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ANALYSIS OF FACTORS AFFECTING TAX COMPLIANCE IN THE REAL ESTATE SECTOR IN KENYA: A CASE OF REAL ESTATES IN ELDORET TOWN

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ABSTRACT

There are many challenges that hamper the payment and filing of taxes in real estate sector in Kenya. The purpose of this study is to analyze the factors affecting tax compliance in the real estate sector in Kenya: A case of Real Estates in Eldoret town and find out suggestions of the possible remedies to the challenges. The study specifically sought to determine the effect of tax compliance cost, tax knowledge, tax fines, and tax audit on tax compliance in the Real Estate sector. The study is guided by the theory of planned behavior. The study uses ex-post facto research design. A sample size of 68 will be drawn from the target population of 5018 real estate investors, audit and compliance officers using snowball sampling. Data was collected using structured questionnaire, coded, keyed and analyzed quantitatively using statistical package for social sciences (SPSS). The study findings showed that compliance cost, tax knowledge, tax fines and tax audit had positive effect on level of tax compliance. The study findings showed that imposing fines, doing tax audit as well as provision of tax knowledge to real estate investors will improve tax compliance. However, high tax compliance costs are a contributing factor that reduces tax compliance among real estate investors. Thus, tax compliance cost should be minimal as possible to encourage payment of income tax. Tax fines laws in place, tax knowledge and tax audit should be implemented to encourage payment of taxes by the real estate investors.

KEYWORDS: analysis of factors, tax compliance, real estate.

INTRODUCTION

1. Background to the problem

The most important and major source of revenue in Kenya is tax. Different taxation methods are used to create a tax base which forms a pool that the tax authority can tap thereby placing a tax burden on the populace. Depending on how much you earn, you are probably paying Pay as You Earn (PAYE) tax. Whenever you shop, you pay Value Added Tax (VAT) on certain items as well as on services. If registered, the taxpayer submits tax return to the Kenya Revenue Authority (KRA) every year.

The payment of tax is obligatory duty of every citizen. As a civic duty, it is expected that citizens will voluntarily comply with such obligation. This is overseen by the Kenyan Revenue Authority (KRA). The main issue faced by this authority is to persuade all the taxpayers to comply with its regulations.

According to Karingi et al. (2005), Kenya has moved from a low tax yield country during the 1980s, when total tax revenue as a percentage of Gross Domestic Product (GDP) which is measure of the size of the economy, averaged 19.7% to the current average of about 24% following continuous reforms through the Tax Modernization Program me (TMP) after 1994/95 to date. The tax revenue performance over the period 1991/92 - 2010/11 has maintained a consistent growth, in nominal terms Real estate is one of Kenya’s fastest growing sectors of the economy and the taxes collected in this sector are on the decline. The economic substance of the transactions undertaken do not coincides with the place and form in which they are reported for taxation purpose.

Revenues earned by the majority of world’s government are received from taxes levied on incomes and wealth accumulation of individuals and corporations. The Kenyan government isn’t different, it relies on income tax for recurrent and development expenditures. Rules and regulations are put in place as when and how much to be paid. Kenya Revenue Authority (KRA) has been given the mandate to assess and account for all taxes due to the government (KRA Act cap 469) to ensure all are tax compliant.

Tax compliance level which is internal factor affecting tax revenue not only undermines tax of compliance is low, government revenue collections always fall behind targets. According to figures from KRA, it has not been able to realize the targeted rental income tax with only 3 billion shillings having been collected in the fiscal year 2013/2014.

Many landlords also do not pay value added tax (VAT) at the rate of 16 percent on commercial rental properties, yet they exceed a turnover of 5 million shillings that is the minimum for the payment of the tax. VAT is supposed to be charged on tenants, including for costs that the landlord may pass on to them such as renovations or service charge. Landlords have difficulty determining what is to be included when calculating costs incurred on their property, as some expenses are legally allowed while others are not. Landlords are required to show compliance by producing the bank deposit slips. The proposal seeks to simplify payment of the rental income tax by landlords and will also introduce a flat rate of taxation on the income received from tenants.

Taxation provides an important avenue for financial independence of nations from external assistance (OECD, 2009).Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time (IRS, 2009; ATO, 2009; IRB, 2009).

Tax compliance undermines tax administration infrastructure but also makes the tax base narrow and inequitable.

Rental income has been subjected to taxation since the enactment of the Income Tax Act Chapter 470 of the Laws of Kenya in 1973.Contrary to the impression by sections of the media that rental income will be taxed at 30 percent; rent income is subject to corporate tax rate of 30 percent of taxable income. Meaning that property owners should first deduct all expenses that are wholly and exclusively incurred in the production of income that include repairs, maintenance, caretaker costs, land rates, insurance, land rent, agent fees, grounds men.

Real Estate development is a business of developing and selling of property. Tax is chargeable on the net profit after deducting allowable expenses under Section 15 of the Income Tax Act, Cap 470.Examples of the allowable expenses include: • Professional fees paid to Quantity Surveyors, Architects, Civil engineers, Electrical engineers, e • Material costs, • Labour, • Advertising/marketing and other administrative costs.

In some cases where your rent does not cover the allowable expense that means you will have a loss and therefore there will be no tax, which you will carry forward to the following year until you have taxable rental income. An amendment made to the Income Tax Act in 2010, now allows for losses to be carried forward for the subsequent four years unless an application to extend the loss claim period is made and approved by the minister.

