ISSN (online) 2664-9535 (print) 2664-9527 https://atcr.kra.go.ke

Factors Affecting Rental Income Taxpayer's Compliance: The Kenyan Tax System

Ombogo Boniface Ondoro[1]

[1] Kenya Revenue Authority, Nairobi, Kenya

Received 30 June 2021
Accepted for publication 14 July 2021
Published 18 August 2021

Abstract

Taxation is the primary source of revenue for governments throughout the world to implement their political, social-economic agendas and to deliver services to the citizens. In Kenya, increased government recurrent expenditure, capital expenditure, and the need to finance both national and county government activities using local sources of funds has called for the government to bring into the tax net sectors that have remained untaxed before. In the finance bill of 2012/2013, a lot of emphasis was put on rental income as a subject of taxation. Previous economic statistics records of KRA and Treasury indicate that less than half of property owners and developers had complied with these tax requirements. This study was carried out to establish how property owners have responded to the property taxation measures, and the factors that influenced their compliance such as perception, human resource, tax education and cost of compliance to rental income tax in Kenya. To achieve this objective, the researcher used both primary and secondary data. Primary data was collected by seeking opinion from a sample of 210 property owners, sampled from the seven KRA regions using telephone interview questionnaires. While secondary data was collected from revenue records of KRA, previous studies carried out by researchers on rental income tax both globally and locally for the purpose of comparison. Data collected was analyzed by using the statistical software program namely Statistical Package for Social science (SPSS) version 20. The quantitative data was analyzed using descriptive statistics (frequency, percentage, mean and standard deviation) and a number of techniques of analysis was used including Reliability test, Correlation and Multiple Regressions. According to the responses of the taxpayer's rental income tax compliance in Kenya is influenced by: age, current occupation, financial constraints, referent group influence, educational level of taxpayers, awareness of taxpayers, perception of tax fairness, opportunity cost of evading, tax education, government incentives, trust of the tax collector, tax collection procedures and tax audits. Based on the findings of this study the possible recommendation includes: developing taxpayer's capacity of understanding tax, upholding tax fairness and equity, developing capacity of tax authority, improve taxpayers trust on the authority, government to provide social services to the public to get trust from the society who will in turn reduce tax evasion. .
Keywords: rental income, taxpayer compliance

ISSN (online) 2664-9535 (print) 2664-9527 https://atcr.kra.go.ke

1. Background

Taxation is the core source of government revenue in both first world, second world, and third countries. Tax compliance is the most natural term used by policymakers and taxation authorities to describe tax payer's willingness and motivation to pay their tax. Hence, according to Singh, (2003), tax compliance is defined by most tax authorities as to the ability and eagerness of taxpayers to comply with tax laws, declare the accurate income each year and pay the exact amount of taxes on time.

Eckstein, (1979) and Wallschutzky, (1995), suggested that the tax system must be fair both to encourage the objective of a reasonable and equal distribution of income and to give surety continual voluntary compliance by the taxpayer. Further, Tesfaye, (2015), argues that in order to improve revenue collections, the government ought to develop an environment that raises the awareness and willingness of taxpayers toward returning tax voluntarily without enforcement. Kassa, (2010); James, (2000); Lemessa, (2005) and Rizal, (2011) in their studies found out that fairness or equity, organizational strength of the tax authority, awareness, cultural factors, social factors, and attitude towards the government are factors affecting tax payer's voluntary compliance with tax law.

According to Kirchler, (2007), nowadays rental income taxes are a fundamental source of revenue for government operations in both developing and developed countries. However, the amount of revenue to be generated from these sources for its expenditure program depends among other things, on the willingness of the individuals to comply with the tax laws of a country.

With regard to rental income taxpayers, Rizal, (2011) and Kuria, (2013) found out that it is attitudinal and knowledge difference, unfair tax rate, dishonesty of rental taxpayers, lack of awareness, the complexity of tax law and regulation and inadequacy of government spending that has an impact on the amount of revenue collected. Desta (2010), argues that in most countries, taxpayers perceive that tax evasion as a crime and as it indicates that there is attention towards taxation by taxpayers. But the problem here is that there is poor compliance even though tax evasion is considered a crime by the taxpayers because they think the unfair and less transparent system and tax rate used and also non-believing in government spending on public services.

In several developing countries Tesfaye, (2015), observed that there is a low capacity of tax administration to monitor compliance among rental taxpayers. Kenya, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country has been experienced a consistent surplus of expenditure over revenue for a long period of time.

CONCEPTUAL FRAME WORK

1.1 Research Problem Statement

Globally and even locally, the aspect of tax compliance is a very important aspect that has attracted many researchers. Yadirsal, (2014) and Palil, (2010) found out that more than fifty percent of the developing countries classify as being one of the most difficult taxes to collect. According to Yesuf, (2013), all tax systems face challenges when levying tax on landlords, the challenges are on the taxpayers and the official part of the tax system.

It is generally agreed that taxation in developing countries is more challenging than in the most developed countries. As a result, this has attracted increasing attention in the past few years with many countries striving to attain full tax compliance among its citizens. Tanzi, (2010) suggested that the difficulty witnessed include: poor administration, failure to collect adequate tax revenues, structures in the 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 a low capacity of tax administration to monitor compliance among rental taxpayers.

