FACTORS AFFECTING VOLUNTARY TAX COMPLIANCE ON RENTAL INCOME: ACASE STUDY OF NAIROBI LANDLORDS

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ABSTRACT

The purpose of the study was to examine the factors affecting voluntarily tax compliance in Kenya. Descriptive research design was used in this study. 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. This technique allowed the researcher to ensure that each case in the population had an equal chance of being included in the sample. Data collection tool that was used to collect the relevant information was a questionnaire. Data was presented in Tables, bar charts and Pie chart. To ensure effective and efficient data analysis process, the data was coded, sorted and analyzed using regression analysis in the statistical package for social sciences (SPSS). The findings regarding the first research question on what were the attitudes of the Kenya landlords towards taxation, the study found out that though some respondents felt that other factors did not influenced 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. Regarding the second research question on what were various factors that influenced 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. The study recommended that the government should sensitize the tax payers on the importance of paying taxes. It was also recommended that the government ought to be transparent on how the revenue collected from taxation was being utilized and KRA needed 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 needed to be done on the same topic but covering a different location other than Nairobi.

Key Words: Kenya Landlords, Taxation, Voluntary Tax Compliance, Rental Income

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 visits 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, frontline officers in revenue organizations need to avoid being arrogant, rude, impatient, unreceptive 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 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 recover of taxes. These 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 20013).

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 rated amongst the low-income countries or low compliance countries with hard task of ensuring efficient 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 paper will be based on tax compliance by the landlords and landladies on rental income generated from the rent obtained their house. It is a low 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 be support the development of the economy by paying their fair share of taxes.

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 yield 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 voluntary give information leading to collection of an additional taxes. 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 amongst 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 extent of the impact of attitudes and attitudinal change on tax compliance behavior was not well understood and studies in this area have not been carried out in Nairobi city. Therefore, addressing this attitudinal or knowledge gap among the rental taxpayers is the primary purpose of this study. It is for this reason that this study attempted to find out how the factors that influence rental tax payers' compliance with tax system in Nairobi city.

Purpose of the Study

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

Significance of the Study

This study is of significance to the following:

Kenyan Government

The study will aid in policy making by the government which can improve compliance levels of tax payment by the Kenyan landlords.

Landlords

The Kenyan landlords will understand the critical role of voluntarily tax compliance as an engine to economic development and reduce noncompliance costs.

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.

Scope of the study

The study focuses 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 is on this area is 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 (KRA, 2011).

LITERATURE REVIEW

This chapter aimed at studying the available literature concerning compliance and no-compliance in tax obligations. The chapter also highlighted and explained issues and factors influencing taxpayers' attitudes in regards to compliance, avoidance and evasion of taxes and the relationship among the three factors.

Attitudes of the Kenya Landlords towards Taxation

KRA had used numerous methods to evaluate the level of non-compliance; nonetheless, there was used to be always certain compliance reliant on the behavioral features and social attitudes of the taxpayers. Furthermore, the level of non-compliance amongst specific taxpayers did not just depended 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.

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, (Chau and Leung, 2009) 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.

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).

Peers' 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 tax payers 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.

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.

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 tax payers(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).

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 is not only the influencing factor on the extent of non-compliance among individual taxpayers, but there are 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 individualto 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).

Factors that Influence Kenyan Landlord Taxpayers Towards Taxation.
According to chau and Leung (2009), tax compliance is mainly influence 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.

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 no-compliance opportunities, attitudes and perception.

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 a rose 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).

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.

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).

What can be done to encourage tax compliance amongst Kenyan landlords?
On the attitudes and attitudinal factors, in scenarios where the tax payers perceives 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.

Tax Reforms

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*).

Enforce Tax Compliance in Fair and Just Manner

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 need to be based on merit and regional balance (Lumumba, Migwi and Obara, 2010).

Focused Taxpayer Education and Sensitization

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).

RESEARCH METHODOLOGY

This chapter highlighted the research design and methodology employed in the study.

Research Design

According to Chandan, Singh and Khanna (2010), a research design is an overall plan for obtaining the information needed to address a research problem. The research design appropriate for this study was that of descriptive survey.

Population and Sampling Design

A population is the total collection of elements about which inferences are made (Cooper and Schindler 2011) or is a collection of the variables that is being studied (Chandan, Singh and Khanna 2010). The population under study was landlords in Nairobi whose tax compliance was under review by tax revenue authority. The population was 240 according to Kenya Revenue Authority Report (2012). The sampling frame for any probability sample is a complete list of all the cases in the population from which sample is drawn (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. The study adopted a non-probabilistic sampling technique. A sample size of 45 landlords were selected randomly.

Data Collection Methods

The types of data used in the study were primary data. The primary data was collected by use of questionnaires that were distributed to the landlords through hand delivery.

Research Procedure

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 were under review by the tax authority. Quantitative analysis was employed where descriptive statistics was used. Data was analyzed using Statistical Package for Social Sciences (SPSS). Table and charts was used for the presentation of the results and findings.

Data Analysis and Presentation
The data obtained in this study was quantitative data.

RESULTS AND FINDINGS
This chapter presented the finding of the study based on the data collected from the Landlords within Nairobi. The study sort to determine the factors affecting tax compliance on rental income. The researcher received 45 responses out of the 50 questionnaires that were issued to the respondents.

General Information
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. In terms of gender representation and distribution in the sample size, there were 12 females and 33 males each representing 26.3% and 73.6% respectively. The sampled landlords were from the age of 18 years and 56 and above years. The sampled respondents highest level were 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. Based on the Current Occupational, 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 Based on the respondent's number of years earned rental income, 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 8years. Based on respondent's number of years engaged the estate agents, 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 5years, 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. On 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%. Based on respondents who kept records, 73.3% kept records of all the rental income and expenses whereas 33.7% didn't keep records. Based on the respondents with PIN, of the sampled respondents, 91.1% had KRA personal identification number (PIN) whereas 8.9% didn't have. On the respondents filing of income tax return, 88.4% filed income tax return whereas 11.6% of the respondents do not file income tax return.