1.1 Tax Compliance in Kenya

Tax structure in Kenya is skewed heavily towards income taxes and Value Added Taxes (VAT) as the two largest source of total tax revenue. For example, for the period 2005/06 - 2011/12 income tax accounted for 36.3% of total government revenue (total taxes plus appropriation-in-aid) and VAT comes in second, averaging over 25% in the same period,

Income tax is governed by the Income Tax Act, Cap 470 Laws of Kenya, which is the principal legislation with schedules and subsidiary legislations. The principle law of the Income Tax Act has 14 parts, 133 sections and 13 schedules. In fact, the administration of various direct taxes, which have different rates, is undertaken by the Income Tax Department at KRA.

Generally, income tax in Kenya is used for revenue mobilization and income redistribution purposes. Income tax is used to achieve equity objectives through rationalization of tax brackets and rates; in other words, tax brackets could be broadened or the number of brackets increased and the tax rates could be increased or reduced depending on the objective. The redistribution and equity purposes are more evident with personal income tax than with the other types of income tax. Evidently, the rationalization of tax brackets and rates is done so as to reduce tax burden on those with lower and fixed incomes and make the tax more equitable.

The collection of income tax has increased over time from Ksh.7 billion in 1991/92 financial year to Ksh. 216 billion in 2009/10. Much of the growth has been attributed to the various reforms that have been undertaken by KRA as well as improved economic performance brought about by increased economic activity. Improved tax performance has further enabled the government to finance a significant proportion of the national budget from local resources. For example, the proportion of the budget financed from income taxes improved to an average of 33% of the budget in the period 1991/92 to 2009/10. However, on factoring inflation, for the period 2001/02 to 2009/10, that real income tax increased from Ksh. 55,562 million in 2001/02 to Ksh.132,785 million in 2009/10 compared to nominal income tax increase of Ksh. 55,562 million to Ksh. 216, 760 million over the same period. It is always important to factor inflation rate when considering the growth of anything that has a monetary value so as to get the real or true picture of the actual growth over time. Overall, the government has heavily relied on this tax head in its day to day financing explained by the fact that PAYE comprises the largest share of total income tax (over 60%) and it is easy to collect and administer.

Speaking during the launch of county revenue education and compliance month, Deputy Governor Daniel Chemno said that it is appropriate for the local to remit their tax on time, in order to boost services and improve livelihood. However, there is need for the public to access necessary education and understand that tax is a duty and not a luxury. (Silah & Noel, 2015)

2. Statement of the Problem

Ideally Property tax is a levy charged by the municipal authorities for the upkeep of basic civic services in the city. In Kenya it is the owners of property who are liable for the payment of municipal taxes. Generally, the property tax is levied on the basis of reasonable rent at which the property might be let from year to year. The reasonable rent can be actual rent if it is found to be fair and reasonable. In the case of properties not rented, the rental value is to be estimated on the basis of letting rates in the locality. Today's real estate, hospitality and construction companies must adopt new approaches to address regulatory requirements and financial risks while meeting the challenges of expanding globally and achieving sustainable growth.

Currently, there is an overlap of tax base between service tax and VAT and the anomaly of cascading effect of numerous non-creditable taxes. Clarity from the Government on taxability and valuation issues relating to transfer development rights in land and joint development agreements is crucial. To revive and spur demand in the real estate sector, it is imperative that the aforesaid measures are implemented by the Government in upcoming Budget 2015. An impetus to this sector would have a positive cascading impact on allied core sectors of the economy and employment generation. Kenya Revenue Authority (KRA) asserts that amnesty had been extended to individual landlords who have been the hardest lot to net, and is expected to boost compliance. They have been allowed to keep all rental income generated before January 2014 tax-free, with levies kicking in immediately after at a flat rate of 12 per cent of total income. But there is a catch to potential beneficiaries of the amnesty who are now required to declare their rental income and file returns online before June 30, 2016, (Kajilwa, 2015)

Several studies have been done on this sector, according to Nzioki & Osebe (2014) Analysis of Factors Affecting Tax Compliance in Real Estate Sector: A Case of Real Estate Owners in Nakuru Town, Kenya found that, compliance cost had the negative effect on level of tax compliance. However, tax knowledge and education had positive effect on level of tax compliance among real estate investors. Similarly, fines/penalties had positive effect on level of tax compliances, while perceived opportunity for tax evasion had negative effect. In a study done by Facile (2011) on Analysis of tax morale and tax compliance in Nigeria found that, there are a number of significant correlations between tax compliance and tax morale . However in yet another study done by Konini (2013) on the effect of tax reforms on financial performance of real estate firms in Kenya. Found that tax reforms have a positive effect on the financial performance of the real estate firms in Kenya. However, those effects are rather weak. Of the determinants explored, experience in the implementation of tax reforms, filling of returns on-line and tax relief present the most influencing positive effect on the financial performance of the real estate firms; with implementation of tax reforms taking the most single important position in influencing financial performance. This study therefore, examines Analysis of factors affecting tax compliance in the real estate sector in Kenya: A case of real estates in Eldoret town, Kenya

3. Research Questions

i. Does compliance cost have any effect on tax compliance level?
ii. To what extend does tax knowledge affect tax compliance level?
iii. What are the effects of fines on tax compliance level?
iv. Do tax audit affect tax compliance level?