Kenya, like other developing countries, experiences challenges in collecting revenue to the level required for the advancement of economic growth. This has resulted in a continuous budget deficit for financing development and recurrent expenditure for years. To address this problem, the government introduced the imposition of taxation on rental income (residential & Commercial rental income tax), as major and important sources of public revenue. However, still, the government experiences a budget deficit, which leads to the need to carry out this start to establish the various reasons behind the non-compliance of the rental income taxpayers.

1.2 Research Objectives

The study was carried out to achieve the following three objectives on the compliance levels of rental income tax in Kenya:

i. To establish the actual compliance level of Rental Income Tax in Kenya

ii. To determine the various factors influencing the current compliance levels of rental income tax in Kenya.

iii. To establish solution to improving compliance levels of rental income tax in Kenya.

2. Literature Review

Empirical evidence about the extent of tax non-compliance for different world regions is very limited. A study by GFI (2010), estimates that African countries have lost US$854 billion in cumulative capital flight over the period 1970- 2008. According to Marti (2010) tax compliance is a complex term to define. Researchers have defined tax compliance as the fulfillment of all tax obligations as specified by the law freely and completely. The tax compliance which is anchored on taxation policies cut across all industries but studies have already established that regulatory burdens fall disproportionately on specific industries, the worst affected according to Pope & AbdulJabbar, (2008), are the small and medium enterprises globally. Their size and ability to fulfill tax obligations make it hard for them to comply since most have limited access to resources and inadequate expertise to comply with diverse and complicated regulations.

The Parliamentary Budget Office (PBO 2010), has categorized non-compliant business enterprises into one category termed as the underground economy. According to PBO, underground economy refers to transactions that go unreported and unrecorded for taxation. Ouma et al, (2007) state that the underground economy comprises both legal and illegal activities but the most dominant component was the micro and small enterprises whose transactions remain largely undocumented and unaccounted for. In the past, the rental business in the country has been operating as an underground business in the country in that majority of landlords have been renting out, and collecting monthly incomes, and not providing enough documentation for the purpose of taxation.

The study was based on the fact that there has been non-compliance on taxation and lack of information on rental income tax to the Kenya Revenue Authority by landlords, hence this is largely categorized as an informal or underground economy. Despite the fact that rental income earners have been largely operating as an informal segment, there is a rapid growth in the real estate sector adding to the informal sector. The informal sector comprises economic activities not regulated by laws such as environmental, labor, or taxation, but is subject to the regulations of the local authorities. Economic studies estimate that informal businesses account for 35-50% of GDP in many developing countries. In Kenya, the informal sector is quite large contributing over 25% of the country's GDP. Economic Survey (2012).

Due to the challenges associated with difficulty in taxing informal segments of the economy, growth in this segment translates to a loss in government revenues. According to the Institute of Economic Affairs IEA (2011), there is a strong relationship between the size of the informal sector and the inability of the Government to collect the requisite taxes. On the other hand, from the informal sector point of view, tax evasion is driven generally by a perception that the tax burden is too high. In theory, a taxpayer's incentive to comply with a tax system depends on an assessment of the relative benefits and costs of complying versus noncompliance. According to Kasipillai & Abdul Jabbar (2006) tax non-compliance occurs in different forms; it could either be a failure to submit a tax return within the stipulated period or non-submission, understatement of income, overstatement of deductions, failure to pay assessed taxes by the due date, and in some cases non-compliance may mean an outright failure to pay levied taxes. Studies have shown that the problem of tax evasion is a widespread one.

Fagbemi, Uadile, and Noah (2010), in their research, found out that tax evasion is prevalent in developing countries and it hinders development thereby leading to economic stagnation and other socio-economic challenges. The taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behavior towards taxation policy. Various international studies have shown that those factors which influence tax compliance and/or non-compliance behavior differ from one country to another and also from one individual to another as suggested by Kirchler (2007). However, they include: taxpayers perceptions of the tax system and Revenue Authority (Ambrecht, 1998); peer attitude or subjective norms; taxpayers' understanding of the tax system or tax laws (Silvani, 1992; Le Baube, 1992); motivation such as rewards (Feld, Frey & Targler, 2006) and punishment such as penalties (Allingham & Sandmo, 1972); the cost of compliance (Slemrod, 1992; Le Baube, 1992); enforcement efforts such as audit; the probability of detection; difference across - culture; perceived behavioral control (Furnharn, 1983); ethics or morality of the taxpayer and tax collector; equity of the tax systems; demographic factors such as sex, age, education and size of income (Murphy, 2004). This study held that the factors that influence taxpayer's compliance to rental income tax can be grouped into; Perception, Knowledge, and Economic factors mainly the cost of compliance and the amount of tax involved.

2.1 Perception of Tax Payers

The regular interaction between the tax collector and the taxpayer has a key role in influencing perceptions that shape tax behavior. OECD (2010), study warns that revenue body must be cautious when using controlling and supportive approaches to influence behavior. If a revenue authority's approach is perceived as very controlling, it can cause taxpayers to feel untrusted. Research implies that when taxpayers feel untrusted, they may adopt the same attitude towards the revenue body, and this may reduce compliance. Alternatively, a revenue organization should reflect a clear signal to the general public that non-compliant behavior is seen by society as evil. By reflecting that society views this behavior as evil, existing personal norms, culture, and ethos are reinforced. A positive effect of perceived fairness in tax-related affairs will strengthen tax compliance. Studies have been conducted on the influence of perceptions on distributive fairness and its effects to affect tax compliance. People who experience their tax burden to be higher than others tend to be less compliant with tax laws as reflected by Kinsey, Grasmick & Smith, (1991).

