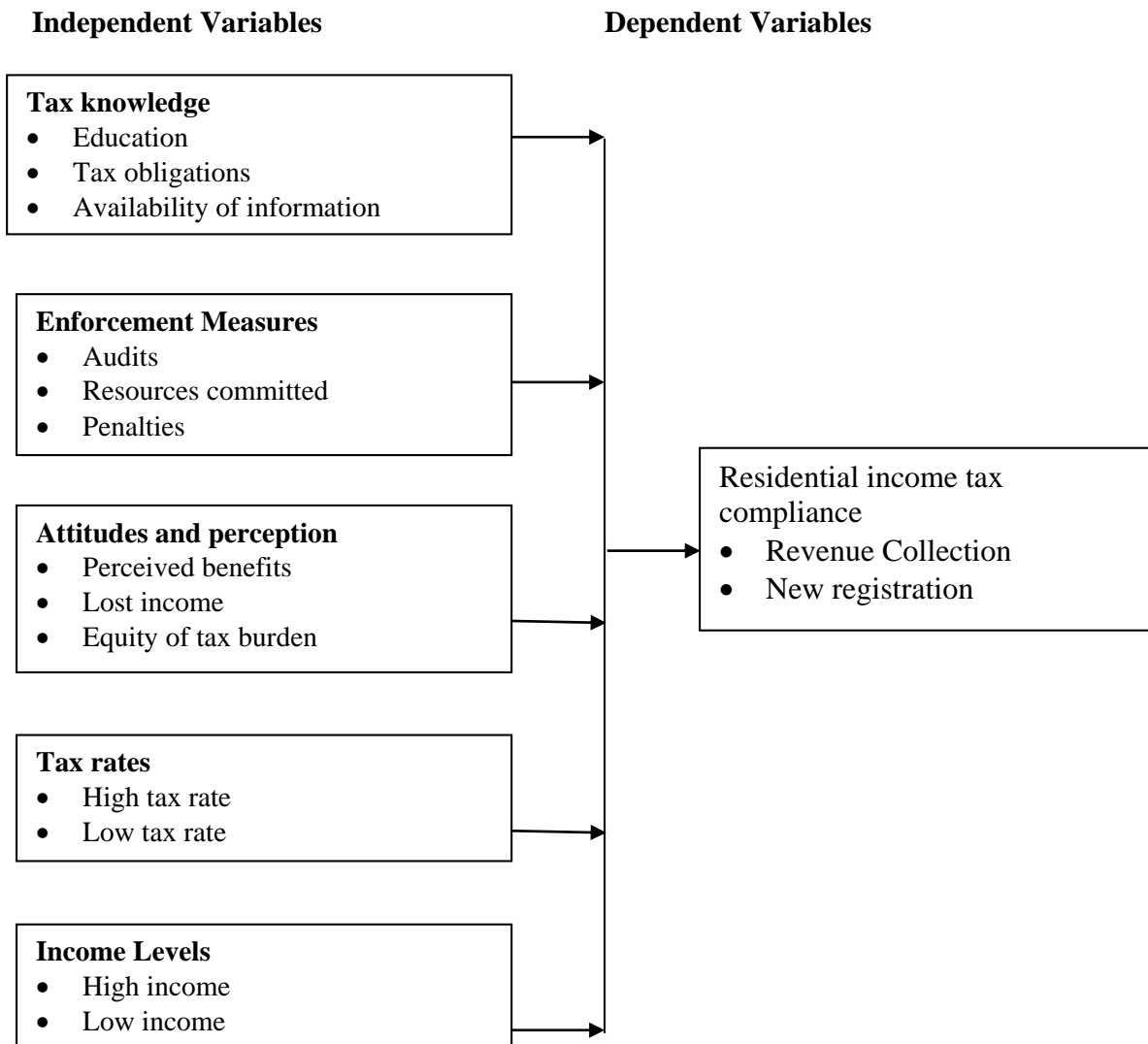
Mukabi (2014) explored factors influencing turnover tax compliance in the Kenya revenue authority domestic taxes department in Nairobi County. The study used a sample size of 56 respondents who were selected through stratified sampling and data was collected using questionnaires. The study findings revealed that the perceptions of taxpayers towards the tax system greatly determine the level of compliance for turnover tax. The findings also found that other factors like cost of compliance and complicated systems result into the low levels of compliance. In addition it established that increased tax knowledge had a significant effect on perception of tax system.

Thananga, Wanyoike and Wagoki (2013) carried out a study on how landlords in Nakuru Municipality responded to new taxation measures, and factors which influence compliance. They used a sample size of 94 respondents where data was collected by use of questionnaires. The findings indicated that there is low compliance levels by landlords to rental income tax and this was attributed to overstatement of taxes and deductions which are attributed to low tax deductions.

Karanja (2014) carried out research on the factors affecting voluntarily tax compliance in Kenya by landlords. The researchers used questionnaires in data collection and used a descriptive research design in data analysis. A sample of 45 respondents was selected and questionnaire used for data collection. The findings of the study established that there exists a strong positive attitude and perception that politicians misuse taxes, financial and family obligation had strong positive responses. The study findings also revealed that social norms and respondent's income levels strongly influenced tax non-compliance level among the Kenyan taxpayers on rental income. The study concluded all the determinants play a great role towards the compliance or non-compliance of Kenyan taxpayers.