4. Research Hypotheses

The following hypotheses will be tested:

H_1: There is relationship between compliance cost and tax compliance level

H_2: There is relationship between tax knowledge and tax compliance level

H_3: There is relationship between tax fines and tax compliance level

H_4: There is relationship between tax audit and tax compliance level

5. Theoretical Framework

5.1 Theory of planned behavior

Theory of planned behavior (TPB) of Ajzek (1988, 1991) helps to understand how we can change the behavior of people. TPB is a theory that predicts deliberate behavior, because behavior can be deliberative and planned. Theory of planned behavior is an important theory which presents within the scope of the social psychology and tries to explain human behaviors.

TPB is the successor of the Theory of Reasoned Action of Ajzen and Fish bein (1975, 1980). The succession was a result of the discovery that behavior appeared not to be 100% voluntary and under control, which resulted in addition of perceived behavioral control. With this addition, the theory was called the Theory of Planned Behavior.

According TPB, human behavior is guided by three kinds of considerations: behavioral beliefs (beliefs about the likely consequences of the behavior), normative beliefs (believes about the normative expectations of others) and control beliefs (beliefs about the presents of factors that may facilitate or impede the performance of behavior).

Behavioral beliefs produce favorable or unfavorable attitude towards the behavior, normative beliefs result in perceived social pressure or subjective norm and control beliefs give rise to perceive behavioral control. Combination of these three leads to the formation of a behavioral intention-the more favorable they are, the stronger should be the person’s intention to perform the behavior in the question.

As a conclusion, the Theory of Planned Behavior posits that individuals' intentions, together with their perceived control over the behavior determine whether or not they will actually engage in the behavior.

It has been observed that empirical studies carried out within the scope of the Theory of Planned Behavior mostly examine behaviors that individuals report and that the studies examining the behaviors that individuals perform is rather scarce in number (Chang, 1998; Allen, 2004). This is because of the fact that observing the individual behaviors is rather costly in terms of time and money (Erten, 2002). The aim of this study is also to analyze the behaviors reported by the taxpayers included in this study instead of observing the behaviors of the individuals regarding tax compliance.

6. Conceptual Framework

This study conceptualized that the tax compliance could be affected by compliance cost, tax knowledge, fines, and tax audit.

The purpose of this study is therefore to test the nature and the strength of these relationships. This study tests the conceptual framework presented in the figure below;

Independent variables **Dependent variable**

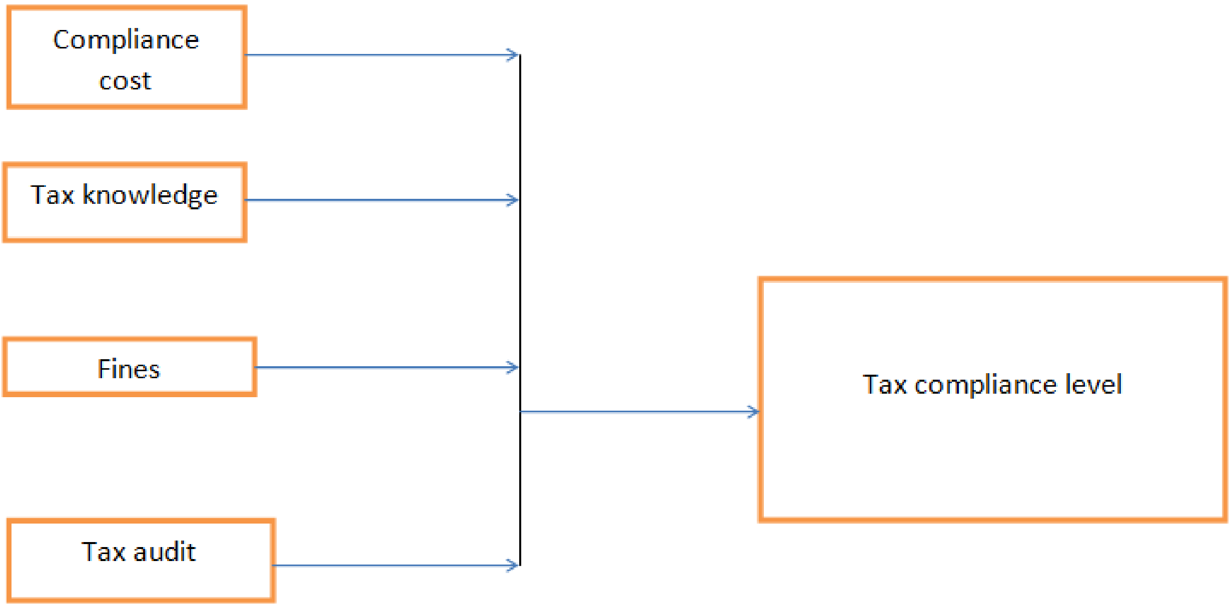

Figure 1 (Source: Researcher, 2016)

LITERATURE REVIEW

1. Review of Theories

1.1 Tax Compliance Theories

The theoretical approaches to tax compliance have been divided into the economic deterrence theory commonly used to examine tax evasion and compliance from a theoretical perspective, and the behavioral theory which incorporates both social and fiscal psychological theories.

1.1.1 Economic Deterrence Theory

Economic Deterrence model, one of the economic based models was developed by Allingham & Sandom (1972). It extended the expected utility model of criminal activity-Becker (1968) which is based on the concept that, if the consequence of committing a crime outweighs the benefit of the crime itself, the individual will be deterred from committing the crime to the tax arena.

The models which have been based on the economic theory of compliance generally focus on deterrence. Deterrence can be achieved through a number of approaches, punitive and persuasive. Deterrence may take on the form of increasing the probability of detection, increasing the tax rate or by the imposition of tougher penalties. Alternatively, it may take on the form of better education, increased advertising/publicity and incentives. The focus will be on the punitive impact of fines, and other enforcement factors which shape taxpayer compliance attitudes and behavior.

