FACTORS AFFECTING VOLUNTARY TAX COMPLIANCE
ON RENTAL INCOME: A CASE STUDY OF NAIROBI
LANDLORDS.

BY

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STUDENT’S DECLARATION

I, undersigned, declare that this is my original work and has not been submitted to any other college, or university other than the United States International University in Nairobi for academic credit.

Signed: _______________________________  Date: ____________________

Karanja Edward Kinyua (636684)

This project has been presented for examination with my approval as the appointed supervisor

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ABSTRACT

The purpose of the study was to examine the factors affecting voluntarily tax compliance in Kenya. The study was guided by the following research questions: What are the attitudes of the Kenya landlords towards taxation? What are various factors that influence Kenyan landlord taxpayers towards taxation? And, which of the established factors have the most influence on the attitude of the Kenyan landlord taxpayers?

The study adopted a descriptive research design, i.e. the design involved observation and description of the behavior of a subject with no influence on the outcome. The target population in the study was the Landlords in Nairobi whose tax compliance were under review by Kenya Revenue Authority. A non-probabilistic sampling technique was employed to select forty five (45) respondents as it was necessary for the nature of the subject. A non-probabilistic sampling technique guaranteed the researcher that everyone in the targeted population stood a fair chance of being sampled. The study used questionnaire for gathering and collecting data. Presentation of data was done in the form of figures and tables for easy interpretation. To guarantee actual and competent data analysis process, the data was coded, organized and studied using descriptive and inferential analysis. The Statistical Package for Social Sciences (SPSS) was used for analysis.

The findings on the attitudes of the Kenya landlords towards taxation, attitude and perception that politicians misuse taxes, peers and financial and family obligation had strong positive responses.

The study finding of the study on the social norms and respondent’s income level strongly influence the level of tax non-compliance among the Kenyan taxpayers on rental income.

Finally on the measures to be done to encourage voluntary tax compliance, the study found out that tax reforms ought to be carried out to encourage tax compliance.

In regards to factors influencing Kenyan landlord taxpayer’s attitude towards taxation, The study concluded that attitude factors, high tax rate, unfair tax system, social norms, gender
and education level factors are significant and play a great role towards the compliance or non-compliance of Kenyan taxpayers on rental income. In encouraging tax compliance among Kenyan landlords, the study concluded that tax reduction, tax reforms and simplifying tax payment procedure be carried out.

The study recommended that the government should sensitize the tax payers on the importance of paying taxes. It is also recommended that the government ought to be transparent on how the revenue collected from taxation is being utilized and KRA need to carry out tax reforms by factoring in the views of all the taxpayers.

The researcher recommends that further study be carried on the other factors that might influence the voluntary tax compliance on rental income. Again further study also need to be done on the same topic but covering a different location other than Nairobi.
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DEDICATION

I dedicate this paper to my lovely wife Nancy and dotting children Karen, Lenna, lewis and Elvis and not forgetting my mother Jacinta Wambui who has always encouraged me to seek for knowledge and wisdom. May the blessings of the Lord be upon you?
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

There is an increased demand by the public for better services from tax authorities over the last ten years in Kenya (Grampert, 2001). The Kenya Revenue Authority (KRA) responded to the demand by the public, through creation of a taxpayer services unit in April 2000, to support and ensure that KRA meets the increased demand for better taxpayer services.

The taxpayers usually visit revenue authorities offices for various purposes although most significantly, they are looking for information on tax matters, registering as taxpayers. The tax revenue organizations as service providers are therefore under obligation to offer quality service to their customers, who are mainly taxpayers. The tax revenue collector need to meet the attributes of a quality service that include among others: promptness, urgency, precision, tax knowledge, pleasantness and clarity. The attitude of the revenue officers in providing a quality taxpayer’s service is very decisive and as such, front line officers in revenue organizations need to avoid being arrogant, rude, impatient, un-receptive and appearing bored (Surrey, 1974).

According to Gcabo and Robinson (2007), tax collection is important to any country even though it is not favoured or understood by the country’s citizens. They went on to argue that, though the taxpayers acknowledges the need to pay taxes and enjoy the benefits offered by the government in form of public service, tax compliance is not favoured by the majority. It is critical that the importance of tax compliance is understood because it determines how the government shapes lives of citizens (Oberholzer, 2008).

According to Otieku (2008), a nation cannot have any significant economic development without optimistic spur from intelligent governments. Though, the development agenda and programs of a country can merely be brought to certainty by the availability of finances. One
of the most reliable sources of government revenue is through taxation. Several researches on tax compliance have conversely revealed that rental income tax compliance among the landlords leaves much to be desired.

Tax system is of significant importance in running national income, particularly in developed countries and has played a vital part in cultured societies since their origin many years ago (Lymer and Oats, 2009). However, it is important to note that not all payments to government are tax payments: for example, charges, tolls and other levies are paid to attain a specific service and are not strictly tax payments.

In his book ‘The Wealth of Nations’ which was published in 1776, Adam Smith suggested that a good tax system is based on definite essential values, namely equity, convenience, certainty, and efficiency (Lymer and Oats, 2009).

Bird (2012), Reveals that in most developing countries, more than half of the potential tax revenues tend to remain uncollected. This he further accredited to the large volume of the informal sector, dominated by the small business owners.

Flynn (2003) also noted that revenue loss from non-compliance by individual taxpayers, mainly the self-owned business were estimated to range from $93.20 billion to $95.30 billion for the tax year 1992. Kenya recognizing the high level of income tax non-compliance among the self-employed, has employed several unusual way of taxation identified as self-assessment, block management, installment tax payment. Song and Yarbrough (1978) demonstrate that in Ghana non-compliance by the self-employed is a major factor accounting for tax authorities receiving less than what the regulation requires. An effective revenue taxation enforcement policy is therefore necessary but the existing studies in the field of taxation have mainly centered on the problems of tax administration (Otieku, 2008), public perception of tax evasion (Song and Yarbrough, 1978) and managing small taxpayers.

Tax compliance is a worldwide worry since most countries would like to be fund their recurrent expenditure through mobilization of domestic revenue. In Kenya, KRA has sought to boost tax compliance by introduction of sanctions such as electronic monitoring, audits,
compliance checks, investigations and shutting of non-compliant taxpayers' businesses, heavy penalties and prosecution of tax evaders. There is also a whistle browsers rewards to those who volunteer information that leads to recovery of taxes. This sanctions and the reward has helped in improvising the general level of tax compliance. While there is an increase in collection figures and compliance, the tax compliance ratio on rental income is still below the global average of 20% and the sub Saharan average of 18% (KRA, 2013).

The Kenyan taxation on income scheme works on a self-assessment basis. Since the government anticipates individual to determine their own tax requirements and voluntarily pay whatever is due both regularly if monthly salary and annually. By assigning the responsibility on individuals, the government eludes the expensive alternative of determining each taxpayer’s obligation and exploit alternatives to collect it. Nonetheless, one cost of depending so greatly on the voluntary compliance of individual tax payers is that not all individuals voluntarily pay their taxes when due. Bird (2012) approximations is that the overall individual income tax gap, the difference between the actual tax paid voluntarily and timely and what taxpayers ought to pay.

Kenya is regarded as the one of the countries with low income and tax compliance of Kenya has significantly been low with tough duty of warranting resourceful and effective tax administration. Kenya Revenue Authority (KRA) performs education monthly to all newly registered taxpayers so as to improve tax compliance. Whether the increased taxpayer education has led to improved tax compliance has not been captured in any observed study (KRA, 2011).

The main focus of this study was based on tax compliance by the landlords and landladies on rental income generated from the rent obtained their house. It is a law that any income generated from any investment in the Kenyan country to be subjected to taxes. The government of Kenya since 2003 has focused on mobilizing the domestic resources for purposes of financing the recurrent expenditure. The 2011 recurrent expenditure was financed to the level of 94% through taxes. Although there has been significant growth in tax collection by over 300% (2003-2011), the contribution by landlords has been very low
Despite all the efforts by government tasking all Kenyans to support the development of the economy by paying their fair share of taxes (KRA, 2013).

1.2 Statement of the Problem

Tax compliance levels have steadily remained low, even after use of sanctions such as penalties; armed monitoring, routine audits, fines and closure of non-compliant taxpayers' businesses have not improved revenue collections to the required targets. The introduction of self-assessment KRA in 1992 that required tax payers to register, keep records, file returns and make correct payments taxes voluntarily assessed have yielded minimal results. Since then the taxes from rental income have not grown proportionately to the growth of the economy and this compelled the government to come up with an incentive for any member of public who voluntarily give information leading to collection of an additional taxes (KRA, 2011). Employees were also required to file self-assessment returns and give details of their landlords for the purpose enhancing voluntarily compliance. KRA has aggressively through media, road shows, talk shows implored upon landlords to declare their rental income but little have been achieved. This could be attributed to low intentions and negative attitude towards payment of taxes. Unrelenting low levels of compliance can cause the government's failure to recognize the necessary targets for financing the country’s Budget. Unless this is addressed, may lead to a national crisis (Flynn, 2003).

It is challenging when it comes to matters of taxation in most developing. As a result, this have attracted increasing attention in the past few years with many countries striving to attain a fully tax compliance among its citizens. Various difficulties witnessed like poor administration, failure to collect adequate tax revenues, structures in taxation system where tax horizontal and vertical equity considerations are not cohesive, government and economic instability. In many developing countries it is observed that there is low capacity of tax administration to monitor compliance among rental taxpayers (Tanzi, 2010). Kenya, like most other developing countries, expressions challenges in collecting revenue (most from rental income) to the level required for the advancement of economic growth. Therefore, the Kenya has been experienced a consistent deficit of revenue over expenditure for years. To address this problem, the government introduced the imposition of taxation on rental income.
(direct and indirect), among others; as major and important sources of public revenue. However, this imposition of tax on rental income couldn’t still bring the required result due to a number of reasons such as lack of clear understanding about the tax system by the taxpayers, taxpayers don’t comply with their tax obligation, hostility between the taxpayers and tax officials, negative attitude of taxpayer towards the tax system, that is, understating their taxable income by significant amount. For these reasons, the actual amount of tax couldn’t be collected properly (KRA, 2010).