The more citizen believes that the government takes good care of their paid taxes and spends it for the purpose of improving the economic status of the county, the more compliant they tend to be. Other studies suggest that procedural fairness influences the acceptance of decisions made by the tax authority builds trust in the tax authority and among taxpayers (Braithwaite, 2003; Murphy, 2004). Procedural fairness is important for tax authorities since by enacting fair procedures authorities support their legitimacy and trust in the process of tax collection (Tyler, 2006). Kirchler, Niemirowski, and Wearing (2006) found that perceived supportiveness of advice by tax officers was associated with self-reported compliance, and studies by Pommerehne and Frey (1992) and Torgler (2005) show that if taxpayers have a say in political decisions with regard to financial issues tax morale is stronger.

The move by the Kenya Revenue Authority (KRA) to obtain information about landlords from utility companies such as the Kenya Power, water supply companies, ministry of land, and county governments is an indication of diminished trust that landlords will voluntarily declare their rental properties and income for taxation purposes accurately. The authority has made it worse by asking the members of the public and tenants to report their landlords and provide information on their bank accounts. This implies a perceived lack of fairness between the two parties which this study will investigate and document on how this affects tax compliance in the rental income tax.

2.2 Taxpayer's Taxation Knowledge

Taxation knowledge, the benefits of taxation, and the dangers of non-compliance still remain an impediment to tax compliance in many countries. Developed countries like the USA, Canada, Japan, New Zealand, Australia, the UK, and Malaysia have all been implementing a continuous tax education for taxpayers and children as future taxpayers Palil (2010). These countries; the USA, the UK, and Australia have also developed interactive websites, disseminated leaflets together with tax returns, opened call centers', created advertisements, or supplied reminders via television and radio e.g. to remind taxpayers of deadline dates for filings.

According to Eriksen and Fallan, (1996) In addition to tax education, knowledge about tax laws also plays a major role in determining taxpayers' compliance behavior. Carroll (2011), a study on taxation among women in the informal sector in Ghana found out that despite the fact that 65 percent of the women surveyed were aware that they have to pay taxes, more than half were not well informed as to why they paid tax and more than 50 percent did not enjoy' the benefits of paying it. Hence, tax education alone cannot guarantee continued tax compliance. Palil (2010) states that, in addition to tax education, knowledge about tax laws also plays a major role in determining taxpayers' compliance behavior. Therefore, there is a need for a step ahead, for example, continuous education programs and effective monitoring mechanisms must be taken into account by tax authorities to ascertain that taxpayers have a good and reasonable knowledge and understanding of tax matters.

On the other hand, the awareness and attitude of the taxpayer are more important since the effectiveness of tax education depends on the readiness, acceptance, and honesty of taxpayers. This study will hold that tax education and knowledge have several roles to play in compliance with rental income taxation. First is the declaration of property and income for the purpose of taxation, it is important that landlords have the right knowledge on what to declare for the purposes of taxation. Secondly, proper financial records should be kept to ensure accurate calculation of taxes and thirdly, filing and payments of the taxes to the Kenya Revenue Authority and finally auditing. The fact that currently filling of tax returns and claims are done online in Kenya, makes the process even more complex and time-consuming. This also requires one to have a wide knowledge of the financial processes involved, the legal implications of every step, and remedies to challenges encountered. Lack of one or a combination of these skills may therefore hinder one from compliance.

2.3 Compliance Cost

Economic theories on taxation hold that taxpayers would always like to maximize the profits and minimize the costs. They are influenced by economic gains such as profit maximization, therefore, they calculate the alternative opportunity cost to tax compliance, which includes whether or not to evade tax. Vihanto (2000) argues that there is also a wide perception by the taxpayer that tax is a burden, especially to the small and medium enterprises. Hence, the cost of compliance with taxation plays a key role in determining the taxpayer's willingness to pay tax. Tax compliance costs refer to the costs a taxpayer has to bear to gather the necessary information, fill out tax forms, etc, this can be an additional reason for tax evasion and avoidance.

Atawodi and Ojeka (2012), a study on the factors that affect tax compliance among small and medium enterprises in North Central Nigeria discovered that tax rates are a major challenge facing micro and small enterprises across the world. Despite the fact that they face other tax-related issues, it is the problem of the high tax rates that mostly promote non-compliance and push most SMEs to remain in the informal sector. This concurs with Carroll's (2011) study in Ghana, which found out that the impact tax payments had on women's business enterprises were varied. Thirty-seven percent of women studied reported that these had no impact on their livelihoods, while in the focus group discussions, some said it had a positive impact on their livelihoods as their taxes cater for their hospitals' bills, school's fees, and other basic requirements. Others who formed the majority reported a reduction in profits as a result of paying tax, and some said their ability to provide for their families was negatively impacted by the amount of tax they had to pay to the government.

The World Bank's (2008) world development indicator for "time to prepare and pay taxes" shows taxpayers in high-income OECD countries require 210 hours in preparing and paying taxes on average. However, the required time extends to 1080 hours in Bolivia and Vietnam and even 2600 hours in Brazil. In Kenya, the approximate time required is 417 hours in a year for preparing and paying taxes. Hence, in countries where compliance costs are very high, the probability of the taxpayer complying with such a great variety of taxes is very low.