## 2.4 Conceptual Framework

The study sought to investigate determinants of residential income tax compliance levels by property owners in Nairobi County. The independent variables were determinants of residential income tax compliance: the tax rate, attitude and perceptions, income tax levels, enforcement measures, knowledge of tax and education while dependent variable was residential income tax compliance.



**Figure 2.1: Conceptual Framework**

*Source: Researcher*

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter entailed: research design, population of the study, data collection, validity and reliability and analysis of data.

### **3.2 Research Design**

This research used descriptive research design to collect data (Bryman & Bell 2003). A research design is a representative of the framework which guides on the course of action of a study. A descriptive research design was used since it provides a detailed picture of the situation. Descriptive research design helps in the determination and description of the various features of interest by the researcher. Given the fact that this study sought to find out the compliance levels on residential income tax by property owners in Nairobi County. A descriptive research was of use in presenting and determining the state of the issue being studied and researched on.

### **3.3 Population of the Study**

Population is a group of individuals or items which explicit features that are similar according to (Gall et al., 2006). The target population was property owners in Nairobi County.

### **3.4 Sampling size**

The study adopted the descriptive cross-sectional design whereby the study variable were investigated at a single point in time (Churchill Jr. & Iacobucci, 2005). A sample of 1000 property owners in Nairobi County was used. According to Cooper and Schindler (2003), he recommends a 10% sample size of the total population.

Sample size =  $10\% * 1000 = 100$  property owners.

### **3.5 Data Collection**

Data used in this study was sought from both secondary and primary sources. Secondary data was sought from the Kenya Revenue Authority website. It provided data on the actual number of property owners that are on board. Primary data was collected from the respondents by use of questionnaire. The questionnaires had two sections namely: section one covered the background information of the respondents, section two covered on the various variables that affect compliance levels on residential income tax of property owners in Nairobi County that touch on the study which include issues to do with tax rates, attitudes, fines, perception among others. The questionnaires were well designed in a manner that attracted important responses to the questions presented. These results helped the researcher in data analysis. The questionnaires were given to the property owners through agents (caretakers) requested to pass them to the property owners of the sampled residential rental houses and then picked after one week.

### **3.6 Data Analysis**

Data analysis facilitates conversion of raw data to information which can be used in making decisions. Collected data was captured and analyzed using Statistical Package for Social Sciences (SPSS). The data was analyzed using descriptive statistics where percentages, means and standard deviations was used. For easier understanding, interpretation and drawing conclusions on findings, means and standard deviations was be used.

#### **3.6.1 Analytical Model**

In evaluation of relation between variables, that is dependent variables and independent variables, a multiple regression model was adopted. The multiple linear regressions was as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 + \varepsilon$$

Where

Y= Level of rental income tax compliance

X<sub>1</sub>= Tax rate

X<sub>2</sub>=Attitudes and perceptions

X<sub>3</sub>= Tax knowledge

X<sub>4</sub>= Enforcement measures

X<sub>5</sub>= Income Levels

ε= Error term

### **3.6.2 Measurement of the x variables**

Residential Income tax compliance level was measured by recruitment of new taxpayers, to widen the tax base and also an increase in the revenue collected over time. In order to test tax compliance, the respondents were asked if they observe tax compliance procedures such as use of the i-tax system, acquisition and use of electronic tax registers (ETRs) for those registered for VAT and whether they have failed to pay taxes or penalties owed to the government during the last few years.

Enforcement measures where the tax enforcement measures are the administrative measures taken by the Revenue authority to those taxpayers who fail to perform their tax liability. This was measured by a rank variable based on individuals' responses to the question used which stated, "Based on your experience, on how easy or difficult is it to avoid paying the income or property taxes that you owe to the government.

Tax knowledge, tax information and complex filing procedures will be measured using a rank variable based on individuals' responses to various questions including the ease of knowing the type of taxes to pay. The response ranged from 1 = "very easy" to 4 = "very difficult". Moreover, in order to measure tax compliance via tax knowledge, the following items were measured on a scale of 1= strongly disagree to 5= strongly agree.

The items or factors are formal tax education, simplified forms of tax payment, easy to reach customer centers, KRA as tax partner and not enforcer, general tax knowledge or lack of tax knowledge, tax procedures are complex and tax knowledge affects payments.

Attitude and Perception handful of variables were included in the regression to capture respondent's satisfaction with government's provision of different goods and services that citizens prefer which may motivate compliance attitude. These included satisfaction with i) government's provision of basic health services and addressing educational needs; ii) infrastructure (government provision of water and sanitation services, maintaining roads and bridges, and provision of reliable supply of electricity); and iii) government's handling of crime, security, conflict and corruption

Tax Rates refers to the statutory rate that is legally imposed by the government to its citizens. A measure of how high or low the tax rate affects the level of compliance was conducted. This aimed to find out whether government interventions on the tax rates affect the property owner's compliance level.

**Table 3.1: Measurement of the x variables**

<b>Variable</b>	<b>Measurement</b>
<b>Dependent Variables</b>	
Residential Income Tax Compliance Level	Increase in revenue and new recruitment of property owners to widen the tax base
<b>Independent Variables</b>	
Enforcement measures	Detection or fear of getting caught, penalties and increase in tax payment.
Tax knowledge	Level of access to information, knowledge of taxation system, attitude towards tax compliance procedures.
Attitudes and perception	Satisfaction with the government's provision of goods and services.
Tax rate	Level of tax rate, whether high or low, through the government's intervention affects the compliance level

### **3.6.3 Test of Significance**

F and T tests were used in the testing of the significance levels. In order to test to what extent variations in the independent variables explain various change in the dependent variable the F-Statistic was used that is determining significance of regression model. In order to establish variations between variables, Analysis of Variance (ANOVA) was used. T-test was used to test statistical significance of regression coefficients at 95% confidence level.



## CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

### 4.1 Introduction

This chapter contains the various findings of the study with respect to the objectives of the Study. This section presented the findings on determinants of compliance levels with residential rental income tax by property owners in Nairobi County. The study target population was the property owners in Nairobi County. The questionnaires were self-administered by the researcher and follow-ups through phone calls done. The various respondents were explained to what the high importance of the study information obtained and its importance to the researcher. By so doing, it ensured a 100% response rate. A response rate of 50% is considered adequate, 60% good and above 70% rated very good (Mugenda & Mugenda, 2003). The response rate for this study was 73% was considered very good and hence the researcher proceeded for data analysis since out of 100 questionnaires 73 of the questionnaires were filled.

**Table 4.1 Gender**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid male	50	61.7	68.5	68.5
Valid female	23	28.4	31.5	100.0
Total	73	90.1	100.0	
Missing System	8	9.9		
Total	81	100.0		

*Source: Research findings*

From the findings indicated above, the results ascertain that 68.5% of the respondents were male while 31.5% of the respondents were female property owners in Nairobi. An indication that most of the property owners were male.

**Table 4.2:Ownership**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid less than 2 years	14	17.3	19.2	19.2
2-4 years	24	29.6	32.9	52.1
5-10 years	15	18.5	20.5	72.6
over 10 years	20	24.7	27.4	100.0
Total	73	90.1	100.0	
Missing System	8	9.9		
Total	81	100.0		

*Source: Researcher 2017*

From the findings it indicates that 19.2% of the respondents have owned their properties for less than two years, 32.9% of the respondents had owned the property for 2-4 years, 20.5% of the respondents had owned the property for 5-10 years and 27.4% of the respondents had owned their properties for over 10 years.

**Table 4.3 Age**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Between 18-25	2	2.5	2.7	2.7
25-35	8	9.9	11.0	13.7
35-45	23	28.4	31.5	45.2
over 45 years	40	49.4	54.8	100.0
Total	73	90.1	100.0	
Missing System	8	9.9		
Total	81	100.0		

*Source: Researcher, 2017*

From the findings the results showed that most of the respondents were over 45 years of age indicated by 54.8% of the total, 31.5% of the respondents were aged between 35-45 years, 11.0% of the respondents were aged 25-45 years and finally 2.7% of the respondents were aged between 18-25 years.

**Table 4.4: Registration of business with the government**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	67	82.7	91.8	91.8
Valid no	6	7.4	8.2	100.0
Valid Total	73	90.1	100.0	
Missing System	8	9.9		
Total	81	100.0		

*Source: Researcher 2017*

From the findings it was found that 91.8% of the respondents had registered their properties with the government while only 8.2% of the respondents indicated that they had not registered their business with the relevant government authorities.

**Table 4.5: Income**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid less than 50,000	22	27.2	30.1	30.1
Valid 50,001-100,000	10	12.3	13.7	43.8
Valid 100,001 to 200,000	9	11.1	12.3	56.2
Valid 200,001 to 300,000	6	7.4	8.2	64.4
Valid 300,001 to 400,000	8	9.9	11.0	75.3
Valid 400,001 to 500,000	7	8.6	9.6	84.9
Valid over 500,000	11	13.6	15.1	100.0
Valid Total	73	90.1	100.0	
Missing System	8	9.9		
Total	81	100.0		

*Source: Researcher 2017*

From the findings, it was established that 30.1% of the respondents receive a monthly income of less than Ksh. 50,000, 13.7% of the respondents have income between ksh. 50,001 to Ksh. 100,000 ,12.3% of the respondents earn ksh. 100,001 to 200, 000, and 8.2% of the respondents earn Ksh. 200,001 to Ksh. 300, 000, 11% of the respondents earn an income of Ksh. 300,001 to 400,000,9.6% of the respondents earn ksh. 400,001 to 500,000 and 15.1% of the respondents earned over Ksh. 500,000 from their property.

**Table 4.6 KRA pin**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid     yes	73	90.1	100.0	100.0
Missing   System	8	9.9		
Total	81	100.0		

*Source: researcher, 2017*

The findings indicated that all the respondents had a KRA pin, indicted by 100% responses. An indication that all property owners have KRA pins.

#### **4.2 Factors affecting tax compliance by property owners in Nairobi**

The objective of the study was to ascertain the tax compliance by property owners in Nairobi County. To ascertain this descriptive statistic was carried out on the data collected on the various factors that affect tax compliance by property owners in Nairobi as indicated below:

##### **4.2.1: Tax Knowledge**

All data on how tax knowledge affects tax compliance. The findings of the means and standard deviations are as indicated below.