The economic definition of taxpayer compliance views taxpayers as ‘perfectly moral, risk-neutral or risk averse individuals who seek to maximize their utility, and chose to evade tax whenever the expected gain exceeded the cost. Thus, a pure ‘cost-benefit’ approach is given for why or why not taxpayers may comply with the tax laws. Some researchers propose that individuals are expected to weigh ‘the uncertain benefits of successful evasion against the risk of detection and punishment.’

Consequently, a penalty structure forms part of the punishment, and is a critical factor in an individuals' choice to evade tax.

1.1.2 Social-psychology Theory

A common proposition of the theory of reasoned action is that individuals form their behavioral intentions on the bases of two basic determinants – personal factors and social influences (McKerchar & Evans, 2009). These are commonly referred to as personal norms and social norms respectively, and have become the focus of studies based on social psychology theories explaining taxpayer behavior.

They are generally noted to play important roles in determining tax compliance (Franzoni, 1999; Sour, 2004; OECD, 2010). Ronan & Ramalefane (2007) specifically noted that such variables as stigma, reputation and social norms have great impact on taxpayers' decision on whether or not to comply with tax payments.

Personal norms have been defined as the deeply rooted convictions about what one ought or ought not to do (OECD, 2010). They are –in most cases- difficult to change and often beyond the reach of public policy" (Franzoni, 1999), because they take a long time of socialization processes to be developed (OECD, 2010). In the context of taxpayer behavior, personal norms reflect the taxpayers' values, tax ethics, tax mentality, and tax morale, all of which influences attitudes towards taxes/compliance.

Sour (2004) contended that engagement in acts of evasion may induce feelings of anxiety, guilt or negative self-image in taxpayers. A contention that is in line with the findings of Taylor (2001), who observed that the (internal) fear of experiencing feelings of guilt, along with the risk of social stigmatization have greater deterrent effect than such external factors as the risk of detection and punishment.

1.1.3 Fiscal Exchange Theory

The fiscal exchange theory is acclaimed to have evolved from the economic deterrence and the social psychology models (McKerchar & Evans, 2009). It is premised upon the existence of a social, relational or psychological contract between the government and the taxpayers (Frey & Feld, 2002; Torgler, 2003; Fjeldstad, et al., 2012). The model thus suggests that the presence of government expenditures may serve as a motivating factor for taxpayer compliance. Especially when the taxpayers value the goods and services they perceive to be receiving from the government (Alm, McClelland & Schulze, 1992; Alm, 1999; Fjeldstad, et al., 2012).

It is on this basis that Fjeldstad, et al. (2012,2014) opined that the taxpayer may be seen as exchanging their "…purchasing power in the market in return for government services." With the exchange being largely conditional, and varying as the government vary in its performance. Thus, the taxpayers will be more willing to comply when they are satisfied with the provision of services from the government, even in the absence of detection and punishment (Torgler, 2003). Conversely, they are also likely to adjust their terms of trade, by reducing compliance when they are dissatisfied with services provision from the government, or even when they dislike the way their taxes are spent (Spicer & Lundtstedt, 1976; Smith, 1992; Alm, 1999; Palil, 2010).

Another major proposition of the fiscal exchange theory is that of tax bargaining between taxpayers and the government. It is considered as central to building relations of accountability, mutual rights and obligations between state and society (Fjeldstad, et al., 2012). Alm (1999), also noted that evidences exists from empirical, experimental, and simulation researches, that points to the fact that compliance is affected by collective decision process. This is especially so in democratic countries, where the taxpayers are presumed to be in a position to renegotiate their tax contract with the government, since they can monitor and control politicians, and partake as rule setters (in tax matters) via referenda and initiatives respectively (Torgler, 2003b). This probably accounts for the assertion by Engen & Skinner (1996:617), that in America "…a presidential campaign is incomplete without at least one proposal for tax reform."

2. Criticism of the Theories

Allingham & Sandmo (1972) economic deterrence model is based on the expected utility function of the taxpayer who evades. This model incorporates several aspects. Firstly, the taxpayer has some level of risk aversion, the more risk averse the taxpayer is, the less likely (s) he is to evade taxes. Secondly, the taxpayer needs to have knowledge regarding the taxation system in order to assess the probability of being detected, and the extent of the penalties that may be incurred upon detection. Under A-S model the taxpayer decides upon the amount of taxes to report to the taxing agency. When making this decision the taxpayer seeks to maximize expected utility which is defined to be the sum of the utility value of each outcome weighted by the probability that the particular outcome occurs. The A-S model shows that the higher probabilities of audit deter underreporting and that a higher rate for the proportional tax leads to lower levels of reported income. The general conclusion of this theory is that compliance depends largely on tax audit and penalty. The implication of the theory is that taxpayers will pay taxes only because of the fear of sanctions