This study visualized that, compliance with tax policies implies that, one has to honor their tax payments, fines, and penalties. Further, to the responsibility to provide accurate information to the tax authority for the purposes of tax calculations and tax filling. Costs are incurred in acquiring and organizing information, hiring internal auditors, and purchase of materials and stationeries. A lot of time is spent in the calculation and filing of taxes, an average of 210 hours in a year (OECD, 2009). In most cases, this requires the hiring of professional services. All these expenses amount to the compliance costs, in addition to the tax payable for the period which may discourage landlords from complying with rental income taxes

3.0 Research Methodology

The research design that was employed to carry out this research study was descriptive and explanatory. To achieve the objectives of this study the researcher employed both (quantitative and qualitative) research approach. Hence, for this study the researcher was using cross sectional survey design to assess rental income tax payer’s compliance with Kenyan tax system The population of the study was categorized seven regions namely: Western Region, North Rift Region, South Rift Region, Central Region, Nairobi Region, Northern Region and Southern Region. Further, the study sample was drawn from Landlords. Urban taxpayers were blended with rural arrears tax payers in all regions to determine the common influencing factors.

A multi stage sampling procedure was used to select study area and eligible respondents. However, we selected purposively from the seven regions respondents based on the density of rental income taxpayers. To sum, a combination of sampling techniques (stratified random sampling and purposive sampling) was used to select sample of rental income tax payers from each of the seven regions. Therefore, the total numbers of respondents in the study area are 210 landlords, each region contributed 30 landlords. The researcher will used Yamane’ (1967) formula to calculate sample size. Where n is the sample size, N is the population size, and e is the level of precision. By using this formula at 93% confidence level and 7% level of precision the sample size will be obtained.

In the process of undertaking this study, the researcher used both primary and secondary data. The primary data was collected through standard telephone interview questionnaire. Secondary data was collected through document analysis from published and unpublished sources. The collected data was analyzed by using the statistical software program namely Statistical Package for Social science (SPSS) version 20. The quantitative data was analyzed using descriptive statistics (frequency, percentage, mean, standard deviation) and a number of techniques of analysis was used including Reliability test, Correlation and Multiple Regression. It was expected that, findings from descriptive statistics would not tell the determinants of tax compliance. Therefore, Ordinary Least Squares (OLS) regression model was used to identify the determinants of tax compliance.

4.0. Result and Discussion

4.1.1. Retrieved Interview Questionnaires

A total of 210 telephone interview questionnaires were conducted across the property owners' sample respondents in the study area, of which 201 questionnaires were completed, retrieved, and fully returned the rest nine were not fully responded as a result the response rate was 95.71%.

4.1.2 Background information of Property Owners

The result of demographic and socio-economic characteristics of property owners show that: Out of the total sample of the respondents (n =201), only 22(10.95%) were females while 179(89.05%) were males. This high number of males reflects the structure of income earnings in the society under study that suggest men as the main source of bread for the family.

The number of landlords whose age in between 18-30 years were 8(3.98%), 31-43 years was 19(9.45%), 44-56 years were 48(23.88%), 57-69 years were 102(50.75%) while those above 69 years were 24(11.94%). Thus, the majority of the respondents were in between 57 to 69 years.

The average annual rental income distributions of sampled landlords, was Kshs. 120,000/= - Kshs. 360,000/= 51(25.37%) of the landlords, Kshs. 360,001/= - Kshs. 720,000/= 52(25.87%) of the landlords, Kshs. 720,001/= - Kshs. 1,080,000/= 48(23.88%) of the landlords, Kshs. 1,080,001/= - Kshs. 1,440,000/= 27(13.43%) of the landlords, Kshs. 1,440,001/= - Kshs. 1,800,000/= 16(7.96%) of the landlords while those above Kshs. 1,800,000/= are 7(3.48%) of the landlords. Hence the majority of the landlords were earning income below Kshs. 720,000/= annually and Kshs. 60,000/=.

From the property owners' responses: 12(5.97%) inherited the property, 26(12.94%) are government employees, while 101(50.25%) are government and business employees, 51(25.37%) businesspersons and 11(5.47%) are retirees. There was a clear reflection from the data that government employees & businesspersons control the property sector.

Concerning educational qualification, 192(95.52%) of the property owners are able to read and write whereas, 9(4.48%) of respondents were unable to read and write. Out of those who can read and write, 72(35.82%) of them had completed secondary school, 64(31.84%) were primary school graduates. Those with Certificate 8(3.98%), diploma 11(5.47%), Degree 19(9.45%), Post Graduate Diploma 4(1.99%), Masters

7(3.48%), Doctorate 5(2.49%) and Post Doctorate 2(1%). The data reflected that the majority of the property owners in Kenya possess less than a degree in terms of academic qualification.

In respect to the renting experience of the property owners depicts that, 83(41.29%) respondents had the experience of 1-5 years, 61(30.35%) 6-10 years 37(18.41%) 11-15 years 11(5.47%) 16-20 years, 5(2.49%) 21-25 years and 3(1.49%) above 25 years. In the average majority of the property, owners have less than 10 years of experience in the industry.

4.1.3 Rental Income Taxpayers Understanding About Tax System

The responses of the property-owners for the variables indicated below were measured on a five-point Likert scale with 1= strongly disagree, 2= disagree, 3 = neutral, 4= agree and 5= strongly agree. However, while interpreting the results of mean and standard deviation the scales were reassigned as follows to make the interpretation easy and clear. 1.00 - 1.80= Strongly Disagree, 1.81 – 2.60 = Disagree, 2.61 – 3.40= Neutral, 3.41 – 4.20= Agree and 4.21 – 5.00 = Strongly Agree.