**Table 4.7: Tax Knowledge**

	N	Mean	Std. Deviation
Property owners have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime	73	3.0000	.00000
Lack of proper records on expenses incurred greatly contributed to non-compliance by property owners in the previous regime	73	1.5616	.66638
Knowledge about tax laws plays a major role in determining property owners' tax compliance	73	1.4658	.50228
Effective tax education can change the attitude and perception of property owner towards tax compliance	73	1.5068	.53029
Majority of tax payers are familiar with the iTax system	73	1.7945	.64461
KRA has created a lot of public awareness on residential rental income tax	73	3.3288	.76476
Valid N (listwise)	73		

**Source: Researcher 2017**

The findings indicate that as per the respondents, all the respondents agreed to the fact that tax knowledge has an impact on tax compliance indicated by positive values in the mean values of various issues to do with knowledge on taxes and how it affects tax compliance. A mean value of 3.0 was attained an indication that most of the respondents ascertained to

neutral extend that property owners have knowledge on residential tax compliance. A mean value of 1.5 indicated that the respondents agreed to a great extent that poor record keeping is a contributor to tax non-compliance. Besides, to great extent the respondents agreed that residential tax compliance is highly predetermined by knowledge on tax laws by property owners. Besides, they strongly agreed to the fact that tax education is key to tax compliance by property owners in Nairobi County. On their views about the role of KRA in creating awareness on tax compliance, the respondents to a moderate extent indicated that it had failed to create awareness indicated by a mean value of 3.3.

#### 4.2.2 Income levels

Property owners in Nairobi the results are as indicated below asked the respondents using various questions on their views on income levels and how it affects tax compliance:

**Table 4.8: Income levels**

	N	Mean	Std. Deviation
Tax rate should vary with level of residential rental income	73	1.8904	.73714
Low residential rental income earners should not be taxed	73	3.9041	.58129
Tax on residential rental income is lower when based on gross income instead of net income	73	4.0000	.78174
The monthly payment of tax has an evenly distributed impact on the cash flow of property owners	73	1.6164	.48962
Valid N (listwise)	73		

*Source: Researcher, 2017*

From the findings, it was found that that in general levels of income have a positive impact to tax compliance by property owners in Nairobi. This was indicated by positive mean values on income owners. A mean value of 1.8 indicated that to great extend the

respondents agreed to the fact that tax rates should vary with levels of residential rental income. In addition a mean of 3.9 was attained an indication that the respondents were neutral on the issue to do with low residential rental earners should not be taxed .Besides the respondents disagreed that tax on residential rental income is lower when based on gross income and not on net income as indicted by a mean value of 4.0.In addition the respondents agreed that monthly payment of taxes has evenly distributed impact on cash flows of property owners as indicted by a mean value of 1.61.

### 4.3 Fines and penalties

The respondents were asked using various questions on their views on penalties and fines and how they affect tax compliance by property owners in Nairobi the results are as indicated below:

**Table 4.9: Fines and penalties**

	N	Mean	Std. Deviation
Fines and penalties discourage non-compliance with of residential rental income tax obligations	73	1.5479	.50114
Periodic waiver of fines and penalties could encourage tax compliance	73	1.6164	.56838
Property owners file nil or incorrect returns to avoid penalties of non-compliance on the iTax system	73	2.0548	.76177
Valid N (list wise)	73		

*Source: Researcher, 2017*

The findings astern that the respondents agreed to the fact that fines and penalties discourage non-compliance indicated by a mean value of 1.5479 based on a liker scale where one indicated, strongly agree. Besides the findings also indicated that largely the respondents agreed that waivers of fines and penalties encourage tax compliance, indicted by a mean value of 1.6164.Besides they also agreed to the fact that most property owners in Nairobi County, file nil returns to avoid penalties and fines.

#### 4.4 Tax Rates

Property owners in Nairobi the results are as indicated below asked the respondents using various questions on their views on tax rates and how they affect tax compliance:

**Table 4.10: Tax rates**

	N	Mean	Std. Deviation
property owners are now willingly paying tax due to the well-structured tax rate	73	1.7260	.44908
The lowered tax rate has influenced willingness of residential rental property owners to be tax compliant	73	1.9041	.47622
Valid N (list wise)	73		

*Source: Research findings*

The findings indicated that most of the property owners pay their taxes on time due to a well structures tax rate. This is indicated by a mean value of 1.7260 based on the liker scale used whereby the value of one indicated, strongly agree. Besides, it was also found that the level of willingness to pay taxes has improved because lowered tax rates on residential income from 30% to 10%.



#### 4.5 Tax compliance levels by property owners in Nairobi County

The respondents were asked to indicate the tax compliance levels by property owners in Nairobi County. The findings are as indicated below:

**Table 4.11:Tax compliance**

	N	Mean	Std. Deviation
You file your returns appropriately and on time as required by law	73	2.8082	.54410
Your business pays the right amount of taxes on time	73	3.4110	.57785
Property owners file residential tax returns every month	73	3.9452	.66438
Property owners declare correct monthly income from rent	73	4.2603	.64609
Property owners file tax returns only to avoid penalties	73	1.5753	.52488
Property owners evade taxes by filling zero returns	73	1.7671	.61284
Valid N (list wise)	73		

*Source: research findings*

From the findings a mean of 2.8 was attained an indication that the respondents agreed to the fact that they agree to a moderate extent that they file their taxes appropriately as per the law requirements. Besides the respondents were neutral on the fact that their businesses file taxes on time indicated by a mean of 3.4. Besides the respondents agreed to a small extent that they declare their correct monthly income as indicated by a mean value of 4.2. In addition the respondents agreed to a great extent that they file their returns to avoid penalties as indicated by a mean of 1.5. The respondents strongly agreed that most property owners evade taxes by filling zero returns as indicated by a mean value of 1.7671. This was based on a liker scale where 1 indicates strongly agree and 5 is strongly disagree.