The economic deterrence model has over the years, undergone series of modifications and extensions, and still enjoys prominence in most studies on taxpayer compliance. However, it has also been criticized as not been realistic in explaining taxpayer compliance, since it predicts a general substantial noncompliance beyond what is obtainable in reality (Slemrod, 2007). Rethi (2012) and Slemrod, (2007) observed that inspire of the existence and use of audits and penalties (which are the key components of the deterrence model), tax evasion has remained, and continuously posed significant threats to countries' economies, through loss of revenue. Besides, it has also been observed (even proven in studies) that there are people who never evade taxes, even when the probability of detection is zero (Sour, 2004). A classic example is in the case of the United States and Scandinavia, where empirical data revealed high level of compliance "…more than what could be accounted for even by the highest feasible levels of auditing, penalties and risk aversion" (Fjeldstad, SchulzHerzenberg & Sjursen, 2012: 3). This reality has in fact led a number of authors to comment that going by the deterrence model, the actual question regarding tax compliance should be why people pay taxes, and not why people evade them (Alm, 1999; Alm et al., 1992; Slemrod, 1992). Aside from the limitations noted above, the deterrence model has also faced criticism for failing to consider behavioral factors such as attitudes, perceptions, and moral judgments (Lewis, 1982); for neglecting the presence of codes of conducts, such as moral and ethical constraints that have potentials to prevent people from cheating in the their taxes (Sour, 2004); and for neglecting the relevance that tax compliance takes place in a social context (Rethi, 2012). The aggregation of the above criticisms have thus led to the incorporation of diverse perspectives/fields –especially behavioral- into the study of tax compliance behavior, and subsequently, development of broad based factors that affect taxpayers' (non)compliance behavior.

The fear of social stigmatization as a possible deterrent factor is a confirmation of the belief that tax compliance takes place within a social context (OECD, 2010; Kirchler, 2007), and the existence of the social norms effect on compliance behavior. Social norm, according to Alm (1999: 9) is "… a pattern of behavior that is judged in a similar way by others and that therefore is sustained in part by social approval or disapproval". This affects tax compliance since it is common for people to discuss their tax affairs with friends, family members, and at their jobs (Sour, 2004). It therefore follows that an individual is most likely to comply with tax requirements if he believes members of his reference groups also comply, just as he is also likely not to comply if he believes that members of his referent group do not comply (Lewis, 1982; Franzoni, 1999; OECD, 2010; Fjeldstad, et al., 2012; Walsh, 2012; Ali, et al., 2013).

3. Research Design and Methodology

3.1 Research Design

This study adopted an Ex postfacto research design was used. It is concerned with groups with qualities that already exist are compared on some dependent variable. It was considered quasi-experimental because the subjects were not randomly assigned-they are grouped based on a particular trait. To careful analysis of the current challenges facing tax compliance in the real estate sector in Kenya.

3.2 Target Population

A sample of fifty (50) real estate investors that represented the whole population of five thousand (5000), twelve(12) compliance officers and six (6) audit officers which total up to sixty eight(68).

Table 3.2 Target Population

Real estate investors	50	73.53%

Compliance Officers	12	17.65%
Audit Officers	6	8.82%
Total	68	100%

(Source: KRA, 2015)

3.3 Description of Research Instruments

3.3.1 Questionnaire

This is the most commonly used instrument as it is flexible and inexpensive. These questionnaires come in many different forms from: factual to opinion based, from tick boxes to free text responses. Whatever their form, questionnaires are often viewed as quick and easy to do.

The questionnaire was divided into three sections. Section A will provide general information about the respondent. Section B will be used to provide specific information about the real estate investors' properties name, number, period of operation and their annual turn-over. This is aimed at an aim of finding out: the effect of tax knowledge and education, tax audit, tax compliance cost, perceived opportunity, fines and the extent of confidence in the legal system on tax compliance level. Section C is an interview schedule for tax officers-compliance and audit officers. It captures the various suggested solutions to the identified challenges by providing details on why real estate stands out, factors affecting tax compliance, if technology has any impact on tax compliance, the extent of confidence in the legal system and measures put in place to encourage Foreign Direct Investment (FDI).

3.4 Descriptions of the sample and sampling procedure

Snowball sampling method was used in this research. It is the most appropriate method for studying a representative group with specific characteristics. The sampling frame is sixty eight (68) where fifty (50) are real estate investors that represented the whole population of five thousand (5000). This sample size conforms to Mugenda & Mugenda (2003) who contend that a sample size should be at least 30. Twelve (12) are the compliance officers and six (6) are the audit officers. This is the best method of sampling because the sample of the study is limited to a very small subgroup of the population as it works like chain referral.

3.5 Description of the Data Collection Procedures

Questionnaires were used to gather written information from targeted population. They consists of a list of questions which are structured in such a way that the creator gets the needed information which will helps one form an opinion about what people think. They were personally delivered to ensure that the information is received at the right time with the required clarity. In-depth interview was then followed for further clarification based on the response from the questionnaire. The target population was informed in advance before the data collection takes place. This is to ensure that the respondents are aware of the research being done. The collected data will be then reviewed, tabulated and finally analyzed.

3.5.1 Validity of the Research Instrument

Mugenda et al. (1999) looked at validity as the accuracy and meaningfulness of inferences, based on research results. Validity therefore, refers to the extent to which an instrument measures and performs as it is designed to perform.

External validity is the extent to which the results of the study would be generalized from a sample to the population. Snow ball sampling gave an accurate representation of the population. Content validity is the extent to which elements within a measurement procedure are relevant and representative that they will be used to measure (Haynes et al., 1995). Content validity of the instrument was determined by a panel of experts in the field.

3.5.2 Reliability of the Research Instrument

According to Mugenda (1999), the reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials. Test- Retest Reliability of the items in the questionnaire were used.

3.6 Description of Data Analysis Procedures

Questionnaire responses were sorted, coded and input into the statistical package for social sciences (SPSS) version 21 for production of tables, descriptive statistics which described distribution of responses and inferential statistics (Pearson correlation coefficient) that was used establish relationships between variables.