In respect to the taxpayer's knowledge on rental income tax, the understanding of rental income as its being taxable has scored a mean of 2.11 with a standard deviation of 1.140 and 32.8% agree, 9.4% strongly agree. This result indicates that the majority of respondents are felt that they do understanding tax law at 57.2% of the respondents.

The rental income tax burden imposed is fair has scored a mean of 2.17 with a standard deviation of 1.38, which indicates disagreement with the current rate of rental income tax. The majority of the rental income taxpayers registered have scored a mean of 3.61 with a standard deviation of 1.39, which indicates agreement that they should be taxed like other business owners.

To summarize the grand mean in the range of disagreeing also show, as rental income taxpayers majority are still not compliant at 67.54%. When property owners were asked why they pay rental income taxes, 42.1% and 29.2% percent of the respondents strongly agreed and agreed respectively that they pay taxes because it is an obligation to the government. In the anticipation for government to provide services to them, 50.3% agreed and 37.3% strongly agree. This indicates that there is a positive understanding as to why people pay taxes and if successive works are done probably, better results can be registered.

On the other hand, 33.28% agree and 12.23% strongly agree that they pay rental taxes since they lack a way of evading the tax. While 31.3% agreed and 40.9% strongly agreed that, they pay rental taxes to respect the law not because they are willing to do it. Therefore, we can easily understand that the rental income taxpayers, if given an opportunity they will easily evade payment of tax. Hence, they can be classified as high-risk taxpayers who need close monitoring to achieve high returns.

4.1.4 Attitude of Rental Income Tax Payers for Tax System

The Attitudes of rental taxpayers towards the tax system are important factors to be considered in analyzing this study. Thus, the taxpayer's attitude towards the rental income of this study indicates that respect to tax laws has scored a mean of 3.78 with a standard deviation of 1.012. Tax laws are not punitive to hard-working citizens who have scored a mean of 2.99 with a standard deviation of 1.371. Reducing tax rates increases willingness towards tax system has scored a mean of 3.70 with a standard deviation of 1.513. Making tax collection procedures simple increases willingness towards tax system has scored a mean of 3.81 with a standard deviation of 1.523, making tax system transparent increases willingness towards tax system has scored a mean of 4.21 with a standard deviation of 1.282.

KRA should conduct adequate training to all rental taxpayers before imposing the tax has scored a mean of 4.39 with a standard deviation of 0.802. Rental taxpayers who are interested in government services have scored a mean of 2.21 with a standard deviation of 1.199. Paying tax is good because we get an equal return from the government has scored a mean of 2.81 with a standard deviation of 1.511 and the obligation to inform and declared actual income received from all sources to revenue authority has scored a mean of 2.88 with a standard deviation 1.210. Therefore, based on the above discussion we can understand that the taxpayer's attitude on rental income regarding respect of tax laws, reducing tax rates increases willingness towards tax system, making the collection procedures simple, making tax system transparent, adequate training to all rental taxpayers become best if this all improved.

With respect to the question on tax laws are not punitive to hard-working citizen the mean value is in the range of neutral by 3.01 which indicate half of the respondents agreed, while the other half of them disagreed on this case. On the question with respect of the obligation to inform and declare actual income received from all sources to revenue authority that show the majority of respondents (52.3% and 18.3% have disagreed and strongly disagree respectively). The mean value of 2.09 for rental income taxpayers' interest in government service also shows a majority of respondents disagree since its below-average mean value. This case also supported by factors related to organization or revenue authority and government under the fourth objective. So, we can understand as attitudes towards the tax generally depend on the perceived use of the money collected by the government. To sum up based on the overall above discussion also by considering its grand mean equal to 3.34 one can understand that rental income taxpayers' attitude towards the tax system is not good or rental income taxpayers not have a very healthy perception towards the revenue authority and the Government in regards to the taxation system. Consequently, the status of tax compliance behavior may become low and low even in the future unless getting attention from the revenue authority and government.

4.2. Regression result

The fifteen selected independent variables were entered into the Ordinary Least Squares model to identify the major determinants of taxpayer's compliances. Before the estimation of the model parameters, it was crucial to look into the problem of multi-collinearity or association among the potential candidate variables. The Variance Inflation Factor (VIF) is a measure of multi-collinearity among the continuous independent variables of the study. As a rule of thumb, if the mean VIF of variables exceeds ten, that variable is said to be highly collinear and it can be concluded that multi-collinearity is a problem (Gujarati, 1995). The average value of VIF for variables of the study was 1.121, less than ten.

Tax compliances status were used as dependent variable. Multiple independent variables are presented as a linear function in much the same way as a single variable. Thus the fitted model regression equation based on the analysis of regression result is as follow: TC=3.688 + .153 (FC) + .149 (RGI) - .057 (HRP) - .159(AWRTP) - .199(PTF) + .096 (UI) - .133 (CI) - .122(ES) + .010(RI) - .223 (GI) - .040(TTAC) - .057(TP) +.069 (TEE) - 220(ARA) - .203(RTA) - .039 (TTS).