#### 4.6 Residential Tax Compliance by Property owners in Nairobi County

The main objective of the study was to ascertain how the selected determinants of tax compliance affect residential income tax compliance by property owners in Nairobi. To accomplish this, multiple regression analysis was used where tax compliance was regressed against determinants of tax residential income tax compliance. Residential income tax compliance was measured in terms of revenue collection and new registrations. Besides correlation was carried out to indicate the impact of the various residential income tax determinants and residential income tax compliance by property owners in Nairobi County. The findings are as indicated below:

**Table 4.12: Correlations**

		Taxcompliance6	Tax knowledge	Income	Fines and penalties	Tax rate
Tax compliance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	72				
Tax knowledge	Pearson Correlation	.636	1			
	Sig. (2-tailed)	.064				
	N	72	73			
income	Pearson Correlation	.135	-.198	1		
	Sig. (2-tailed)	.258	.093			
	N	72	73	73		
Fines and penalties	Pearson Correlation	.157	-.035	-.023	1	
	Sig. (2-tailed)	.187	.770	.846		
	N	72	73	73	73	
Tax rate	Pearson Correlation	.826	.081	.034	.059	1
	Sig. (2-tailed)	.025	.496	.776	.619	
	N	72	73	73	73	73

*Source: Research findings*

From the findings, there exists a positive relationship between tax knowledge and tax compliance. This is indicated by a positive value of 0.636. However tax knowledge does not have much significance on tax compliance since it has a significance value of 0.064 and given that significance level is at 95% then it is greater than 0.005 hence it is statically insignificant. Besides income levels has a positive correlation to tax compliance indicated by a positive value of 0.135 with a p-value of 0.258 an indication that income levels is statistically insignificant since it is greater than 0.05. Fines and penalties indicated apposite correlation to residential income tax compliance indicated by a value of 0.157 and a p-value of 0.187, since it is greater than 0.05, then it is an indication that fines and penalties are statically insignificant and cause little impact on tax compliance. A correlation value of 0.826 indicated that tax rates have a positive impact on tax compliance since it is a positive value, besides a p-value of 0.025 was ascertained an indication that tax rates are statically significant at 95% confidence level since this value is less than 0.05.

**Table 4.13 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					R Square Change	F Change	Sig F change	
1	.592 <sup>a</sup>	.560	.541	.61268	.056	1.009	0.041	

a. Predictors: (Constant), tax knowledge, tax rate, fines and penalties, income levels

The findings indicated that the coefficient of determination value is 0.56, an indication that 56% of the independent variable which is residential income tax compliance is predetermined by the independent variables which are tax rates, tax knowledge, income levels and fines and penalties. By these findings it is ascertained that 44% of residential income tax compliance is affected by other factors other than the above considered in this study. These indicated that there exists a positive correlation between tax compliance determinants and tax compliance by property owners in Nairobi County.

**Table 4.14: ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.516	4	.379	1.009	.041
	Residual	25.525	68	.375		
	Total	27.041	72			

a. Dependent Variable: Residential income tax compliance

b. Predictors: (Constant), tax knowledge, tax rate, fines, income levels

From the anova analysis, it is ascertained that the independent variables are statically significant at 95% confidence level since the significance level at 0.41 is below 0.05 hence it is statically significant and tax rates, tax knowledge, fines and penalties and income levels have impact on residential income tax compliance by property owners in Nairobi. An indication that to a great extent, tax knowledge, tax rates, fines, income levels affect tax compliance by property owners in Nairobi.

**Table 4.15: Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(tax compliance)	7.055	.714		9.882	.000
Tax rates	.104	.049	.148	1.653	.008
Fines and penalties	.341	.058	.515	5.554	.000
income	.150	.073	.254	2.053	.049
Tax knowledge	.291	.060	.326	3.661	.001

a. Dependent Variable: Residential income tax compliance

$$Y=7.055+0.104X_1+0.341X_2+0.150X_3+0.291X_4$$

Where:

X1=Tax rates

X2= Fines and penalties

X3=Income

X4=Tax knowledge

From the findings, it was established that a unit change in tax rates results to a change in the levels of residential income tax compliance by 0.104. Tax rates indicated a p-value of 0.008 is lower than the critical value of 0.05 an indication that tax rates are statistically significant since the p-value of 0.08 is lower than 0.05 at 95% confidence level. In addition to that, whenever there is a change in the levels of fines and penalties by one unit, it results to a change in the levels of residential income tax compliance by 0.341 holding other factors constant. Fines and penalties had a p-value of 0.000, which is an indication that, it

is statistically significant since it is lower than 0.05. A unit increase in the levels of income of the property owners in Nairobi County, results in a change in the levels of residential income tax compliance by 0.150 holding other factors constant. Income levels indicated a p-value of 0.049, and hence it is statistically significant because it is lower than 0.005. Besides that, a unit increase in the levels of tax knowledge results in an increase in the levels of residential income tax levels by 0.291. Tax knowledge indicated a p-value of 0.001 which indicates that it is statistically significant at 95% confidence level since the p-value is lower than 0.05.