Despite the fact that people need to pay taxes based on rationales of vertical and horizontal equities, it is not always the case that tax systems are comprehensible and transparent for rental tax payers especially for those who are less literate individuals. Tax systems are usually not elaborated properly with the society. Consequently, the rental taxpayers complain that the tax assessment method is based on subjective estimation as a result of which they are frequently subjected to over-taxation. The degree of the effect of attitudes and attitudinal shift on behavior tax compliance is not understood well and studies in this topic have not clearly and extensively been addressed mostly in Nairobi city. Consequently, covering this knowledge gap amongst the rental income taxpayers was the main purpose of this study. It was for this reason that this study attempted to find out how the factors that influence tax compliance on rental income with tax system in Nairobi city.

1.3 Purpose of the Study

The purpose of this study was to examine the factors affecting voluntarily tax compliance on rental income among the landlords in Nairobi area.

1.4 Research Questions

The study was guided by the following research questions:

1.4.1 What are the attitudes of the Kenya landlords towards taxation?
1.4.2 What factors that influence the attitude of Kenyan landlord taxpayers towards taxation?

1.4.3 What can be done to encourage tax compliance among Kenyan landlords?

1.5 Significance of the Study

The importance of this study is to the following:

1.5.1 Kenyan Government

The study will aid in policy making by the government which can improve compliance levels of tax payment by the Kenyan landlords. This will help the government raise more domestic revenue from tax collection which will be used in realizing the government goals in Vision 2030.

1.5.2 Landlords

The Kenyan landlords will understand the critical role of voluntarily tax compliance as an engine to economic development and reduce noncompliance costs. This in return is going to improve the performance of the government and they will enjoy the low cost of doing business due to improved services by the government.

1.5.3 Kenya Revenue Authority (KRA)

This study gives an insight to KRA to understand the challenges the landlords face in their quest to meet their tax obligation. This study will help KRA to come up will policies and regulations that will enhance voluntary tax compliance on rental income among taxpayers not only in Nairobi but all over the country.
1.5.4 Academicians and Researchers

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

1.6 Scope of the Study

The study focused on the Kenya Revenue Authority taxpayers on individual income tax and particularly the income on rental income. Geographically, the study focuses on the landlords in Nairobi area. Justification of why the focus was on this area was that the area is the capital city and its expected to have the highest level of buildings and hence individual taxpayers should contribute a large portion of the revenue collected on rental income in the country. The study focuses on the behavior of tax compliance. The idea of tax compliance is restricted to tax evasion; failure to pay all taxes due on time and not filing taxes within the stipulated time frame. The study focuses on the attitudes and intentions to pay taxes and consequently the level of tax compliance. The study was carried out from August 7th to August 30th they year 2013 (KRA, 2011). It is worth noting that most respondents were apprehensive about the usage of the information but they were assured it will only be used for academic purpose and hence provide it willingly.

1.7 Definition of Terms

1.7.1 Taxes

It is the ways by which governments impose charges on its citizens and corporate entities to finance their expenditures (Lymer and Oats, 2009). Tax on rental income are gains or profits including royalty, premium or similar consideration received for the use or occupation of property,(Chapter 470, Income tax Act , section 6). Rent income is an income tax which is taxed directly through self-assessment as opposed to consumption tax on expenditure.
1.7.2 Tax Compliance

This is the willingness of taxpayer to pay their taxes (Kirchler, 2009).

1.7.3 Tax Avoidance

According to Higgins (2009), tax avoidance is about getting round the law to reduce a tax liability to the tax collectors.

1.7.4 Tax Evasion

This is illegal, this often entails taxpayers intentional misrepresenting the true state of their affairs to the tax authorities in order to lower their tax liability and includes dishonest tax reporting (Brealey, Myers and Allen, 2010).

1.7.5 Non Compliance

This refers to the failure by individual or organization to meet the tax obligations whether deliberate or unintentional (Kirchler, 2009).

1.7.6 Subjective Tax Knowledge

This is taxpayer’s understanding of taxation with regard to existing laws and administration of such laws regardless of the correctness of such knowledge (Kirchler, 2009).

1.7.7 Tax Gap

Gcabo and Robinson, (2007) defined tax gap as the difference between the expected and the actual revenue generated by tax authorities.
1.7.8 Landlords

A landlord is any individual or corporate body who receives any payment/consideration for use or occupation of property (Ajzen, 2011).

1.7.9 Tax Compliance

The word compliance is used to refer to registration with KRA as taxpayer, keeping of business records, filing of self-assessment returns and payment of taxes when they are due (Gravelle, 2005).

1.8 Chapter summary

Chapter one gave an introduction and background to the study and outlined the problem statement and the purpose of the study, it also clearly stated the research questions that the study aims to achieve. The significance alongside beneficiaries of the study has been outlined. The scope both geographical and conceptual is covered. The chapter concludes by defining the key terminologies used. Chapter two elucidates the findings from the literature with the emphasis on the tax compliance and non-compliance. It will therefore serve to clarify how relationship between tax compliance and tax evasion and tax avoidance. Chapter three comprise of the research methodology used in the study. The chapter defines the research design, population targeted, sample design, procedures of data collection and analysis of data techniques. Also discussed are characteristics of the study design and why the research deemed it appropriate for this study. The chapter also provides information on the population, sample frame and size, sample selection. Data collection method and data collection tool used in the study is also provided. Presentation the findings and results of the study is covered in chapter four. Presentations of the findings and results were presented in table forms. Percentages were used for easy interpretation and understanding. Chapter five is a summary and discussion of the research researching findings on the factors affecting voluntary tax compliance on rental income among landlords in Nairobi area. Further in the chapter, based on the findings, conclusions were provided and recommendations given. Finally the chapter gave suggestion for further study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The main objective of this chapter is to look at the relevant and available literature entailing to tax compliance and no-compliance. The chapter also highlights and explains issues and factors influencing taxpayers’ attitudes in regards to compliance, avoidance and evasion of taxes and the relationship among the three factors.

2.2 Attitudes of the Kenya Landlords towards Taxation

KRA has used numerous methods to evaluate the level of non-compliance; nonetheless, there has always been certain compliance reliant on the behavioral features and social attitudes of the taxpayers. Furthermore, the level of non-compliance among specific taxpayers does not just depend only on individual factors, but on a multifaceted grouping of settings (Hasseldine, 1999).

According to Ajzen (2011), an individual’s attitude towards tax system may predict his tax compliance behavior. Studies have indicated that attitude is a partial indication of behavior. Attitude towards an event, object, function or person may be favorable or unfavorable. Ajzen (2011) argues that an individual will evaluates an event or object positively or negatively and the positive and negative evaluation is the main overriding feature of an individual’s attitude. In agreement with the statements of Ajzen (2011), Kirchler (2009) suggested that taxpayer who has favorable attitude towards tax payment is expected to be more compliant and equally tax payer with unfavorable attitude is likely to be less compliant.

Bobek (2007) argued that from the perspective of the theory of functional attitude that the motive of the attitude will determine whether it will be positive or negative. The taxpayer, whose motive of attitude towards tax system is to express his belief in the system, is expected...
to judge the fairness of the system objectively and the taxpayer whose attitude is motivated with what benefit to derive from the system may be less compliant.

Certainly, worldwide, the level of tax compliance by individuals and firms are immensely higher compared to what would be predicted under pure economic models of enforcement (Posner, 2010). At the personal level, social norms clarify much of the disparity in cross-country tax compliance levels (Bobek, Roberts and Sweeney, 2007). This suggests that broader cultural and institutional factors may influence tax compliance at the firm level as well.

2.2.1 Attitudes and Perception

The attitudes and perception of an individual’s compliance to pay tax is mostly influenced by the perceived fairness of the tax systems and partly by peer influence. Several researches on this topic have found out that where tax systems are perceived to be fair, a high level of tax compliance is realized. Similarly where individuals perceive tax system to be unfair, the level of tax compliance is low (Chau and Leung, 2009). Cummings, Martinez-vasquez, Mckee and Torgler also echoed the same sentiments, where they noted that individual’s perception to tax payment as a fair fiscal exchange for tax compliance to be enhanced.

According to the Fischer tax model, peer influence would refer to the people you most associate with, this will include; friends, relatives, colleagues, work mates and any person you spend most of your time with. These factors have influence to individual tax compliance depending on the peer compliance or non-compliance behavior. Taxpayers whose peers are compliant are likely to be compliant also and vice versa (Chau and Leung, 2009).

2.2.2 Perceptions on Politician and the Public Funds

Tax compliance relies not only on the enforcement effort but also on the inherent factors that exist between individual and government. The level of enforcement also determine the level of tax compliance, for example, in South Africa, tax evasion or deliberate non-compliance of tax payment is considered as a severe crime whereas in Botswana, the attitude of the tax
authority appears to be accommodating, example being the general tax amnesty conducted in 1999. Kenya has also been accommodating when it comes to the issue of tax compliance with amnesty given on various occasion, example, amnesty has been given on land rates and rental income to defaulters in a move to encourage them to voluntary comply with tax payment, In South Africa, this has never happened (Trivedi, Shehata, and Mestelman, 2005).

Comparing tax morale in Botswana and Kenya is definitely usual. Though geographic difference, the social histories of Kenya and Botswana could be similar, having obtained independence nearly at the same time, political history of Botswana’s is practically exceptional among African countries. Even though it was a British colony and gained independence in 1966, it is one of the oldest Africa's multiparty democracies and it has progressively made the evolution to self-governance. In this scenario, the government of Botswana sends out a clear message to its citizens that the government is working for you hence this make paying taxes as part of this social contract (Acemoglu, Johnson and Robinson, 2002).