The dependent variable can be predicted, at least to some extent, by taking into account the independent variables. The partial depression coefficients of this study identified the effect that each independent variable has on the dependent variable. The regression results have shown nine major predictors, which are statistically significant in the multivariate model, that influence the dependent variable. Some of the predictors are found to have a relatively stronger influence on the dependent variable while some others have medium effects, and the rest are found to have no significant effects on the dependent variable.

Table 4.2.1 Testing the Model Through ANOVA (Goodness of Fit Statistic).

It is observed that the independent variables give a significant effect on the dependent variable, where F-value is 1.935 with a p-value of less than 0.05 (i.e. $p<0.0000$) indicating that, over all the model used for the study is significantly good enough in explaining the variation on the dependent variable. To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient.

Table 4.2.2 Goodness of Fit through R Square

As shown in the above table 4.2.2, both R Square and adjusted R Square measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted R Square is the modification for the limitation of R square the value of the adjusted R square is considered to measure the fitness of the model. Thus, as it is shown on above table, the value of adjusted R square is 0.819, indicating that; the independent variables in the model are explaining 81.9% variation on the dependent variables. Thus, the study reflects a good fit to the data as provided in the table above. This outcome statistically indicates that the independent variables in this study are the major determinants of tax compliance in the study area.

Table 4.2.3 Regression Analysis

The Table 4.2.3 shows the results of the regression model. The result reveals that, with cultural influences, religious influences, high risk preferences, tax policy, tax authority tax collection effectiveness, attitude of revenue authority to tax payers and transparency of tax system were insignificant. Whereas, there exists a significant relationship between independent variables such as financial constraints, awareness of tax payers, referent group influences, perception on tax fairness, government incentives, understatement of income, educational status, trust in tax assessment and collection procedure and rental income tax audit and dependent variable, i.e. tax compliances. Thus, the effect of each independent variable was tested under this study using multiple regression and analyzed based on the theoretical predictions, prior empirical studies and research questions formulated for this study.

There is a significant negative relationship between financial constraints of tax payers and tax compliances with a regression coefficient of 0.155, t-statistic of 1.443 and P-value of 0.0222. Mohani, (2004), suggested that as financial distress faced by an individual taxpayer may encourage him/her to priorities what has to be paid first as basic survival needs or immediate demand on limited income, rather than paying tax liabilities. There is also a significant negative relationship between referent groups like family, friends…etc influence and tax compliance, with a regression coefficient of 0.149, t-statistic of 1.498 and P-value of 0.0123.

According to (Karanja, 2014) there is always influence of one person on another during interaction that influences one's behavior. Karanja further, stated that Peer influence generally arises from friends, families, coworkers and business acquaintances. Confidentiality of a taxpayer's tax evidence may have a substantial effect on tax non-compliance of another taxpayer. When a taxpayer happens to find out that another taxpayer reports a false amount of tax, the other taxpayer will too report false figure to the Kenya Revenue Authority. The expectation is usually to comply rather than not to comply and knowledge about tax law is assumed to be important for preferences and attitudes towards taxation.

There is significant positive relationship between taxpayer's awareness on rental tax and tax compliances, with a regression coefficient of -.165, t-statistic of 1.234 and P-value of .0198. Taxpayers should receive clear, concise and up-to-date information on describing what amount tax that is due, how to calculate their tax liabilities and procedures for calculating paying taxes, where and when they pay taxes

(Teshale B. and Mohammed A, 2015). This indicates that, the awareness of taxpayers increases the status of individual taxpayer's compliances.

There is also significant relationship between taxpayer's perception on tax fairness and tax compliances, with a regression coefficient of - 0.199, t-statistic of 1.936 and P-value of 0.045. The most common requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. In this study the regression result shows that, there is a significant relationship between perception of tax payers on tax fairness and tax compliances.

The regression result shows a significant negative relationship between tax payer's understatement of their income and tax compliances, with a regression coefficient of 0.096, t-statistic of .997 and P-value of 0.022. The failure to follow the tax provisions reveals that a rental taxpayer may be committing an act of noncompliance. Tax non-compliance occurs through: misreporting income, failure to file tax return or misreporting allowable subtractions from taxable income or tax due (Kirchler, 2007). The significant relationship between educational status of taxpayers and tax compliances, with a regression coefficient of, -0.124, t-statistic of 1.128 and P-value of .000. (Rizal, 2011) found taxpayers with highest level of education had a high compliance level than those with the lowest education level. This indicates that having better educational status highly influences individual taxpayer's compliance status.

The regression result shows also a significant relationship between government incentives and tax compliances, with a regression coefficient of -0.223, t-statistic of 1.589 and P-value of 0.013. This indicates that if the government provides incentives it will influences tax compliance of tax payers. The regression result shows a significant relationship between trust on tax assessment and collection system and tax compliances, with a regression coefficient of -.0389, t-statistic of .282 and P-value of .009. If taxpayers don't have trust on tax assessment and collection system they complain regularly about lack of clarity over tax regulations, arbitrary behavior of tax officials, high compliance costs, and lack of transparency in the tax authority, results on non-compliance of the tax payers.

There is also a significant relationship between rental tax audit practices and tax compliances with a regression coefficient of -0.206, t-statistic of 1.476 and P-value of 0.043. Dubin, (2004) suggested that tax audits have a positive impact on tax evasions. According to Shanmugam, (2003), in self-assessment systems like for Kenya Revenue Authority, tax audits can play an important role and their central role is to increase voluntary compliance. Therefore, the study concludes that when continuous tax audit practice is done by revenue authority the level of tax compliance status become positively changed.