**Table 4.16 Summary of Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Tax compliance	73	1.00	3.00	1.7639	.61651	.517	.559
Tax knowledge	73	1.00	3.00	1.7945	.64461	.625	.555
Tax rates	73	1.00	4.00	1.8904	.73714	.378	.555
Income levels	73	1.00	2.00	1.6164	.48962	1.811	.555
Fines and penalties	73	1.00	2.00	1.5479	.50114	-2.017	.555
Valid N (listwise)	73						

*Source: researcher, 2017*

The table indicates that all the determinants of tax compliance have a positive impact on residential income tax compliance. This is due to the positive mean values. Besides based on the scale of 1 to 5 where 1-strongly agree indicates that the various determinants had impact on residential income tax compliance by property owners in Nairobi.

#### **4.7 Discussion of the Study**

The study was carried out to establish the effect of determinants of residential income tax compliance by property owners in Nairobi. The biographic information of the respondents indicated that most of the respondents were male. An indication, that most of the property owners in Nairobi County were men. On the aspect of the number of years that the respondents had owned the properties, it was ascertained that. That most of the respondents had owned the property for a period between 2-4 years and very few had owned the property for a period less than two years.

In addition to that demographics based on the age of the respondents indicated that more than 50% of the property owners were aged over 45 years which is an indication that most of the respondents had adequate knowledge on the data sought about the effect of tax compliance determinant on residential tax compliance by property owners in Nairobi county.

Based on the information sought on the income got from the property of various property owners in Nairobi County, the results indicated that majority of property owners in Nairobi county earned below ksh.50, 000 followed by those who indicated that they earned over ksh.500, 000 from their properties. An indication that most property owners in Nairobi County earned little income from the properties.

Based on the registration of their properties with the relevant authorities, most of the respondents indicated that they had had their businesses registered with the relevant authorities .Based on the issue of the respondents had a KRA pin, the study findings indicated that all the respondents had a KRA pin which is an indication that all property owners had KRA pin and were obliged to pay taxes.

The results of the study indicate that tax rates, levels of income, tax knowledge and fines and penalties have impact on residential income tax compliance an indication that these determinants have impact on by property owners in Nairobi County. This was indicated by positive correlation values between the various determinants of residential income tax compliance and residential income tax compliance. In conclusion an increase in levels of income levels results in changes in tax compliance by property owners in Nairobi County. Besides, use of taxes and penalties increases the levels of residential income tax compliance by property owners in Nairobi County. In addition, adequate knowledge, higher awareness on tax issues results in increased levels of residential income tax compliance.

These findings are as per the findings of Wasau (2012) where his findings indicated that tax rates, income levels; tax knowledge has impact on tax compliance. Besides Kołodziej (2011) also indicated that high tax rates reduce the levels of tax compliance by property owners. Besides Chepkurui et al (2014) indicated too that tax compliance is also affected by the levels of income and tax knowledge. A study by Mohd, (2010) indicated that knowledge on taxes is important to enhance awareness on taxes and importance of tax compliance.

Erikson and Fallan (1996) concluded that various trainings carried out by the government are important in enhancement of knowledge on tax compliance. Fried land et al. (1978) in his study also concluded that fines and penalties affect the levels of tax compliance. Karanja (2013) also ascertained all the determinants of tax compliance, which include tax rates, fines and penalties, tax knowledge, have a positive impact on compliance levels of tax payments. Waithira (2016) in her study ascertained that various determinants of tax compliance have a positive impact on tax compliance by property owners in Thika town.



## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

Summary of the study, conclusions established from the study, recommendations are what make up this chapter. This chapter goes further to discuss the various limitations of the study.

### **5.2 Summary**

The main purpose of this study was to establish the effect of various determinants on residential rental income tax compliance by property owners in Nairobi County. The independent variables in this study, which are the determinants, are tax rates, income levels, tax knowledge, fines, and penalties.

Based on the biographic information of the respondents, it was ascertained that there were more male than female in the respondents number an indication that most of the property owners in Nairobi County were male. Based on property ownership, the findings indicated that most of the respondents had owned their properties for a period between 2-4 years. In addition to that, the results indicated that most of the respondents had a monthly income from their properties of less than ksh.50, 000. All the respondents were in possession of KRA pin and most of the respondents had registered their properties with the relevant government authorities.

The findings of the study indicated that all these determinants had a positive impact on tax compliance by residential income tax compliance by property owners in Nairobi County to a great extent indicated by mean values of above 3 which were tax rates, tax knowledge, income levels and fines and penalties .This was indicated by a positive mean value for all the determinants of tax compliance.

Besides the results of descriptive results indicated that most of the respondents agreed to the fact that various determinants affect residential rental income tax compliance of property owners in Nairobi County. In addition, the results ascertained that determinants of tax compliance have a positive impact on tax compliance by property owners in Nairobi County. This was indicated by a positive correlation between the four determinants: tax rates, fines and penalties, income levels and tax knowledge and tax compliance.

The regression analysis findings indicated that all the four determinants: tax rates, tax knowledge, income levels and fines and penalties, whenever they increase by one unit, they result in increase in the levels of residential rental income tax compliance. From the model summary, a substantial; 56% of the independent variable which was residential income tax compliance measured by revenue collection and new member registrations was explained by tax rates, tax knowledge, income levels fines and penalties. Besides, a significance level of 0.0140 was attained an indication that the various determinants were statistically significant since the 0.140 value is less than 0.05 at 95% confidence level. The results of the ANOVA table indicated a p-value of 0.0140 and indication that residential tax compliance determinants under investigation had a significant effect on the residential income compliance levels by property owners in Nairobi County.

These results are in line with Wathira's research findings, which ascertained that the various determinants of tax compliance had a positive impact on tax compliance of property owners in Thika town as proved by a coefficient of determination value of 70% from her studies.