Kenya has had a part of her share with numerous scandals involving the political leaders. Subsequently, the respect of citizens for the government and the institutions that are not able to effectively govern their revenue is low and this makes the level of tax compliance very low. The ability of the government to commendably articulate and implement comprehensive policies on the effective utilization of the revenue encourages taxpayers to voluntary comply with tax payment. The views of most of Kenyan taxpayers are that politicians are corrupt and they misuse the public resources. The alleged corruption of Kenyan political bodies is contended to affect the voluntary and willingness of taxpayers to comply with the tax payment. If taxpayers were to perceive that their interests are well represented in political institutions and their revenues is put into well utilization, voluntary tax compliance will increase. Whereas, the government where corruption is widespread, the citizens lack trust in the authority and thus low compliance level (Smith and Stalans, 1991).
2.2.3 Peer’s Influence on Tax Compliance

Knowledge of conduct of the peer indicated that individual taxpayers are surrounded by peers, and they interact with each other in their daily endeavors. Therefore, there is always influence of one person on another during this interaction and this influences ones behavior. According to Laury and Wallace (2005), Peer influence generally arises from friends, families, coworkers and business acquaintances. Alleged confidentially of a taxpayer’s tax evidence may have a substantial effect on tax non-compliance of another taxpayer. When one taxpayer happens to find out that another taxpayer reports a false amount of tax, the other taxpayer will too report false figure to the tax authorities. Perception of peer’s non-compliance with the tax authority causes other taxpayers not to comply. On the other hand, Hite (1988) established that there wasn’t any significant relationship between non-compliance of taxpayers and knowledge peers who doesn’t comply.

2.2.4 Financial Condition as a Moderator for Attitude and Tax Compliance

The discrepancy of findings on the link between compliance to pay tax and some of its influencing factors, particularly the deterrents factors (Dubin and Wilde, 2008), argued that the link may be influenced by certain variables (Kirchler, 2007). There exist an indication several behavioral studies that situation concerning financial and family obligations influence the relationship individuals’ commitment and compliance (Mathieu and Zajac, 2010). Theoretically, other studies on behavior have shown support for the influencing effects of financial factors on individual’s behavior towards tax compliance. When taxes are withheld and paid to revenue authority the individual plans his expenditure based on his net income. Rental income is available gross to the landlord and therefore he first applies it to satisfy his needs and left with little to pay quarterly or annually.

2.2.5 Risk Preference as a Moderator for Attitude and Tax Compliance

Risk preference as one the characteristic, influences individual behavior, in the category of risk preference, there are three possible ranges. These comprise risk aversion, risk neutral and risk takers. A number of researchers and scholars have suggested that the attitude of taxpayer
to risk cannot be underestimated in his, her compliance to pay tax (Torgler, 2007) submitted that individual taxpayers’ decision could be affected by their attitude toward risk. Individual risk preference is one of the components of several theories relating to decision making including tax compliance theories like expected utility theory, prospect theory etc.

According to Spicer and Lundsted (1976), self-employed individual have a high potentials of evading taxes than salaried taxpayers (informal vs. formal employment). Though, self-employed taxpayers have greater chances of evading taxes and these chances might escalate with the amount of various sources of income. Therefore, in tax compliance choices, the level of income one gets might relate with the source of that income. Taxpayers are less compliant on revenue made by low effort than on those with revenue obtained by hard-effort. Taxpayers are unwilling to lose their hard-earned income by “gambling” with the tax revenue authority (by Kirchler, Muehlbacher, Holzl and Webley, 2007).

2.2.6 Attitude towards Tax Evasion Factors

Various tax agencies have used several procedures to evaluate the level of non-compliance, but there will continually be some compliance reliant on the taxpayer’s social attitudes and behavioral factors. Furthermore, individual factors are not only the influencing factor on the extent of non-compliance among individual taxpayers, but there is a complex mixture of conditions (Hasseldine, 1999).

Studies on individual attitude towards tax evasion suggest that the attitude towards tax evasion is suitable for factor analysis. Three issues were taken from factor analysis using varimax rotation. These factors pulled variance explained clearly the intention by individual to evade tax payment, for Attitude towards Tax evasion, it is noted that many things come into play (Serakan, 2010). However, the study is interested in the total scale of the taxpayer’s attitude towards tax evasion rather than each of the dimensions (factors) similar to what was done in Fauzi and Kamil (2009).
2.3 Factors that Influence Kenyan Landlord Taxpayers Towards Taxation.

According to Chau and Leung (2009), tax compliance is mainly influenced by five factors. These factors are; Culture variables, tax systems and structures, demographic variables, attitude and perception, and non-compliance opportunity. In the modified Fischer tax compliance model, these five different factors included others factors like sociological, economical and psychological.

To help us determine the Kenyan landlords attitudes on tax compliance, the study employs the use of modified Fischer tax compliance model, (Chau and Leung, 2009), which highlights the various factors involved in the voluntarily tax compliance. The model is built on the basis of the internal factors that influence an individual to comply with tax payment and external factors pertaining tax system that, the penalties, interest upon ones failure to meet the tax obligation.

2.3.1 Demographic Factors

Demographic variables consist of age, gender, education. These factors according to the Fischer Model (2009) indirectly have influence on taxpayers’ compliance or non-compliance either through their non-compliance opportunities, attitudes and perception.

2.3.1.1 Age

Age is demographic factor that impact the level of tax compliance or tax non-compliance behavior of individual taxpayers. Majority of studies done in United States of America show that age is a key factor in explaining the degree of tax non-compliance. According Clotfelter (1983) there is a significant relationship between the level of tax non-compliance and the age of the taxpayers, whereas Christian and Gupta (1992) established that younger taxpayers are most likely to evade tax or not to comply compared to older taxpayers who are less likely to comply, this is because older taxpayers are more conformist, thus less likely to pursue for extra deductions so as to lower their taxable income. Mottiakavandar et al., (2004) found that
among the small business entrepreneurs, sociological factors such as gender and age have a significant effect on taxpayers’ attitude toward own tax non-compliance.

Different research has been done in regards to age with the finding showing that older people are mostly likely to comply with tax obligation than the younger taxpayers. The motives behind the youth is that they are more risk takers and less sensitive to consequences and penalties (Chau and Leung, 2009).

2.3.1.2 Gender

According to Schuetze (2002), gender is a sociological aspect that influences the non-compliance behavior of individual taxpayers. There is indication that gender and tax non-compliance have a significant relationship. Widely held studies established that the level of compliance between female and male varies. Gender seems to have a substantial influence on tax non-compliance and that male had high level of non-compliance than female (Spicer and Becker 1980). Young (1994) further supported these findings on males being less tax compliance than female. However Hasseldine and Hite (2003) established that there is no substantial variance between male and female in tax non-compliance.

With regards to the influence that gender play on compliance by taxpayers, different findings have been reached by several research. A number of studies establish that female are more compliant to taxation than their male counterparts and this is because of female’s conventional conforming roles and moral restraints. There are other research carried out and the findings have been the opposite; that is, a greater percentage of tax evasion is by women. Chau and Leung, (2009) concluded that gender may or may not have any role to play on influencing tax compliance.

According to Jackson and Milliron (1986), gender is the most important factors in influencing the attitude and behavior of the taxpayers on tax compliance. Previous studies have shown that women were more receptive to conscience appeal than consent threat, both of which were considered to increase tax compliance (Jackson &Jaouen, 1989). Though the findings of past research are varied or show slight consistency on gender as one of the factors
that influence tax compliance, but numerous of the current research give evidence on gender variations in relation to tax compliance (Hasseldine, 1999)

2.3.1.3 Education Level

Another notably demographic variable is education. This refers to the taxpayers’ ability to understand and to either comply or not comply with taxation rules. Research done in Australian taxpayers revealed that most educated taxpayers recorded high tax compliance than those with limited education.

In their study, Alabede, Zaimah, and Kamil (2011), found that most of the respondents (80%) believed that level of education do have influence on non-compliance attitude of the taxpayers. They found out that those respondents with the highest level of education had a high compliance level than those with the lowest education level. They noted that high educated taxpayers know well the reason and meaning of paying tax and are more responsible towards tax compliance than those with low education level.

2.3.2 Cultural Factors

This category of factors according to Fischer tax compliance model comprise of social norms and ethical or moral values. Varying social norms and moral values create different incentives for tax compliance. Some of the cultural factors that influence tax compliance are individualism and collectivism, in individualism; these are people who are mostly concerned with their well-being that the being of those around them.

While comparing ethical verdict between business scholars from New Zealand and Malaysia, Goodwin and Goodwin (1999) believed that even amid Asian citizens, they are possibly to be variances in ethical verdict. Abdul Wahab, Che Ahmad, and Mat Udin (2004) investigated accounting students on ethical judgment using ethnic grouping as a demographic factor. They predicted that ethical decision making to reveal verdict in solving ethical problems associated with accounting facets, among them, taxation and established substantial variance between prescriptive and deliberative ethical reasoning behavior.
Ethnic groups is one of the demographic factors that influence tax non-compliance (Loo, 2006), but in their study, Kasipillai, Aripin, and Amran (2003) used both ethnic grouping and gender alongside other demographic factors to assess the impact of education on tax compliance among scholars in Malaysia. The findings revealed that significant differences existed among different ethnic groups but the study did not give proof of any substantial variances in attitude between different genders. We expect a mixed behavior pattern among the ethnic groups in Malaysia.

The significance of culture, precisely the feature of representative governance has arose as a key subject in the literature concerning tax compliance. Feld and Frey (2007) refer to an emotional convention between an individual and the government and they noted that taxpayers are possibly to collaborate with a tax authority when the authority is courteous of and approachable to the taxpayers and what citizens believe in government. Through acknowledging a relational aspect in taxpaying, Feld and Frey make allowance for certain persons having a more filling and equally compassionate relationship with tax authority compared to others. Frey and Feld (2001) had a solid argument for why quality of representative governance should be valued more extensively as an aspect of shaping voluntary tax compliance; this was also supported by Braithwaite (2003).