5.0 Conclusion

The main reason of tax gap i.e the deference between the amounts estimated and collected by revenue authority is the non-compliance of taxpayers with the tax rules and regulations. The main causes for non-compliance has been the attitudes of tax payers towards tax system. Kenya as a country comprises a various set of cultures, languages, religion, beliefs and backgrounds. Through the study is was noticed that these different population groups have differing perceptions of taxation resulting from their understanding of tax law, general knowledge, cultural backgrounds or social histories. Their perceptions, in turn may influence their attitudes towards tax compliance. The study exposed that with the exception of minority of the rental income taxpayers who hold certificate, diploma first degree, second degree and doctorate degree, most of them were with an educational background of primary and secondary school completed. However, majority of respondents (57.2 %) agree with understanding as rental income is taxable, the survey result show as still registered obligatorily. This was also supported by rental income tax payers those strongly felt that rental income tax rate should not be equitable compared to other business taxes. Respect of tax laws, reducing tax rates increases willingness towards tax system, making the collection procedures simple, making tax system transparent, adequate training to all rental tax payer mean is greater than average mean value (i.e; 3.34). Hence all this factors are expected to be focused by Kenya Revenue Authority. However, some of rental tax payers feel that it is not their obligation to inform their income, no equal return from government and rental income tax is punitive to hard working citizen.

In relation to (Teshale and Mohammed, 2015) finding and the response of interview, the most challenge to control with regard to the house rental is the taxpayers submit unreliable signed documents to the tax authority. They produce two documents signed by both the owner of house and tenants and submit the one with the less amount of agreement. The significant factors affecting the attitude of rental income taxpayer's compliance with tax systems for this study are: financial constraints, perception on tax fairness, awareness of tax payers, referent group influences, understatement of income, educational status, government incentives, trust in tax assessment and collection procedure and rental tax audit. Among these factors educational status and trust in tax assessment and collection procedures are the most significant in this study.

6.0 Recommendation

Tax Authority require numerous to reduce the tax gap. There is no single approach is likely to fully and cost-effectively address noncompliance, since; it has multiple causes and spans different types of taxes and taxpayers. If there is a general understanding of these factors, and their interrelationships, that affect taxpayer behavior can help to develop targeted strategies which impact on the noncompliant without adversely affecting compliant taxpayers. The Government of Kenya and Kenya Revenue Authority should employ strategies that would improve all of them to encourage rental income taxpayers towards compliance with tax system. Those are:

i. Kenya Revenue Authority should give priority to solve internal problem in respect to organization related challenge such as adequate and skilled employees with knowledge on rental income Tax,

ii. Revenue officer's attitude towards taxpayers, organizational efficiency and effectiveness and overall capacity through giving customer service, education, training and cross functional training for employees and taxpayers so that they can have an understanding of the entire system of tax that will promote revenue collection.

iii. To achieve high levels of rental income compliance there is need to establish a full section that is specifically responsible for rental income tax collection by Kenya Revenue Authority.

iv. Kenya Revenue Authority to simplify tax assessment and collection, fair, transparent, free from bias and error, on time and specific place, following tax procedures and other mechanism by giving in to consideration unusual conditions.

v. Development of persuasive communications between Kenya Revenue Authority and taxpayers. The Kenya Revenue Authority Should be ready with new technology and updated tax rules and regulations. Awareness conception is supposed to go beyond just giving tax education to taxpayers. It should be comprehensive to having consultative sessions with elderly, religious leaders, prominent personalities in the society or other influential individuals.

vi. Kenya Revenue Authority should make a constructive association with third party to get relevant information about the taxpayer under audit to control the tax compliance status of each rental income tax payers since they may renew their contract after a given period of time for existing taxpayers and to identify new entrants and especially should design how to control over fault agreement documents.

vii. Finally, the researcher like to inspire future researchers for investigation on rental income taxpayer's compliance status and related title including rental income tax from house rent for residential purpose.

7. References

[1.] Abdu, W. N. S., Che, A., & Mat, U. N. (2004). Ethical Judgment Among University Accounting Students: The Case of Prescriptive and Deliberative Moral Reasoning. Utara Management Journal, 1(1), 41–52.

[2.] Ajzen, I. (2011). Attitudes, Personality and Behavior. Buckingham: Open University Press.

[3.] Atawodi, W., & Ojeka, S. (2012) Factors That Affect Tax Compliance among Small and Medium Enterprises (SMEs) in North Central Nigeria. International Journal of Business and Management, 7(12), 87-96. Braithwaite, V. (2003). Perceptions of who‘s not paying their fair share. Australian Journal of Social Issues, 3 (8), 335-362.

[4.] Carnes, G. A., & Cuccia, A. D. (1996) An analysis of the effect of tax complexity and its perceive justification on equity judgments. Journal of the American Taxation Association, (18), 40–56.

[5.] Carroll, E. (2011). Policy Analyst Taxing Ghana's Informal Sector: The Experience of Women Christian Aid Occasional. Paper No 7.

[6.] Fraenkel, J.R., & Wallen, N.E. (2000). How to Design and Evaluate Research in Education. New York: McGraw-Hill Publishing Co.

[7.] Institute of Economic Affairs (2012). Informal sector and Taxation in Kenya: The Budget Focus Issue No. 29 September 2012.