### **5.3 Conclusion**

Tax compliance is a very crucial thing in any government since the government depends on taxes for its survival. Tax compliance is affected by various factors which include tax rates, tax knowledge, income levels, fines and penalties. The researcher took a detailed preview of the previous studies that had been carried out related on the topic of study in order to identify the various gaps in knowledge that this research intended to fill. In order to attain this, the researcher carried out library research.

The researcher used descriptive research methodology in ascertaining the set objective. Quantitative approach was used in this study. The target population was property owners in Nairobi Kenya. The study used questionnaires in data collection from the respondents in these firms. Out of 100 questionnaires that were issued out, the responses were from 73 questionnaires indicating a 73% response rate, which was very substantial for the study. Data analysis was carried out using descriptive analysis and regression analysis to identify the extent to which the various determinants affect tax compliance by property owners in Nairobi.

Property owners in Nairobi County aimed this study at ascertaining the effect of selected determinants on tax compliance. These determinants were tax rates, tax knowledge, income levels, fines and penalties. From the results it was concluded that the various determinants:

tax rates, tax knowledge, income levels, fines and penalties have a positive impact on residential income tax compliance by property owners in Nairobi County .This was indicated by positive mean values in the results got from using descriptive statistics.

The study findings indicated that there exists a positive relationship between tax rate, fines and penalties, income levels and tax knowledge and residential rental income tax compliance by property owners in Nairobi County. This was indicated by positive mean values for the correlation between the determinants and residential income tax compliance by Property owners in Nairobi. Based on this finding the study recommends that tax rates, income levels, tax knowledge applicable on residential rental income influences tax compliance by property owners and an increase in tax knowledge and education enhances compliance by property owners. The study thus concludes that high levels of income encourage tax compliance but low-income levels encourage non-compliance of residential rental income tax by property owners and high fines and penalties encourage property owners to comply tax obligations.

#### **5.4Recommendations**

The study findings indicated that tax rates, tax knowledge, fines and penalties have impact on residential rental income tax compliance by property owners in Nairobi. From these findings, these study recommends that there should be adequate training by KRA officials to all taxpayer in the issues to do with tax compliance, how to file returns, the importance of filing returns , the related fines and penalties in cases of noncompliance among other aspects to enhance the level s of tax compliance by property owners in Nairobi county and the whole county as a whole.

Based on the various determinants of tax compliance by property owners in Nairobi mentioned in this study, should be taken with caution. The management of the KRA should put in place various measures to ensure that these determinants are well taken care of to avoid instances of tax evasion .In addition the KRA should put in place measures of adequate ,management in order to ensure that the aspect of tax management is well catered for to facilitate improved levels of tax compliance.

The relevant authorities need to carry out trainings on the issues to do with tax compliance in order to facilitate improved levels of tax compliance by property owners in Nairobi County. The tax rates should also be set as per according to the levels of income to enhance equality and increased levels of tax compliance. Severe fines and penalties need to be set in order to enhance and improve levels of tax compliance by property owners.

### **5.5 Limitations**

This study was on determinants of compliance levels with residential income tax by property owners in Nairobi County hence the finding and conclusions are only applicable to residential rental income tax compliance and not compliance with other taxes. Besides the study was solely based on property owners in Nairobi County and hence the results do not apply to other regions.

Besides most, the respondents were reluctant to be part of the study with fears that this study was from the KRA and hence they could be hunt down by the authorities. In addition, most respondents approached were reluctant to give information on their income levels making the completeness of the study challenging.

### **5.5 Suggestion for Further Research**

The study found out that established that knowledge on taxes have a positive impact on residential income tax compliance by property owners in Nairobi County. From this, this study recommends that adequate training be carried out to all property owners to enhance tax compliance. Besides this study was based on property owners in Nairobi, this study recommends that property owners in other towns carry out some studies on compliance levels. Besides a comparative study should be carried out on compliance levels by property owners in various counties. This study further recommends that studies be done on the relationship between tax compliance levels and the economic situation of the country and the changes in the economic environment. A suggestion further indicates that there is need for more research to be done based on the same topic but in different areas.

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## APPENDICES

### APPENDIX I: LETTER OF INTRODUCTION



**UNIVERSITY OF NAIROBI**  
**COLLEGE OF HUMANITIES & SOCIAL SCIENCES**  
**SCHOOL OF BUSINESS**

Telephone: 4184160-5 Ext 215  
Telegrams: "Varsity" Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, KENYA

23 October 2017

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

**INTRODUCTORY LETTER FOR RESEARCH**  
**BARBARA MUTESHI LUCINDE – REGISTRATION NO. D63/85544/2016**

This is to confirm that the above named is a bona fide student in the Master of Science in Finance (Msc. Finance) option degree program in this University. She is conducting research on *"Determinants of Compliance Levels with Income Tax by Property Owners in Nairobi County."*

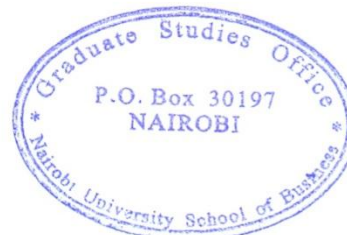
The purpose of this letter is to kindly request you to assist and facilitate the student with necessary data which forms an integral part of the research project. The information and data required is needed for academic purposes only and will be treated in **Strict-Confidence**.

Your co-operation will be highly appreciated.

Thank you.