2.3.3 Non-Compliance Opportunity

This refers to the opportunity for one not to comply with the tax obligation, there may exist loopholes in the tax systems that may give an individual an opportunity not to comply, this for instance might be the high probability that non-compliance will not be detected. These opportunities do affect taxpayers’ compliance level directly through income level, source of income or occupation and indirectly through their attitudes and to the way they perceive taxation laws. Several studies have noted that when the level of income increase, the level of tax evasion decreases and that the individual with the lower income tend to evade tax. The study also noted that different occupations are more prone to tax evasion (Chau and Leung, 2009).
One can just strictly obey the law and meet his or her tax obligation regardless of the existence or non-existence of loopholes in the law whereas there are those who would take the slightest opportunity in the loopholes in the laws to evade tax.

2.3.3 Tax Systems.

According to Chau and Leung, (2009) in the Fischer’s model, whether the system of the tax regime is complicity, non-compliance detection, penalties on non-compliance and the rate of the tax and the effectiveness of the system have influence on the attitudes of the taxpayers to either comply or not. The more the laws on tax are complicated, the low the compliance level and vice versa. A simple understood and clear tax laws enhances tax compliance.

It is so difficult for ordinary taxpayers to understand complex laws. Taxes are not essential topic for everyday conversation; taxpayers try as hard to meet their tax obligation to the government. In trying to meet this obligation, they evaluate the fiscal policies, tax rates, good governance and the relationship between them as tax payers and the tax authorities. After an evaluation of these factors is when the intentions to either comply or not developed (Kirchler, 2009).

In general, penalties are the most predominant regulatory mechanism in most of the tax laws worldwide. It is also noted that the approaches examining tax systems in order to detect strategies to improve compliance are mainly outcome oriented and that they don’t put into consideration the social and human factors. Based on the study, it was found out that most of taxpayers are honest and willing to pay taxes. The hindrance of fully compliance was noted the complexity of the system (Richardson, 2009).

2.4 Measures to be done to Encourage Tax Compliance Among Kenyan Landlords

On the attitudes and attitudinal factors, in scenarios where the taxpayers perceive the tax system to be unfair, there is high likelihood that the rate of non-compliance to the payment of tax will be high. There is need for several actions to be taken to eradicate this problem.
2.4.1 Tax Reforms

We often hear the agony of taxpayers who are willing to comply with their tax obligations but due to complications in the procedures and process of paying taxes, they end up not being able to comply. If only the tax law and tax administration could be simplified in that the processes and procedures of paying taxes is shorter and simpler, many taxpayers would be willing to voluntary comply. A study carried out by Lumumba et al. (2010) found out that there is a clear connection between the complexity of the Internal Revenue Code and the difficulty of tax law administration and taxpayer frustration. The study found that significant noncompliance both inadvertent and intentional results from various obstacles within the current system, including the cost of compliance and the complexity of the tax law. Reducing taxpayer burden by simplifying the tax laws and administration must start with the parliament.

In case of where the tax payers view the tax system to be unfair i.e. in terms of high tax rates, then there is need for KRA to lobby National Treasury do some adjustments to the tax rates. The rates need to be reduced to enable taxpayers to duly pay their taxes and by so doing the government will collect high revenue and tax compliance rate will be high (Lumumba, Migwi and Obara, 2010).

In areas where the taxpayers view the tax system to be too complicated, reforms need to be taken on the tax system in order to simplify it to accommodate every tax payers who may default or not comply because of the complexity of the tax system. Education need to be carried out frequently and throughout to educate the taxpayers on the tax system (Lumumba et al, 2010).

Most studies have found that compliance increases but only slightly with increases in the fine rate on unpaid taxes; the estimated reported income-fine rate elasticity is typically less than 0.1. Also, penalties need not be limited to financial penalties; that is, the threat of public disclosure of one’s own compliance behavior may affect compliance due to concerns that one’s information may be viewed by others, and the observation of other compliance (or lack of compliance) may also affect one’s own reporting behavior. Experimental evidence shows
that public disclosure of non-compliance on balance increases compliance (Hasseldine, 1999).

Many other factors have also been investigated: a public good financed by voluntary tax payments; individual rewards, taxpayer uncertainty about either taxable income or the various administrative parameters (e.g., the audit rate or the fine rate); taxpayer services provided by the tax administration; audit selection methods that utilize information provided on the tax return (e.g., a cutoff rule or a conditional back or forward audit rule) or that utilize information on one’s own compliance relative to that of others in the audit pool; the effect of taxpayer communication among the subjects; the use of tax revenues; the collective decision process by which these uses are chosen; the role of societal institutions and social processes in tax compliance, especially the ways in which they affect the social norm of compliance; individual perceptions of “fiscal inequity”; the use of withholding systems; and tax amnesties (Hasseldine, 1999).

According to KRA (2010), by the year 2003 major revenue administration reforms have taken place in both developed and third world countries. In East Africa, country like Uganda, Tanzania and Rwanda were among the first to have reforms in their tax administration. The main purpose of these reforms were on strengthening revenue administration, establishing a function based structure that integrated and taxpayers segmentation approach. Among the reforms carried out by KRA by the year 2010 included: implementation of simple and transparent legislation for trade and taxation that provides conducive environment for voluntary tax compliance, implementation of simple and up-to-date procedures for aimed at reducing taxpayers burden of paying taxes, promotion of voluntary compliance of taxpayers, automation of the processes and procedures of paying taxes among others.

2.4.2 Enforce Tax Compliance in Fair and Just Manner

Most taxpayers would like to pay taxes but ones a taxpayers view the tax system to be unfair and unjust, the willingness to voluntarily pay taxes fade away. Not that many truly enjoy writing tax checks to their government but if a high level of taxpayer compliance is to be achieved, respect for this basic obligation of citizenship is crucial. Simply put, without a
strong, fair and just national tax system, we are unable to provide for national defense, health care, social security, and the other public services that are necessary for the country’s citizens. Acceptance of this fundamental truth is vital to the proper functioning of government and to this end, the legislative and executive leaders are uniquely positioned to strengthen public support. Their daily words and actions clearly shape national thought. It is through repeated emphasis on the tax system’s significance to the well-being of our democracy does have a positive and meaningful effect (Richardson, 2009).

In hiring the personnel, KRA needs to develop a professional team dedicated to its work with tolerance to corruption. This will ensure that the organization performs their mandate in a fair and justice manner and this will motivate those tax payers with the attitude of unfairness to start complying to pay tax duly. Recruitment of all key staff needs to be based on merit and regional balance (Lumumba et al. 2010).

The actual of way is that, contrast to those incentives given to those voluntary compliance taxpayers who view published accounts valuable beyond satisfying the simple regulatory requirements, Majority of the landlords still view complying with their tax obligations as merely satisfying regulatory requirements and no more. Actually many regard tax as a dead cost and certainly others regard compliance as something to be delayed, avoided and eventually only met either reluctantly or under duress. So is the concept of "tax responsibility" a bit remote; principled ideas possibly or worse still a shrewd plot by Revenue to make its own job easier (Richardson, 2009).

2.4.3 Focused Taxpayer Education and Sensitization

Abroad campaign to publicize tax and sensitize tax payers need to be carried out. This includes activities such as regular radio programs, banners, permanent signs, ward meeting, street theatre, announcements at local church, mosque or football match, town-crier, vehicle signs, posters, newspapers, and business promotion. More so, the revenue authority can employ focused education on specific areas of tax generation as in case by KRA who has focused on education on rental income and the importance of compliance. (KRA, 2012)
As for the case of Rwanda, the main responsibility of the Taxpayer Services Department is to foster mutually beneficial relationships with external stakeholders through a variety of taxpayer services including customer education and Public Relations. The Department disseminates legal and technical tax information in a simplified way for everyone to understand, so as to promote voluntary compliance. Some of the methods used to deliver these services include tax clinics tailored to meet the specific needs of customers, participation in public events such as shows and exhibitions, and the annual Taxpayers Day.

Sensitization need to be done to encourage tax payer on voluntary compliance to tax payment. Tax education need to be part and parcel of KRA. New products and upgrading of the systems is important and aim to achieve the optimal objective for tax compliance but without communication all these will be drawbacks to the tax institution (Lumumba, Migwi and Obara, 2010).

According to KRA (2010), the property developers in Kenya and Nairobi in particular has rapidly been growing for the past five years. Estates, apartments and office block for either sale or rent has surged but there has been no reflection in tax revenue. The rental sector according to KRA (2010) is notoriously difficult to taxation especially in developing countries due to most of the construction are informal, limited registration and rental payment is basically in cash. It for this reason that the KRA opt to focus some of its resources in educating and sensitization the taxpayers with the main focus on the landlords. Facilitating taxpayers through automation, education and sensitization, continuous auditing of the system is being done to boost the level of tax compliance among the taxpayers on rental income in Kenya. ICT Excellence, voluntary disclosure of income encourages taxpayers to voluntary comply with tax authority (KRA, 2010).

2.5 Chapter Summary

This chapter covered Attitudes of the Kenya Landlords towards Taxation; attitudes and perception, financial condition as a moderator for attitude and tax compliance, risk preference as a moderator for attitude and tax compliance, attitude towards tax evasion factors, secondly is factors that Influence Kenyan landlord taxpayers towards taxation;
demographic factors, cultural factors, tax systems and lastly the established factors that have the most influence on the attitude of the Kenyan landlord taxpayers which include attitude and intentions, Intentions and behavior, tax compliance intentions. Chapter three covers the research methodologies used in the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter is of interest to the research design and methodology used in the study. The subheadings to be covered in this chapter are; design of the study, sampling design and population, methods of data collection, data analysis and presentation and finally the chapter summary.

3.2 Research Design

According to Chandan, Singh and Khanna (2010), a research design is a general strategy for attaining the information required to address a research problem. This research design suitable for this study was that of expressive survey, this was because descriptive research design offers statistics about the population under the studied. Descriptive research is a research steered to elucidate the features of certain spectacles to solve a particular problem. The descriptive sort of research designates the circumstances as they happen at a certain time. Descriptive research provides a systematic description that is factual and accurate as possible hence this tailored well with my research problem (Cooper and Schindler 2011). Since the research was statistical, the method captured the population’s characteristics by making inferences from the sample characteristics and general information about the findings were presented basing on the sample studied.