[8.] Khan, L. & Osongo, A. (2011). Cash flow versus tax compliance. The finance Journal, Standard newspaper 31 may, 2011 Kirchler, E. (2007). The economic psychology of tax behavior. Cambridge: Cambridge University Press.

[9.] Kirchler, E., Niemirowski, A., & Wearing, A. (2006). Shared subjective views, intent to cooperate and tax compliance: Similarities between Australian taxpayers and tax officers. Journal of Economic Psychology, (27), 502–517.

[10.] Murphy, K. (2003). An examination of taxpayer 's attitudes towards the Australian tax system: findings from a survey of tax scheme investors. Australian Tax Forum, (18), 208-241.

[11.] OECD (2009). Money Laundering Awareness Handbook for Tax Examiners and Tax Auditors. London: Organisation For Economic Co-Operation And Development

[12.] Palil, M, (2012), Tax Knowledge and Tax Compliance Determinants in Self-Assessment System in Malaysia.Birmingham: PHD Thesis University of Birmingham.

[13.] Tyler, T.R. (2006). Restorative Justice and Procedural Justice: Dealing with Rule Breaking. Journal of Social Issues, 62 (2), 307-326.

[14.] Tyler, T.R., & Lind, E.A. (1992). A relational model of authority in groups. Advances in Experimental Social Psychology, (25), 115-191.

[15.] Vihanto, M (2000) Tax Evasion in a Transition from Socialism to Capitalism: The Psychology of the Social Contract. BOFIT Discussion Paper No 6.

[16.] Wallschutzky, I.G. (1984). Possible causes of tax evasion. Journal of Economic Psychology, 5. 371-384.

[17.] Wenzel, M. (2002). The Impact of Outcome Orientation and Justice Concerns on Tax Compliance: The Role of Taxpayer's Identity. Journal of Applied Psychology, (87). 629–45..

Annex

CONCEPTUAL FRAME WORK

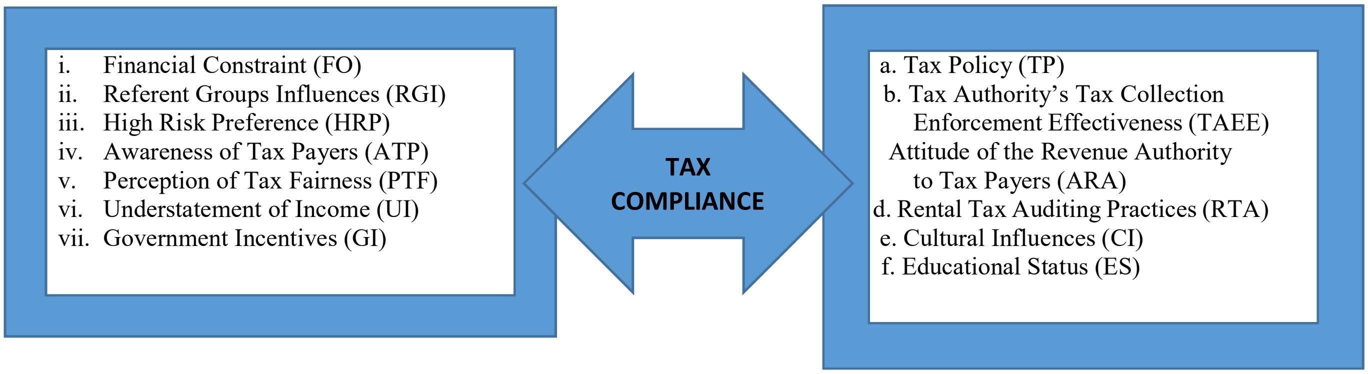

Table 4.2.1 Testing the Model Through ANOVA (Goodness of Fit Statistic).

Details	Sum of Squares	Difference	Mean Square	F	Sig.
Regression	48.172	9	5.352	1.935	0.00000*
Residual	378.997	141	2.688		
Total	427.169	150	2.848		

Source: Ombogo Survey Data (2021)

Table 4.2.2 Goodness of Fit through R Square

Model	R	R square	Adjusted R Square	Std. Error 0f Estimation
1	.319*	.778	.819	1.6511

Source: Ombogo Survey Data (2021)

Table 4.2.3 Regression Analysis

Model	Under Standardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
Constant	3.689	.541		13.987	.000
Financial Constraints	(0.155)	.106	.116	1.443	.0222**
Referent Groups Influences	(.149)	.011	.124	1.498	.0123**
High Risk Preference	(.550)	.099	.045	.554	.582
Awareness of Taxpayer's	.165	.132	.099	1.234	.0198**
Perception of Tax Fairness	.199	.103	.155	1.936	.045**
Understatement of Income	(.096)	.095	.082	.997	.022**
Cultural Influences	(.134)	.107	.105	1.259	.207**
Educational Status	.124	.108	.095	1.128	.000***
Religious Influence	(.011)	.109	.009	.0889	.9311
Government Incentives	.223	.138	.130	1.589	.013**
Trust on Tax Assessment & Collection Procedures	.0389	.1389	.0229	.282	.009***
Tax Policy	.059	.149	.033	.397	.694
Tax Authorities Tax Collection Enforcement Effective	.0699	.105	.0559	.669	.442
Attitude of the Revenue Authority to Taxpayers	.215	.129	.138	1.677	.097
Rental Tax Auditing Practices	.206	.138	.119	1.476	.043**
Transparency of Tax System	.041	.116	0.28	.347	.7299

Source: Ombogo Survey Data (2021)