Further, a multiple linear regression model was used to predict tax compliance using the four independent variables in the study: tax compliance cost, tax knowledge, tax fines and tax audit. β coefficients for each independent variable generated from the model. It was then subjected to a z – test, in order to test each of the hypotheses under study.

The regression model: $Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \mathcal{E}$ was used Where Y - Tax compliance α - Constant $\beta1$, $\beta2$, $\beta3$ and$\beta4$ are the coefficients showing the rate of tax compliance change as tax compliance cost, tax knowledge, tax fines, and tax audit changeX1, X2, X3 and X4 are tax compliance cost, tax knowledge, tax fines and tax audit respectively where else ε is the error term. All the above statistical tests were analyzed using the Statistical Package for Social Sciences (SPSS), version 21. All tests were two-tailed. Significant levels were measured at

DISCUSSION

4. Presentation of the Findings

4.1. Demographic Information

Attributes that were within the purview of demographic characteristics of respondents were discussed in this section of data presentation.

4.1.1. Gender

Of the total sample, the male gender had 75% while the female gender had 25%. 51 of the total respondents were male and 17 were female.

Table 4.1.1. Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	51	75.0	75.0	75.0
	Female	17	25.0	25.0	100.0
	Total	68	100.0	100.0	

4.1.2 Age

Age category of 22-30 was 4.4%,(3) followed by 31-40 with 7.4%(5) Respondents who fell between the ages of 41-50 accounted for 27.9% (19) while 60.3% (41) were those with over 50 age bracket.

Table 4.1.2 Age Category

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	22-30	3	4.4	4.4	4.4
	31-40	5	7.4	7.4	11.8
	41-50	19	27.9	27.9	39.7
	Over 51	41	60.3	60.3	100.0
	Total	68	100.0	100.0	

4.1.3 Academic Qualifications

13.2 %(9) of the respondents had certificate qualification, 32.4% (22) Diploma qualification, 45.6% (31) had Degree qualification and 8.8% (7) had Masters Qualification.

Table 4.1.3 Academic Qualifications

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	9	13.2	13.2	13.2
	Diploma	22	32.4	32.4	45.6
	Degree	30	44.1	44.1	89.7
	Masters	7	10.3	10.3	100.0
	Total	68	100.0	100.0	

4.1.2 Information about the Real Estate

4.1.2.1 Period in Business

30% (15) of the respondents have been in the business between the period of 0-5 years, 54% (27) between the periods of 5-10years and 16% (8) represented those who have been in business in over 10 years.

Table 4.1.2.1 Years in Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-5	15	30.0	30.0	30.0
	5-10	27	54.0	54.0	84.0
	Over 10 Years	8	16.0	16.0	100.0
	Total	50	100.0	100.0	

4.1.2.2 Annual Turnover

40% had an annual turnover below 5 million and 60% had an annual turnover between 5-10 million.

Table 4.1.2.2 Annual Turnover

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 5 Million	20	40.0	40.0	40.0
	5-10 Million	30	60.0	60.0	100.0
	Total	50	100.0	100.0	

4.1.3 Tax Characteristics

Cost of filing tax is considered high by 50% and 50% fair of the respondents. The cost of hiring tax agent to assist in filing tax returns is considered high by 70% and fair by 30% of the respondents. Further, traveling expenditure used when filing tax return is high according to the 54% and fair to 46% of the respondents.

Table 4.1.3.1.1 how do you rate the cost of filing tax return?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High	25	50.0	50.0	50.0
	Fair	25	50.0	50.0	100.0
	Total	50	100.0	100.0	

Table 4.1.3.1.2 how do you rate the cost of hiring tax agent?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High	35	70.0	70.0	70.0
	Fair	15	30.0	30.0	100.0
	Total	50	100.0	100.0	

Table 4.1.3.1.3 how do you rate travelling expenditure when filing tax return?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High	27	54.0	54.0	54.0
	Fair	23	46.0	46.0	100.0
	Total	50	100.0	100.0	

Electronic filing is being done by 88% of the respondents while 12% have not filed their returns using E-filing. 10% having filed between 0-1 years, 30% between1-2 years, 48% between 2-3 years and 12% between 3-4 years. Further, findings found that 86% of the respondents have attended a seminar or a course organized by KRA while 14% have never attended any course or seminar.

Table 4.1.3.2.1 E-Filing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	44	88.0	88.0	88.0
	No	6	12.0	12.0	100.0
	Total	50	100.0	100.0	

Table 4.1.3.2.2 How Long?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-1 year	5	10.0	10.0	10.0
	1-2 Years	15	30.0	30.0	40.0
	2-3 Years	24	48.0	48.0	88.0
	3-4 Years	6	12.0	12.0	100.0
	Total	50	100.0	100.0	

Table 4.1.3.2.3 Have you attended taxation course/ seminar organized by the KRA?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	43	86.0	86.0	86.0
	No	7	14.0	14.0	100.0
	Total	50	100.0	100.0	

42% have been fined for late filing of tax returns while 58% have been filing their returns on time. Moreover, 82% have been fined for not filing their tax return and 18% having been filing their returns on time

Table 4.1.3.3.1 Late filing of tax returns

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	21	42.0	42.0	42.0
	No	29	58.0	58.0	100.0
	Total	50	100.0	100.0	

Table 4.1.3.3.2 not filing tax returns

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	41	82.0	82.0	82.0
	No	9	18.0	18.0	100.0
	Total	50	100.0	100.0	

In relation to the declaration of income, 50% had under reported their income and 50% had filed correct income. Further, 60% of the respondents had over claimed deductions and 40% claimed the correct deductions. Moreover, conducting an official examination of an individual or organization's accounts and records isn't done. 100% of the respondents have not been audited by the tax authority, KRA.