Attitudes of Kenya Landlords towards Taxation
This section sort to find out how each of the established individual attitudes factors affected the compliance of individual tax compliance.

Attitude and Perceptions Politicians Misuse Taxes

Findings of the attitude and perceptions that politicians misused 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.

Level of Tax Compliance Influence by Peers

Findings of the level of influence peers had 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.

Level of Influence by Financial and Family Obligations

Findings on the level of influence financial and family obligations had 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.

High Risk Preference

Of the sampled respondents, 19 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.

Factors that Influence Kenyan Landlord Taxpayers towards Taxation

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

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 influenced tax compliance among the landlords in Nairobi area. Only 15(33.3%) of the respondents believed that age influence their tax payment compliance whereas 18 (40%) disagreed that age influences tax compliance. 12(26.7%) of the respondents were neutral.

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. Only 4(9%) of the respondents believed that their gender influence their tax payment compliance whereas 27 (60%) disagreed that gender influences tax compliance. 14(31.1%) of the respondents were neutral.

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. Only 19 (42.2%) of the respondents believed that their educational level influence their tax payment compliance whereas 20 (44.5%) disagreed that education level had nothing to do with tax compliance. 6 (13.3%) of the respondents were neutral.

Social Norms Factors

This dealt with how the respondent's social norms had influenced on tax compliance among the landlords in Nairobi area. Only 20 (44.4%) of the respondents believed that their social norms influences their tax payment compliance whereas 16 (36.6%) disagreed that social norms had nothing to do with tax compliance. 9 (20%) of the respondents remaining neutral.

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.

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.

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 felts that there ought to be a shift of taxation on rental income from business to investment taxation.

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.

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.

Correlation Analysis between Variables

Table 1: Correlation between Taxpayers Attitude and politician's misuse of taxes

Correlation Established with Taxpayers Attitude	Pearson's, r		Kendall,Tau_b		Spearman's, rho	
	Coeff.	Sign.	Coeff.	Sign.	Coeff.	Sign.
Politicians misuse taxes	.437		.317		.391	
N=29, sig. (2-tailed)		0.019		0.036		0.035

The first, second and the third columns of table 1 illustrated 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. All tests established a P value (level of significance) lower than 0.05 indicating a statistical significance between the variables.

Table 2: Correlation between Respondents age and Tax Compliance

Correlation Established with respondents age to tax compliance	Pearson's, r		Kendall,Tau_b		Spearman's, rho	
	Coeff.	Sign.	Coeff.	Sign.	Coeff.	Sign.
Tax compliance	.457		.323		.422	
N=29, sig. (2-tailed)		0.015		0.024		0.023

A positive correlation was established between respondents' age and tax compliance. Table 2 showed the test results obtained 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 tests, the level of significance (p value) was lower than 0.05, this indicated that there is a statistical significance between the two variables.

Table 3: Correlation between Respondents Financial and Family Obligationsand Tax Compliance

Correlation Established with respondents Financial and Family Obligations to tax compliance	Pearson's, r		Kendall,Tau_b		Spearman's, rho	
	Coeff.	Sign.	Coeff.	Sign.	Coeff.	Sign.
Tax compliance	-0.517**		-0.425*		-0.456**	
N=29, sig. (2-tailed)		0.05		0.014		0.011
** correlation coefficient is significant at the 0.01 level * correlation is significant at the 0.05 level						

Table 3 illustrated the results of three correlation tests that indicate a negative correlation between respondent's financial and family obligations and tax compliance. Based on the Pearson's, Kendal and spearman's tests, a negative correlation coefficient of -0.517, -0.425 and -0.456 respectively was obtained with a level of significance (P value) of 0.01 in Pearson test and 0.05 in Kendall and Spearman tests. Thus, this indicates a statistical significant relationship between the two variable

SUMMARY, DISCUSION, CONCLUSIONS AND RECOMMENDATIONS

In this chapter, the researcher covered the summary, discussions, conclusions and recommendations of the study on the factors affecting voluntary tax compliance on rental income among landlords in Nairobi.

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 amongst Kenyan landlords?

The study was designed as a descriptive and exploratory study. The study was conducted and data collected using a questionnaire that was designed 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. Non-probability convenience sampling or purposive sampling method was employed to draw a sample of 50 of which 45 (90%) respondended. A purposive sampling techniques 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. Descriptive statistics 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, 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.

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 is not only the influencing factor on the extent of non-compliance among individual taxpayers, but there are a complex mixture of conditions.he 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 centred interest.

On the respondent's perceptions that politicians misuses the public funds, the study agrees with Smith and Stalans(1991) which reveald 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.

Factors Influencing of 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) whobelieved that even amongst citizens of Asian countries, there are differences in cultural decisions. Abdul *et-el* (2004) also investigated students who were majoring accounting on culturalchoice 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) using 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 individuals' commitment and compliance, studies on behavior have shown support for the influencing effects of financial factors on individual's behavior towards tax compliance.

Encouraging Tax Compliance amongst Kenyan Landlords

Finally the findings on what can be done to encourage tax compliance amongst 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 amongst 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 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.

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 el* (2010) who found out in his study that tax rates needed to be reduced.

Conclusion
Attitudes of Kenya Landlords towards Taxation

First, in regards to first to establish research question on factors of attitude towards compliance of tax payment. The study findings revealed that individual attitude play a great 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.

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.

Encouraging Tax Compliance amongst 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.

Recommendations
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.

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.

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.

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.

Recommendations 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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