3.3 Population and Sampling Design

3.3.1 Population

A population is the entire gathering of elements about which extrapolations are made (Cooper and Schindler 2011) or is a group of the variables that is being studied (Chandan, Singh and Khanna 2010). The population under this study was landlords in Nairobi whose
tax compliance was under review by tax revenue authority. This population was 240 according to Kenya Revenue Authority Report (2012).

### 3.3.2 Sampling Design

#### 3.3.2.1 Sampling frame

The sampling frame for any probability sample is a whole list of entire cases in the population from which sample is derived (Saunders, Lewis and Thornhill, 2003). The sample frame was clearly defined as the landlords of Nairobi area whose tax compliance on rental income was under review by the KRA officers (KRA, 2013).

#### 3.3.2.2 Sampling Technique

The study adopted a non-probabilistic sampling technique, to be precise the research used a random sampling and this was chosen because the researcher focused on the landlords in Nairobi whose tax compliance on rental income was under review by the KRA officers. To attain this, a sampling frame was gotten from landlords within Nairobi from which a sample of 50 was obtained using a randomly sampling technique.

#### 3.3.2.3 Sample Size

According to Saunders, Lewis and Thornhill (2003), the bigger the size of the sample, the lower the possible error in taking a broad view of the population. The sample size is the number of sampling units selected from the population for investigation (Chandan, Singh and Khanna, 2010). A sample of 50 landlords selected randomly was used for the study. 21% was picked since the population was small and it exhibits the same characteristics.
3.4 Data Collection Methods

The nature of data used in the study were primary data. The data was obtained using questionnaires distributed to the landlords via hand delivery. The questionnaires had questions framed in structured (closed) and open and ended. The questionnaire was divided into two parts, the first part contained demographic information, this included age, gender, education level and the second part addressed the three research questions. Respondents were asked to rank the factors in part two as to how they agreed or disagreed with the statements. Among the 50 sampled taxpayers, 45 responded and returned the filled in questionnaires.

3.5 Research Procedure

The questionnaires were given to some research expert for critical review. Then a pilot study was conducted to five respondents. Pre-testing was also done to ascertain the validity and suitability of the questionnaires. To carry out the study, structured questionnaires were used. The questionnaires were designed using the research questions. Structured questions, well designed were easy to administer and collect a wider section of respondents since it was cheaper and takes shorter time. Approximately 50 questionnaires were issued to the in Nairobi area and the sample was used from the population of 240 landlords in Nairobi whose tax compliance is under review by the tax authority. The responded were to mark where appropriate in the questionnaire. The respondents were expected to take about ten minutes to complete filling the questionnaire. The questionnaire was distributed in person to the respondents. However the response rate was lower than anticipated. Hand delivery to the landlords enabled the sample to be as representative of the population since everyone in the sample had an equal chance of being selected. The questionnaire was coded so as to ensure easy analysis.

3.6 Data Analysis and Method

Quantitative data was acquired in this study. Quantitative data are remarks evaluated on a numerical scale. Quantitative data are those that represent the quantity or amount of something (Quang and Hong, 2009). Descriptive method was used in analyzing the data.
Frequency of the sample and regression analysis was used to find the significance of the findings. Also used was correlation analysis to establish whether there exist a relationship between the various variables under the study, results was then presented in tables and figures for easier assessment.

### 3.7 Chapter Summary

In this chapter, the researcher highlighted the most suitable research design. The chapter gave a detailed analysis of the population and the sampling process that was employed in collecting data. A non-probabilistic sampling technique was used to sample only those landlords whose tax compliance on rental income was under investigation by KRA. A sample size of 50 landlords was used but 45 responded. Primary data was used. Chapter four is next covering the results and findings of the study that is based on the research questions. These were obtained from the questionnaires issued to the landlords within Nairobi. To achieve the findings data analysis was done using Statistical Package for Social Science in the next chapter.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

In this chapter, presentation of the findings of the study grounded on the data gathered from the Landlords within Nairobi is given. The study sorts to determine the factors that affect tax compliance on rental income. The research questions of the study were: What are the attitudes of the Kenya landlords towards taxation? What are various factors that influence Kenyan landlord taxpayers towards taxation? And finally, which of the established factors have the most influence on the attitude of the Kenyan landlord taxpayers?

The data collected targeted only those landlords whose tax compliance on their rental income were under investigation by the KRA. The researcher received 45 responses out of the 50 questionnaires that were issued to the respondents. In this chapter, table and charts will be used for the presentation with a short description and explanation provided for those tables and figures. Analysis carried on this data has also been presented.

4.2 General Information

4.2.1 Gender Distribution

The respondents sampled from landlords in Nairobi whose tax compliance were under review by the KRA officers who successively filled in the self-administered questionnaires and returned them were 45, representing 90% of the sample size. Figure 4.1 shows that there were 12 females and 33 males each representing 26.3% and 73.6% respectively.
4.2.2 Age Distribution

Of the sampled landlords, were from the age of 18 years and 56 and above years. In table 4.3, four age brackets were represented; those aged between 18-30 years were 7 accounting to 15.6%, from 31-43 years 11 (24.4 %), 44-55 years 8 (17.8%) and finally 56 years and above 19 (42%) as shown in Table 4.1.
Table 4.1: Age distribution

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-30</td>
<td>7</td>
<td>15.6</td>
</tr>
<tr>
<td>31-43</td>
<td>11</td>
<td>24.4</td>
</tr>
<tr>
<td>44-55</td>
<td>8</td>
<td>17.8</td>
</tr>
<tr>
<td>56 and above</td>
<td>19</td>
<td>42.2</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2.3 Respondents Highest Education Level

Of the sampled respondents highest level, 3 representing 6.7% of the sample attained a primary education level, 9 representing 20% had reached secondary level, 21 representing 46.7% were graduate, those who had attained a post graduate education level amounted to 12 representing 26.7% of the sample as shown in table 4.2.

Table 4.2: Highest Education Level Distribution

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>Secondary</td>
<td>9</td>
<td>20.0</td>
</tr>
<tr>
<td>Graduate</td>
<td>21</td>
<td>46.7</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>12</td>
<td>26.7</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.2.4 Current Occupational Distribution

Of the sampled respondents, 16 were working, representing 35.6% of the sample, 1 (2.2%) retired, 14 were business men and women representing 31.1% whereas also 14 (31.1%) were both working and doing side business as shown in Table 4.3

Table 4.3: Respondent's current Occupation Distribution

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working</td>
<td>16</td>
<td>35.6</td>
</tr>
<tr>
<td>Retired</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Business</td>
<td>14</td>
<td>31.1</td>
</tr>
<tr>
<td>Working and Side Business</td>
<td>14</td>
<td>31.1</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2.5 Respondent’s Number of Years Earned Rental Income.

Of the sampled respondents, 37.5% had earned income from rent for less than two years whereas 15.6% had earned rental income for in between 3 to 5 years, 22.2% earned rental income for in between 6 to 8 years and 24% for above 8 years as shown in Table 4.4.

Table 4.4: Respondent's Years Earned Rental Income

<table>
<thead>
<tr>
<th>Years Earned</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2 years</td>
<td>17</td>
<td>37.8</td>
</tr>
<tr>
<td>3-5 years</td>
<td>7</td>
<td>15.6</td>
</tr>
<tr>
<td>6-8 Years</td>
<td>10</td>
<td>22.2</td>
</tr>
<tr>
<td>9 years and above</td>
<td>11</td>
<td>24.4</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.2.6 Respondent’s Number of Years Engaged the Estate Agents

Of the sampled respondents, 40% have never engaged the estate agents in the management and collection of revenue on their behalves, 28.9% have just engaged them for a period of less than two years whereas 13.3% for a period of between 3 to 5 years, 4.4% for a period in between 6 to 8 years and finally 13.3% of the sample had engaged the service of estate agents for over eight years as shown in Table 4.5.

Table 4.5: Respondent’s Number of Years Engaged the Estate Agents

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>18</td>
<td>40.0</td>
</tr>
<tr>
<td>Less than 2 years</td>
<td>13</td>
<td>28.9</td>
</tr>
<tr>
<td>3-5 years</td>
<td>6</td>
<td>13.3</td>
</tr>
<tr>
<td>6-8 years</td>
<td>2</td>
<td>4.4</td>
</tr>
<tr>
<td>9 years and above</td>
<td>6</td>
<td>13.3</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2.7 Monthly Rental Income per Unit Distribution

Six respondents representing 13.3% in the samples had their houses fetch below Ksh 5,000, 18 (40%) respondents had the houses fetch in between Kshs 5,100 – 10,000, 14 (31.1%) respondents had houses fetching between Ksh 10,100 – 20,000, and finally those that fetched over Ksh 20,000 were 7 representing 15.6% as shown in Table 4.6
Table 4.6: Respondent's Monthly Rental income per Unit

<table>
<thead>
<tr>
<th>Range</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 5000</td>
<td>6</td>
<td>13.3</td>
</tr>
<tr>
<td>5100-10000</td>
<td>18</td>
<td>40.0</td>
</tr>
<tr>
<td>10100-20000</td>
<td>14</td>
<td>31.1</td>
</tr>
<tr>
<td>Over 20000</td>
<td>7</td>
<td>15.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.2.8 Respondents who Keep Records

Of the sampled respondents, 73.3% keep records of all the rental income and expenses whereas 33.7% don’t keep records as shown in figure 4.2.

![Figure 4.2: Respondents Keep records](image)

4.2.9 Respondents who Keep Records

Of the sampled respondents, 91.1% had KRA personal identification number (PIN) whereas 8.9% didn’t had as shown in figure 4.3.
4.2.10 Respondents File Income Tax Return

Figure 4.4 show the respondents who file income tax return and those who don’t, of the sampled respondents, 88.4% file income tax return whereas 11.6% of the respondents do not file income tax return.
4.3 Attitudes of Kenya Landlords towards Taxation

This section sort to find out how do each of the established individual attitudes factors affects the compliance of individual tax compliance.