Table 4.1.3.4.1 Under Reporting of Income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	25	50.0	50.0	50.0
	No	25	50.0	50.0	100.0
	Total	50	100.0	100.0	

Table 4.1.3.4.2 Over Claiming Deductions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	30	60.0	60.0	60.0
	No	20	40.0	40.0	100.0
	Total	50	100.0	100.0	

Table 4.1.3.4.3 Have you been audited by KRA?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	50	100.0	100.0	100.0

4.2 Discussion of the Findings

4.2.1 Descriptive Statistics

Table 4.2.1.1 Compliance Cost

Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
How do you rate the cost of filing tax return	50	2.50	.505	.000	.337	-2.085	.662
How do you rate the cost of hiring tax agent	50	2.30	.463	.900	.337	-1.241	.662
How do you rate travelling expenditure when filing tax return	50	2.46	.503	.166	.337	-2.057	.662
Valid N	50						

Table 4.2.1.2Tax Knowledge

Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Under Reporting of Income	50	1.50	.505	.000	.337	-2.085	.662
Over Claiming Deductions	50	1.40	.495	.421	.337	-1.900	.662
Have you been audited by KRA?	50	2.00	.000	.	.	.	.
Valid N	50						

Table 4.2.1.3 Tax Fines

Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Late filing of tax returns	50	1.58	.499	-.334	.337	-1.969	.662
Not filing tax returns	50	1.18	.388	1.718	.337	.989	.662
Valid N	50						

Table 4.2.1.4 Tax Audit

Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Under Reporting of Income	50	1.50	.505	.000	.337	-2.085	.662
Over Claiming Deductions	50	1.40	.495	.421	.337	-1.900	.662
Have you been audited by KRA?	50	2.00	.000	.	.	.	.
Valid N	50						

4.2.2 Correlations Statistics

Pearson Correlations results in table 4.2.2 showed that tax knowledge was positively correlated to tax compliance (r=.931, p<.05). Thus tax knowledge had 93.1% significant relationship with tax compliance. Tax audit was positively related with tax compliance (r = .492, ρ<0.05) meaning that tax fines had 49.2% significant positive relationship with tax compliance. Tax compliance cost on the other hand was positively related with tax compliance(r=419,p<.05). Therefore, tax compliance cost had 41.9% significant positive relationship with tax compliance. Further, tax fines was positively related with tax compliance (r=.808, p<.05). Thus, tax fines had 80.8% significant positive relationship with tax compliance.

Table 4.2.2 Correlations

		Tax Knowledge	Tax Audit	Tax Compliance Cost	Tax Fines	Tax Compliance
Tax Knowledge	Pearson Correlation	1	.494**	.403**	.861**	.931**
	Sig. (2-tailed)		.000	.004	.000	.000
	N	50	50	50	50	50
Tax Audit	Pearson Correlation	.494**	1	.816**	.574**	.492**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	50	50	50	50	50
Tax Compliance Cost	Pearson Correlation	.403**	.816**	1	.469**	.419**
	Sig. (2-tailed)	.004	.000		.001	.002
	N	50	50	50	50	50
Tax Fines	Pearson Correlation	.861**	.574**	.469**	1	.808**
	Sig. (2-tailed)	.000	.000	.001		.000

	N	50	50	50	50	50
Tax Compliance	Pearson Correlation	.931**	.492**	.419**	.808**	1
	Sig. (2-tailed)	.000	.000	.002	.000	
	N	50	50	50	50	50

**. Correlation is significant at the 0.01 level (2-tailed).

4.2.3 Regression

A Multiple linear regression model was used to predict tax compliance in the study. The prediction in the model was done using four variables: tax knowledge, tax audit, tax compliance cost and tax fines given tax compliance level. Further, the model summary, ANOVA and coefficients for the independent variable was generated from the model as presented in table 4.2.3.1, 4.2.3.2 and 4.2.3.3.

Findings from table 4.2.3.1 show the combined correlation between the rental income tax compliance and the predictor variables of 93.2% which is a strong positive correlation. The coefficient of determination (R Square) of 86.8% reveals that the combined effect of the predictor variables could explains 86.8% variations in the rental income tax compliance in Eldoret town. Thus, 86.8% of the model and the predictor variable explain tax compliance issues in Eldoret town. Durbin-Watson statistic value of 1.043 indicate positive serial correlation hence the model is adequate.

Table 4.2.3.2 shows that the predictor variables significantly predict rental income tax compliance, $F(4, 45) = 74.063$, $p < .05$ thus the regression model is a good fit for data. Meaning that the variations within the rental income tax compliance is well explained by the predictor variables.

Table 4.2.3.3 indicates how much the rental income tax compliance level varies with a predictor variable when all other predictor variables are held constant. Taxpayers' Knowledge has a beta value which shows that a unit change cause 90.9% change in rental income tax compliance. Further, tax knowledge is significant having a p value = 0.000 ;< .05 meaning that KRA should invest more on tax knowledge in order to maximize compliance in rental income. Thus we reject the null hypothesis stating that there is a significant relationship between tax knowledge and tax compliance level. The effect of tax fines and penalties is stated by the t-test value = 8.539 which indicates that the effect of tax penalties and fines is 8.539 times that of the error associated with it.

Tax audit had a p value =1; >.05 therefore, we accept the null hypothesis stating that there is a significant relationship between tax audit and compliance level. Beta of0 implies that a unit change in tax audit causes 0% change in rental income tax compliance.