  
**Jane Muturi**

**For: MSc. Finance Co-Ordinator,  
School of Business**



JK/nwk

## APPENDIX II: QUESTIONNAIRE

I am a student pursuing a Degree in Masters of Science in Finance, University of Nairobi and carrying out a research on determinants of residential income tax compliance levels by property owners in Nairobi County. The research is purely academic in nature and any information obtained will be kept confidential.

Your cooperation and support will be highly appreciated.

### Section I: Background Information

1. What is your gender? Male (  ) Female (  )
2. Are you employed or own the business? Employed (  ) Owner (  )
3. How old are you?  
18-25 (  ) 25-35 (  ) 35-45 (  ) 45-55 (  ) Over 55 (  )
4. How long have you owned this property?  
Less than 2 (  ) 2-4 (  ) 5-7 (  ) 8-10 (  ) Over 10 (  )
5. Is your property registered formally at the Government's registry?  
Yes (  ) No (  )
6. What is the average rental income of your property per month?  
[  ] Less than 50,000/  
[  ] 50,000/- to 100,000/  
[  ] 100,001/- to 200,000/  
[  ] 200,001/- to 300,000/  
[  ] 300,001/- to 400,000/  
[  ] 400,001/- to 500,000/  
[  ] Over 500,000/
7. Does your property have a PIN? YES [  ] NO [  ]  
If yes, what are your obligations?  
[  ] VAT  
[  ] PAYE  
[  ] Income Tax

**Section II: Determinants of Residential Income Tax Compliance**

**Part 1: Tax knowledge**

8. Have you ever attended any tax training? Yes [ ] No [ ]

9. If yes, who had organized the training?

- Kenya Revenue Authority
- Education Institution
- Non-Governmental Organization
- Other (specify

10. If you required any information on taxes where would you go?

- A cyber café attendant did it for me
- KRA website
- A friend / relative
- KRA offices
- Other(specify)

11. Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Agree, 2 – Agree, 3 – Disagree and 4 - Strongly Disagree

Statement 1 2 3 4 5

	1	2	3	4	5
Property owners have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime					
Lack of proper records on expenses incurred greatly contributed to non-compliance by property owners in the previous regime					
Knowledge about tax laws plays a major role in determining property owners’ tax compliance					
Effective tax education can change the attitude and perception of property owner towards tax compliance					
KRA has created a lot of public awareness on residential rental income tax					
Majority of tax payers are familiar with the iTax system					



**Part II: Income Tax Levels**

12. Based on the property income levels evaluates the following statements and tick where appropriate under the choices below.

Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

Tax rate should vary with level of residential rental income					
Tax on residential rental income is lower when based on gross income instead of net income					
Low residential rental income earners should not be taxed					
Property owners with low income levels are more likely to be non-compliant					

**Part III: Fines and Penalties**

13 Based on your experience, how easy or difficult is it to avoid paying taxes that you owe to the government?

1=Very easy ( ) 2=Easy ( ) 3= Difficult ( ) 4=Very difficult ( )

14 To what extent do you agree that the following measures affect residential income tax compliance?

a. Tax penalty and fines

[ ] Strongly disagree [ ] Disagree [ ] Undecided [ ] Agree [ ] Strongly agree

15 Fines and penalties discourage non-compliance with of residential rental income tax obligations

[ ] Strongly disagree [ ] Disagree [ ] Undecided [ ] Agree [ ] Strongly agree

16 Periodic waiver of fines and penalties could encourage tax compliance

[ ] Strongly disagree [ ] Disagree [ ] Undecided [ ] Agree [ ] Strongly agree

17 Property owners file nil or incorrect returns to avoid penalties of non-compliance on the iTax system

[ ] Strongly disagree [ ] Disagree [ ] Undecided [ ] Agree [ ] Strongly agree

**Part IV: Attitudes and Perception**

18 Do you think paying taxes is everybody’s obligation?

[ ] Yes [ ] No

19 Please rate the following statements on a scale of 1-5 where 1= Strongly disagree and 5= Strongly

	1	2	3	4	5
I believe its my obligation as a citizen to support the government by paying taxes					
I feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment					
I find it hard to comply with the tax laws as they are complicated					
The relationship between a tax payer and the revenue authority influences the willingness of tax payers to be compliant					
The Kenya Revenue Authority(KRA) is perceived to be efficient in tax administration thus likely to catch up with defaulters					
Payment of taxes is perceived by property owners as contribution to economic growth					

**Part V: Tax Rates**

20 Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

Residential rental property owners are now willingly paying tax due to the well-structured tax rate					
10% residential rental income tax rate is fair to property owners					
A 10% tax rate on gross receipts results in overall lower tax burden than a 30% tax rate on net rental income					
The lowered tax rate has influenced willingness of residential rental property owners to be tax compliant					

**SECTION C: TAX COMPLIANCE LEVEL BY PROPERTY OWNERS IN NAIROBI COUNTY**

**Tick appropriately:** Where: 1 – Strongly Agree, 2 – Agree, 3 – Neutral, 4 - Disagree or 5 - Strongly Disagree

You file your returns appropriately and on time as required by law					
The business pays the right amount of taxes on time					
Property owners file tax returns every month					
Property owners declare correct monthly rental income					
Property owners file tax returns only to avoid penalties					
Property owners file tax returns only to avoid penalties					
Property owners enjoy paying taxes and are always tax compliant					

**Thank you very much for your patience, cooperation and support in my research.**