4.3.1 Attitude and Perceptions Politicians Misuse Taxes

Findings of the attitude and perceptions that politicians misuse our taxes established that out of the 45 responses, 11 and 30 agree and strongly agreed respectively indicating that 41 responses representing 91% were positive while only 2 (4.4%) responded negatively. 2 of the respondents, representing 4.4% were neutral as shown in Table 4.7.

Table 4.7: Respondent Attitude and Perception that Politicians Misuse Taxes

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Neutral</td>
<td>2</td>
<td>4.4</td>
</tr>
<tr>
<td>Agree</td>
<td>11</td>
<td>24.4</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>30</td>
<td>66.7</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.3.2 Level of Tax Compliance Influence by Peers

Findings of the level of influence peers have on the compliance or non-compliance of tax payments showed that out of the 45 responses, 15 and 12 agree and strongly agreed respectively indicating that 27 responses representing 60% were positive while only 8 (17.8%) responded negatively. 10 of the respondents, representing 2.2% were neutral as shown in Table 4.8.
### Table 4.8: Level of Influence by Peers

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>8</td>
<td>17.8</td>
</tr>
<tr>
<td>Neutral</td>
<td>10</td>
<td>22.2</td>
</tr>
<tr>
<td>Agree</td>
<td>15</td>
<td>33.3</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>12</td>
<td>26.7</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

#### 4.3.3 Level of Influence by Financial and Family Obligations

Findings on the level of influence financial and family obligations have on the compliance or non-compliance of tax payments showed that out of the 45 responses, 17 and 20 agree and strongly agreed respectively indicating that 37 responses representing 82% were positive while only 5 (11%) responded negatively. 3 of the respondents, representing 7% were neutral as shown in Table 4.9.

### Table 4.9: Level of Influence by Financial and Family Obligations

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>8.9</td>
</tr>
<tr>
<td>Neutral</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>Agree</td>
<td>17</td>
<td>37.8</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>20</td>
<td>44.4</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.3.4 High Risk Preference

Table 4.10 shows that 19 respondent representing 42% of the sample agreed that high risk preference influenced their attitude towards non-compliance of tax payments compared to 15 (33.5%) who disagreed that high risk preference influenced their attitude not to comply. 11 of the respondents representing 24.5% of the sample were neutral.

### Table 4.10: High Risk Preference

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>Disagree</td>
<td>12</td>
<td>26.7</td>
</tr>
<tr>
<td>Neutral</td>
<td>11</td>
<td>24.4</td>
</tr>
<tr>
<td>Agree</td>
<td>11</td>
<td>24.4</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>8</td>
<td>17.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.4 Factors that Influence Kenyan Landlord Taxpayers towards Taxation

This section presents the analysis of the data in respect of the dependent variable of this study. The conceptual framework of the rental income tax compliance was developed in the literature review and includes factors of age, gender, education level, social-norms ethical values, income level, occupation among other factors, this section will focus on the most pressing factors.

4.4.1 Age Factors

The first aspect of the factors of tax compliance reviewed in the questionnaire was the age factor. This dealt with how the age influences tax compliance among the landlords in Nairobi area. Table 4.11 below broke down how respondents felt about age and compliance. In the
table, only 33.3% of the respondents believed that age influence their tax payment compliance whereas 40% disagreed that age influences tax compliance. 26.7% of the respondents were neutral.

Table 4.11: Respondent’s Age Influences Compliance

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>6</td>
<td>13.3</td>
</tr>
<tr>
<td>Disagree</td>
<td>12</td>
<td>26.7</td>
</tr>
<tr>
<td>Neutral</td>
<td>12</td>
<td>26.7</td>
</tr>
<tr>
<td>Agree</td>
<td>9</td>
<td>20.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>6</td>
<td>13.3</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.2 Gender Factors

Second aspect of the factors of tax compliance reviewed in the questionnaire was the gender factor. This dealt with how the respondent’s gender influenced tax compliance among the landlords in Nairobi area. Table 4.12 broke down how respondents felt about age and compliance. 9% of the respondents believed that their gender influence their tax payment compliance whereas 60% disagreed that gender influences tax compliance. The remaining 31.1% of the respondents remained neutral.
Table 4.12: Respondent's Gender Influences Compliance

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>8</td>
<td>17.8</td>
</tr>
<tr>
<td>Disagree</td>
<td>19</td>
<td>42.2</td>
</tr>
<tr>
<td>Neutral</td>
<td>14</td>
<td>31.1</td>
</tr>
<tr>
<td>Agree</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.3 Education Level Factors

Next aspect of the factors of tax compliance reviewed in the questionnaire was the highest education level factor. This dealt with how the respondent’s education level influenced tax compliance among the landlords in Nairobi area. The table 4.13 broke down how respondents felt about the level of education achieved and compliance. In the table, only 42.2% of the respondents believed that their educational level influence their tax payment compliance whereas 44.5% disagreed that education level had nothing to do with tax compliance. 13.3% of the respondents were neutral.

Table 4.13: Respondent's Education Level Influences Compliance

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>Disagree</td>
<td>17</td>
<td>37.8</td>
</tr>
<tr>
<td>Neutral</td>
<td>6</td>
<td>13.3</td>
</tr>
<tr>
<td>Agree</td>
<td>15</td>
<td>33.3</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>4</td>
<td>8.9</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.4.4 Social Norms Factors

The other factors of tax compliance studied in this research were the social norms factor. This dealt with how the respondent’s social norms had influenced on tax compliance among the landlords in Nairobi area. Table 4.15 shows how the respondents felt about the social norms factors and compliance. In the table, only 44.4% of the respondents believed that their social norms influences their tax payment compliance whereas 36.6% disagreed that social norms had nothing to do with tax compliance. Those respondents who remained neutral was 20% of the sample as shown in table 4.14.

Table 4.14: Respondent's Social Norms Influences Compliance

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>4</td>
<td>8.9</td>
</tr>
<tr>
<td>Disagree</td>
<td>12</td>
<td>26.7</td>
</tr>
<tr>
<td>Neutral</td>
<td>9</td>
<td>20.0</td>
</tr>
<tr>
<td>Agree</td>
<td>14</td>
<td>31.1</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>6</td>
<td>13.3</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.5 Income Level

Findings on the level of influence income level have on the compliance or non-compliance of tax payments showed that out of the 45 responses, 12 and 17 agree and strongly agreed respectively indicating that 29 responses representing 64% were positive while only 4 (8.9%) responded negatively. 12 of the respondents, representing 26.7% were neutral as shown in Table 4.15.
Table 4.15: Respondent's Income Level Influence Compliance

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>disagree</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>Neutral</td>
<td>12</td>
<td>26.7</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
<td>26.7</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>17</td>
<td>37.8</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5 Improving Tax Compliance

In this section, the researcher sort to find out what can be done to improve tax compliance on rental income among the landlords within Nairobi. Several areas were looked at and the finding presented below.

4.5.1 Carry Out Tax Reforms

Findings on this measure showed that out of the 45 responses, 11 and 33 were positive and strongly positive respectively that tax reforms ought to be carried out, accounting to 44 responses representing 98% were positive while there were no negative response only 1 respondent remained neutral. Among the most appeared responses in the any other measures, most of the respondents felt that there ought to be a shift of taxation on rental income from business to investment taxation as shown in Table 4.16.
Table 4.16: Respondent's Position on Tax Reform

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Agree</td>
<td>11</td>
<td>24.4</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>33</td>
<td>73.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.5.2 Reduce Tax Rates

Findings on this measure showed that out of the 45 responses, 9 and 34 agreed and strongly agreed respectively that tax rates were high and ought to be reduced, accounting to 43 responses representing 95.6% were positive while there were only 1 negative response and 1 respondent remained neutral. Again the reduction of tax rates was on the basis that a shift from business tax to an investment tax will encourage tax compliance as shown in Table 4.17.

Table 4.17: Respondent's position on tax rate reduction

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Neutral</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Agree</td>
<td>9</td>
<td>20.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>34</td>
<td>75.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
4.5.3 Simplify Tax Payment Procedures

Out of the sample, 9 and 32 agreed and strongly agreed respectively that tax payment procedures need to be simplified, accounting to 42 responses representing 91% were positive while there were only 1 negative response and 3 respondents remained neutral as shown Table 4.18.

Table 4.18: Respondent's Position on Simplify Tax Payment Procedures

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>disagree</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Neutral</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>Agree</td>
<td>9</td>
<td>20.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>32</td>
<td>71.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.6 Correlation Analysis between Variables

The first, second and the third columns of Table 4.55 illustrate the test results obtained using Pearson’s, Kendall and Spearman’s correlation tests between the taxpayers attitude to the politicians misuse of public funds, with a Pearson’s correlation coefficient of 0.437, Kendall correlation coefficient of 0.317 and Spearman’s correlation coefficient of 0.391. Entirely assessments established a P value (level of significance) lesser than 0.05 representing a statistical significance between the variables.
Table 4.19: Correlation between Taxpayers Attitude and politician’s misuse of taxes

<table>
<thead>
<tr>
<th>Correlation Established with Taxpayers Attitude</th>
<th>Pearson’s, r</th>
<th>Kendall, Tau_b</th>
<th>Spearman’s, rho</th>
</tr>
</thead>
<tbody>
<tr>
<td>Politicians misuse taxes</td>
<td>.437</td>
<td>.317</td>
<td>.391</td>
</tr>
<tr>
<td>N=45, sig. (2-tailed)</td>
<td>0.019</td>
<td>0.036</td>
<td>0.035</td>
</tr>
</tbody>
</table>

Table 4.20: Correlation between Respondents age and Tax Compliance

<table>
<thead>
<tr>
<th>Correlation Established with respondents age to tax compliance</th>
<th>Pearson’s, r</th>
<th>Kendall, Tau_b</th>
<th>Spearman’s, rho</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax compliance</td>
<td>.457</td>
<td>.323</td>
<td>.422</td>
</tr>
<tr>
<td>N=45, sig. (2-tailed)</td>
<td>0.015</td>
<td>0.024</td>
<td>0.023</td>
</tr>
</tbody>
</table>

A confident association was recognized between respondents’ age and tax compliance. Table 4.20 shows the test outcomes attained using three correlation tests. A Kendall correlation coefficient of 0.323, a Pearson’s correlation coefficient of 0.457 and a Spearman’s correlation of 0.422. In all the assessments, the degree of significance (p value) was lesser than 0.05, this showed that there is a statistical significance between the two variables.