Tax compliance cost had a p value =1; >.05 therefore, we accept the null hypothesis stating that there is a significant relationship between tax compliance cost and compliance level. Beta of value of 5.2 implies that a unit change in tax compliance cost causes 5.2% change in rental income tax compliance. The effect of tax compliance is stated by the t-test value = .559 which indicates that the effect of tax penalties and fines is .559 times that of the error associated with it.

Tax fines had a p value =1; >.05 therefore, we accept the null hypothesis stating that there is a significant relationship between tax fines and compliance level. Beta of 0 e implies that a unit change in tax fines causes 0% change in rental income tax compliance.

Table 4.2.3.1 Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.932[a]	.868	.856	.146	1.043

a. Predictors: (Constant), Tax Fines, Tax Compliance Cost, Tax Audit, Tax Knowledge
b. Dependent Variable: Tax Compliance

Table 4.2.3.2 ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.320	4	1.580	74.063	.000[b]
	Residual	.960	45	.021		
	Total	7.280	49			

a. Dependent Variable: Tax Compliance
b. Predictors: (Constant), Tax Fines, Tax Compliance Cost, Tax Audit, Tax Knowledge

Table 4.2.3.3 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.880	.122		15.353	.000
	Tax Knowledge	1.000	.117	.909	8.539	.000
	Tax Audit	-1.001E-013	.079	.000	.000	1.000
	Tax Compliance Cost	.040	.072	.052	.559	.579
	Tax Fines	-1.004E-013	.112	.000	.000	1.000

a. Dependent Variable: Tax Compliance

4.3 Interpretation of Findings

Hypothesis 1 states that there is significant relationship between tax knowledge and tax compliance. The research findings are not in agreement with the hypothesis since tax knowledge had the coefficient estimates (β=.909 and p = .000) hence hypothesis does not hold

Hypothesis 2 states that there is a relationship between tax audit and tax compliance. The research findings are in agreement with the hypothesis since tax audit had the coefficient estimates (β=.000 and p=1) hence we accept the hypothesis.

Hypothesis 3 states that there is a relationship between tax compliance cost and tax compliance. The research findings are in agreement with the hypothesis since tax compliance cost had the coefficient estimates (β=.052 and p=.579) hence we accept the hypothesis.
Hypothesis 4 states that there is a relationship between tax fines and tax compliance. The research findings are in agreement with the hypothesis since tax fines had the coefficient estimates (β=.000 and p=1) hence we accept the hypothesis.

FINDINGS

Findings on gender revealed that majority of the respondents were male. This shows that the majority of the individuals in the real estate sector are male. A larger proportion of the respondents are over 51 of age. In regards to the education, majority are literate many having degrees then followed by the diploma holders.

Findings on the information about the real estate reveal that majority of the respondents have been in business between the periods of 5-10 years. Further, majority of the respondents earn an annual turnover of 5-10 million shillings.

The study revealed that compliance level among the real estate investors was low. Therefore, investors in this sector should file their returns and pay taxes as it should be. On the other hand, the government through KRA should come up with an effective and efficient tax administration system in order to improve tax compliance in this sector.

Findings on tax characteristics indicated that a larger proportion of the respondents filed their returns using E-filling and many of them having filed between the periods of 2-3 years. Further, majority had also attended seminar or a course organized by the KRA.

In relation to the declaration of income, majority of the respondents did not report the correct income. 50% had under reported their income and 60% of the respondents had over claimed deductions. The study also found out that 100% of the respondents had been audited by the tax authority, KRA. Further, the cost associated with filing rental income tax was considered high by the majority of the respondents.

A determination on the effect of tax characteristics on tax compliance level revealed that tax compliance cost, tax knowledge, tax fines and tax audit had significant relationship with tax compliance. This implies that each characteristic has to be enhanced in order to enhance tax compliance level.

5.2 Conclusions Based on the Findings

The study findings provided evidence that tax knowledge has a significant effect on tax compliance (even though the hypothesis does not hold). Tax knowledge plays a crucial role in enhancing tax compliance. Knowledge of applicable tax laws plays a crucial role in ensuring that tax returns are filed in time.

The study results showed that tax fines is a deterrence measure to ensure that tax evasion and under declaration is in controlled. Therefore, enforcement of tax fines in place will enhance tax compliance.

With regards to tax compliance cost, it had a significant effect on tax compliance. Hightax compliance costs will deter the payments and filing of taxes hence leading to low rates of tax compliance.

In relation with tax audit, the findings indicated that it had significant effect on tax compliance. Tax audit is a measure meant to deter tax non-compliant schemes and to boost income tax revenue therefore, it enhances tax compliance.

5.3 Recommendations based on the Findings and Conclusions

Tax knowledge has significant effect on tax compliance. Thus, there should be continual training of tax payers in the real estate sector in order ensure that they are aware and practice tax laws put in place. This way, they will be paying and filing their returns as required and on time.

This study recommends that KRA should come up with a body in charge of auditing its clients' financial statements especially in the real estate sector. This will boost its return in this sector and that the investors will be more compliant because tax audit has a significant effect on tax compliance.

The study finds out that tax fines has significant impact on tax compliance. Tax authority should impose fines spelled out in the act. This measure will enforce and enhance tax compliance thus ensuring non delay and late filing of taxes.

Finally, tax compliance cost has significant effect on tax compliance. A lower cost of compliance enhances tax compliance. Tax systems put in place should be simple ensuring that payment of taxes is simple thus not attracting other costs associated with it.

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