4.7 Correlation Analysis between Respondents Financial and Family Obligations and Tax Compliance.

Table 4.21 exemplifies the outcomes of three association assessments that designate an adverse association between respondent’s financial and family obligations and tax compliance. Grounded on the Pearson’s, Kendal and spearmain’s tests, a adverse association constant of -0.517, -0.425 and -0.456 correspondingly was attained with a level of
significance (P value) of 0.01 in Pearson test and 0.05 in Kendall and Spearman tests. Thus, this shows a statistical significant association between the two variable.

Table 4.21: Correlation between Respondents Financial and Family Obligations and Tax Compliance

<table>
<thead>
<tr>
<th>Correlation Established with respondents Financial and Family Obligations to tax compliance</th>
<th>Pearson’s, r</th>
<th>Kendall, Tau_b</th>
<th>Spearman’s, rho</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax compliance</td>
<td>-0.517**</td>
<td>-0.425*</td>
<td>-0.456**</td>
</tr>
<tr>
<td>N=45, sig. (2-tailed)</td>
<td>0.05</td>
<td>0.014</td>
<td>0.011</td>
</tr>
</tbody>
</table>

** correlation coefficient is significant at the 0.01 level
* correlation is significant at the 0.05 level

4.6 Chapter Summary

The chapter looked at the findings and interpretations of this research. The findings and interpretations were based on the research questions outlined in the first chapter. In the next chapter, we look at the summary, discussions and conclusions as well as the recommendations based on the findings.
CHAPTER FIVE

5.0 SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the study with the summary, discussions, conclusions and recommendations on the factors affecting voluntary tax compliance on rental income among landlords in Nairobi.

5.2 Summary

The purpose of this study was to determine the factors that affect voluntary tax compliance on rental income among landlords within Nairobi area. The study attempted to answer the following research questions: What are the attitudes of the Kenya landlords towards taxation? What factors that influence the attitude of Kenyan landlord taxpayers towards taxation? And finally, what can be done to encourage tax compliance among Kenyan landlords?

The study was designed as a descriptive and exploratory study. The study was steered and data gathered using questionnaires that was tailored based on the research questions. Nairobi has so many landlords, so the focus of the study was only those who tax compliance were under review by the KRA. A random sampling method was employed to draw a sample of 50 of which 45 (90%) responded. A random sampling technique was used to ensure that those responded were only those landlords whose tax compliance on rental income were under review and were drawn from Nairobi area. Expressive measurements was used to analyze data.

The study found out that the majority of the respondents were male accounting to 73.3%, whereas age above 55 year accounted for 42.2%. As concerning highest level of education, 46.7% of the respondents were graduates and 66.7% (35.6 + 31.1) of the respondents were employed.
Regarding the first research question on what are the attitudes of the Kenya landlords towards taxation, the study found out that though some respondents felt that other factors did not influence them, majority of the respondents respondent positively that those factors under the attitude and perception influenced their non-compliance. Attitude and perceptions that politicians misuses taxes, peers and financial and family obligation had a strong positive responses.

On regards to second research question on what are various factors that influence Kenyan landlord taxpayers towards taxation, the study found out that social norms and respondent’s income level were the factors that most influence the non-compliance of tax payment.

Finally, regarding the third research question on what measure ought to be done to encourage voluntary tax compliance, the study found out that tax reforms ought to be carried out to encourage tax compliance, and the study also found out that a shift of taxation system from business taxation to investment taxation need to be done. Also in the study’s finding was that simplification of tax payment procedures were vital.

5.3 Discussions

5.3.1 Attitudes of Kenya Landlords towards Taxation

The research finding showed that majority of the respondents agreed that the outlined factors in the questionnaire influenced them not to comply with tax payment. This is an agreement with Ajzen (1991) who wrote that individual’s attitude towards tax system may predict the tax compliance behavior. He indicated that attitude is a partial indication of behavior.

This study agrees with Hasseldine (1999) that according to several procedures used by various tax agencies to evaluate the level of non-compliance, there has been some compliance reliant on the taxpayer’s social attitudes and behavioral factors. Furthermore, individual factors are not only the influencing factor on the extent of non-compliance among
individual taxpayers, but there is a complex mixture of conditions. The study established that majority of the landlords believed that their funds contributed in form of revenue were not well utilized and that politicians are corrupt with individual self-centered interest.

As regard to the perspective of the theory of functional attitude that the motive of the attitude will determine whether it will be positive or negative. This study is in congruent to the argument made by Bobek (2007). The taxpayer, whose motive of attitude towards tax system is to express his belief in the system, is expected to judge the fairness of the system objectively and the taxpayer whose attitude is motivated with what benefit to derive from the system may be less compliant.

Certainly, worldwide, the level of tax compliance by individuals and firms are immensely higher compared to what would be predicted under pure economic models of enforcement (Posner, 2010). At the personal level, social norms clarify much of the disparity in cross-country tax compliance levels (Bobek, Roberts and Sweeney, 2007). This suggests that broader cultural and institutional factors may influence tax compliance at the firm level as well.

On the respondent’s perceptions that politicians misuses the public funds, the study agrees with Smith and Stalans (1991) which revealed that Kenya having had numerous scandals involving the political leaders, the respect of citizens for the government and the institutions that are not able to effectively govern their revenue is low and this makes the level of tax compliance very low. The ability of the government to commendably articulate and implement comprehensive policies on the effective utilization of the revenue encourages taxpayers to voluntary comply with tax payment. The views of most of Kenyan taxpayers are that politicians are corrupt and they misuse the public resources. The alleged corruption of Kenyan political bodies is contended to affect the voluntary and willingness of taxpayers to comply with the tax payment. If taxpayers were to perceive that their interests are well represented in political institutions and their revenues is put into well utilization, voluntary tax compliance will increase. Whereas, the government where corruption is widespread, the citizens lack trust in the authority and thus low compliance level.
On correlating the variables against tax compliance, it was found out that the established factors on tax compliance were significant to the level of tax compliance. This is in line with the research carried out by Lumumba, Migwi and Obara (2010), who established that taxpayer’s financial and family obligation, age and attitude towards politicians misusing the tax had significance to the level of tax compliance.

5.3.2 Factors that Influence Kenyan Landlord Taxpayer’s Attitude towards Taxation

As regard to the research question on what factors influences the attitude of the Kenyan landlords towards tax non-compliance, the study found out that the established factors influences the attitude of Kenyan landlords not to comply.

There were strong responses on education level, income level and social norms as factors that influence non-compliance on rental income among Kenyan landlords. This finding agrees with Goodwin, J and Goodwin, D (1999) who believed that even among citizens of Asian countries, there are differences in cultural decisions. Abdul et-al (2004) also investigated students who were majoring accounting on cultural choice using ethnic grouping as a demographic factor. They found out that there aspect of cultural decision making in solving ethical problems associated with accounting issues, among them, taxation and established substantial variance between prescriptive and deliberative ethical reasoning behavior.

Kasipillai, et el (2003) used both ethnic grouping and gender alongside other demographic factors to assess the impact of education on tax compliance among scholars in Malaysia. The findings revealed that significant differences existed among different ethnic groups but the study did not give evidence of any substantial variances in attitude between different genders. We expect a mixed behavior pattern among the ethnic groups in Malaysia.

On the level of income as influencing factors towards tax non-compliance, the majority of the respondent agreed that income level influenced their attitudes towards non-compliance. The lower the income level, the high rate of non-compliance. This finding agrees with
various studies done earlier. For example, Mathieu and Zajac (2010) found out that there exist indications on several behavioral studies concerning financial and family obligations influence the relationship individual’s commitment and compliance, studies on behavior have shown support for the influencing effects of financial factors on individual’s behavior towards tax compliance.

As in regard to age, the study confirms the Christian and Gupta (1992) that age as demographic factor impact the level of tax compliance or tax non-compliance behavior of individual taxpayers. Majority of studies done in United States of America show that age is a key factor in explaining the degree of tax non-compliance. According Clotfelter (1983) there is a significant relationship between the level of tax non-compliance and the age of the taxpayers, whereas Christian and Gupta (1992) established that younger taxpayers are most likely to evade tax or not to comply compared to older taxpayers who are less likely to comply, this is because older taxpayers are more conformist, thus less likely to pursue for extra deductions so as to lower their taxable income. Mottiakavandar et al., (2004) found that among the small business entrepreneurs, sociological factors such as gender and age have a significant effect on taxpayers’ attitude toward own tax non-compliance.

5.3.3 Encouraging Tax Compliance among Kenyan Landlords

Finally the findings on what can be done to encourage tax compliance among Kenyan landlords, among the 45 respondents, 95% felt that the establish factors on improvement of voluntary tax compliance on rental income among the landlords within Nairobi needs to be carried out.

On carrying out tax reforms, 98% of the believed that tax reforms was vital in encouraging voluntary tax compliance and reducing the level of non-compliance among landlords within Nairobi. This finding of the study agrees with Lumumba, Migwi and Obara (2010), who noted that the taxpayers view the tax system to be unfair i.e. in terms of high tax rates, then there is need for KRA lobby National Treasury to do some adjustments to the tax rates. The rates need to be reduced to enable taxpayers to duly pay their taxes and by so doing the
government will collect high revenue and tax compliance rate will be high. They also argued that in areas where the taxpayers view the tax system to be too complicated, reforms need to be taken on the tax system in order to simplify it to accommodate every tax payer who may default or not comply because of the complexity of the tax system. Education need to be carried out frequently and throughout to educate the taxpayers on the tax system.

Regarding reducing tax rate on rental income, 95.5% of the respondents agreed that tax rate on rental income needed to be reduced. The respondents agreed that in reducing tax rate, a shift of taxation system on rental income from business taxation to investment taxation was necessary so as to been fairness in both taxation. This finding too confirmed to the findings of other studies done before. For example, Lumumba et al (2010) found out in their study that tax rates needed to be reduced.

It is also the study’s finding that unfair taxation system influences the level of voluntary tax compliance among Kenyan landlords on rental income. This agrees with Lumumba et al (2010) whose views in areas where the taxpayers perceive the tax system to be too complicated, reforms need to be taken on the tax system in order to simplify it to accommodate every tax payer who may default or not comply because of the complexity of the tax system. Education need to be carried out frequently and throughout to educate the taxpayers on the tax system.

Also according to Hasseldine (1999), most studies have found that compliance increases but only slightly with increases in the fine rate on unpaid taxes; the estimated reported income-fine rate elasticity is typically less than 0.1. Also, penalties need not be limited to financial penalties; that is, the threat of public disclosure of one’s own compliance behavior may affect compliance due to concerns that one’s information may be viewed by others, and the observation of others compliance (or lack of compliance) may also affect one’s own reporting behavior. Experimental evidence shows that public disclosure of non-compliance on balance increases compliance. This is also in agreement with this study’s findings.
It is also the study’s agreement with KRA (2010) which noted that by the year 2003 major revenue administration reforms have taken place in both developed and third world countries. In East Africa, country like Uganda, Tanzania and Rwanda were among the first to have reforms in their tax administration. The main purpose of these reforms were on strengthening revenue administration, establishing a function based structure that integrated and taxpayers segmentation approach. Among the reforms carried out by KRA by the year 2010 included: implementation of simple and transparent legislation for trade and taxation that provides conducive environment for voluntary tax compliance, implementation of simple and up-to date procedures for aimed at reducing taxpayers burden of paying taxes, promotion of voluntary compliance of taxpayers, automation of the processes and procedures of paying taxes among others.

5.4 Conclusion

5.4.1 Attitudes of Kenya Landlords towards Taxation

On factors of attitude towards compliance of tax payment, the study’s findings revealed that individual attitude play a great influence on voluntary compliance of tax payment on rental income among landlords within Nairobi. Conversely, some of the respondents felt that attitude has no influence on their voluntarily compliance of tax payment with also a significant percentage of the respondents who felt that attitude had not influenced them in any way and remained neutral.

5.4.2 Factors Influencing of Kenyan Landlord Taxpayer’s Attitude towards Taxation

Secondly, with respect to the second research question onto which of the establish factors influenced landlords in Nairobi to voluntary comply to pay tax. The finding showed that these factors are significant in influencing voluntary tax compliance on rental income among landlords within Nairobi.
5.3.3 Encouraging Tax Compliance among Kenyan Landlords

And finally, with regard to what measures need to be done to improve on the voluntary tax compliance on rental income, the findings showed that the respondents unanimously agreed that there were various factors that need to be done to encourage voluntary compliance. Among these factors include tax reduction, tax reforms and simplifying tax payment procedures.

5.5 Recommendations

5.5.1 Suggestions for improvements

5.5.1.1 Attitude towards Compliance of Tax Payment

To deal with voluntary tax payment compliance, taxpayers need to understand the reasons why they pay or ought to pay tax. The government should sensitize the tax payers on the importance of paying tax. It is also recommended that the government ought to be transparent on how the revenue collected from taxation is being utilized so that the tax payer don’t feel that their money is being misused.

5.5.1.2 Establish Factors Influencing voluntary Tax compliance

From the study, it is recommended that more sensitization on tax compliance and on these factors need to be carried on. Though the responses on these factors were not so strong, but they were significant and more need to be done to encourage voluntary tax compliance.

5.5.1.3 Factors that Influence Tax Compliance Most

From the study, it was found out that the established factors influenced landlords significantly to either comply or not to comply with tax payment. The study therefore
recommend that the tax authority need to do more on educating the taxpayers on these factor to change their mind on compliance and let them know that paying tax as much as it is everyone’s right, it is also everyone’s obligation to pay tax regardless.

5.5.1.4 Measures in Improving Voluntary Tax compliance

From the study, it is recommended that the government through KRA need take several tax reforms by factoring in the views of all the taxpayers. From the responses on the Landlords, the researcher recommends that there need to be a shift in taxation on rental income from business taxation to investment income taxation. This would mean taxing the gross rental income the way treasury bills, bonds and interest income are taxed for individuals. The tax rates are lower and it’s withheld by the banks.

5.5.2 Suggestions for Further Study

Non voluntary tax compliance on rental income by landlords not only from Nairobi but countrywide is high. Majority of these landlords fails to file return on rental income as revealed in the study. Some who files return on rental income end up under reporting their taxable income or misrepresenting expenses. The researcher recommends that further study be carried on the other factors that might influence the voluntary tax compliance on rental income. Again further study also need to be done on the same topic but covering a different location other than in Nairobi so as to determine whether there exist some variances in the findings.
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APPENDICES

APPENDIX I: COVER LETTER

Edward K Karanja

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA (USIU-A)

P.O. BOX 14634, 00800.

NAIROBI

Dear Respondent,

I am carrying out research on the; THE FACTORS AFFECTING TAX COMPLIANCE ON RENTAL INCOME; A CASE OF NAIROBI LANDLORDS. This is in partial fulfillment of the requirement of the Masters of Business Administration (MBA) degree program at the United States International University.

This study uses your appointed Estate Agents to administer the questionnaire which you will complete and return the sealed form to the Agent. The result of this study will provide the Government with the necessary information which will be used in reforming the tax system and improving the administrative challenges faced by your selves when paying taxes.

This is an academic research and you are encouraged to provide your honest opinion. The information you provide will remain confidential and the results will be analyzed and reported collectively. As such no findings will be directly attributed to an individual.

The questionnaire will take you approximately 10 minutes to complete.

Thank you in advance,

Yours sincerely,

E.K.Karanja
APPENDIX II: QUESTIONNAIRE
This study is partial requirement of the Masters of Business Administration (MBA) degree program at the United States International University. It aims at finding out ‘THE FACTORS AFFECTING TAX COMPLIANCE ON RENTAL INCOME BY NAIROBI LANDLORDS’

This study uses your appointed Estate Agents to administer the questionnaire which you will complete and return the sealed form to the Agent. The result of this study will provide the Government with the necessary information which will be used in reforming the tax system and improving the administrative challenges faced by your selves when paying taxes.

This is an academic research and you are encouraged to provide your honest opinion. The information you provide will remain confidential and the results will be analyzed and reported collectively. As such no findings will be directly attributed to an individual.

The questionnaire will take you approximately 10 minutes to complete.

PART I: GENERAL INFORMATION

Kindly answer all the questions either by ticking in the boxes or writing in the spaces provided.

- Your gender: Female    Male
- Age group  18 -30 years      31 - 43 years      44 - 55 years     56and above
- What is your highest level of education?
  
  Primary
  Secondary
  Graduate
  
  What are you currently doing?
  
  Working
  Retired
  Business
  Working and side business
• How many years have you earned rental income?
  
  Less than 2 years  
  3-5 years  
  6-8 years  
  9 years and over  

• How many years have you engaged the Estate Agent?
  
  Less than 2 years  
  3-5 years  
  6-8 years  
  9 years and over  

• On average what is amount of rent per house.
  
  • Below sh 5000 per month  
  • Between sh 5100 and sh 10,000 per month  
  • Between sh10,100 and sh 20,000 per month  
  • Over sh 20,000 per month  

• Do you keep any records?
  
  • Yes  
  • No  

  • If yes, which ones________________________________________

• Do you have a Personal Identification Number (PIN)?
  
  Yes  
  No  

• Do you file the Income Tax Returns?
  
  Yes  
  NO  

• Are you repaying any loan currently?
  
  Yes  
  No
**PART II: WHAT IS YOUR ALTITUDE TOWARDS PAYMENT OF TAXES**

In this section, please tick one of the factors corresponding to your personal opinion for each statement.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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</thead>
<tbody>
<tr>
<td>a) Is your attitude and perception politicians just misuse our taxes</td>
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<tr>
<td>b) Peers have influence on voluntarily tax compliance</td>
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<td>c) Financial and family obligations influence the relationship individuals’ commitment and compliance</td>
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<td>d) Tough financial and family obligation influences my attitude not to comply with tax payment</td>
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<td>e) High risk preference influence my attitude no to comply with tax payment</td>
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</table>
PART III: WHAT ARE THE FACTORS THAT INFLUENCE YOU TO COMPLY WITH TAX PAYMENT?

In this section, please tick the responding to what extent the following factors influence your tax compliance.

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) My age influence me to comply with tax payment</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>b) My gender influence me to comply with tax payment</td>
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<td>c) My education level influence my compliance toward tax payment</td>
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<td>d) My social norms influence me towards tax compliance</td>
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<td>e) Ethical values play a role in my compliance toward tax payment</td>
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<td>f) My income level influences my tax payment compliance</td>
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<td>g) My source of income influence my level of tax payment compliance</td>
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<td>h) My occupation influence me to comply with tax payment</td>
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<tr>
<td>i) Complexity of the tax system influence me not to comply with the tax payment</td>
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<td>j) Probability of detection and the penalties influence me not either comply or not to comply with tax payment</td>
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<td>k) High Tax rates deter me from complying with tax payment</td>
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</table>
PART IV: HOW TO IMPROVE TAX COMPLIANCE

Please tick the numeric value corresponding to your personal opinion for each statement

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Carry out tax reforms</td>
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<td>b) Reduce the tax rates</td>
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<td>c) simplify the tax payment procedures</td>
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<td>d) Enforce tax compliance in fair and just manner</td>
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<td>e) develop a professional team dedicated to its work with tolerance to corruption</td>
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<td>f) focused taxpayer education and sensitization</td>
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<td>g) Recruitment of all key staff to be based on merit and regional balance.</td>
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<td>h) Prosecute tax evaders and publicize the cases</td>
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<tr>
<td>i) Encourage voluntary compliance</td>
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</tbody>
</table>

THANK YOU FOR TAKING YOUR TIME TO COMPLETE THE QUESTIONNAIRE