Factors Affecting Compliance on Rental Income Tax Policy by Landlords in Nakuru Municipality

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Abstract

Taxation is the primary source of revenue for governments throughout the world to implement their social and political agendas and to deliver services to the citizens. In Kenya, increased government expenditure and the need to finance government activities using local sources of funds has called for the government to bring into the tax net sectors that have remained untaxed before. In 2012/2013 budget speech a lot of emphasis was put that rental income was subject to taxation. Previous statistics indicated that less than half of landlords and developers had complied with tax requirements. This study was carried out to establish how landlords had responded to the new taxation measures, and the factors that influenced their compliance such as perception, taxation knowledge gaps and cost of compliance to rental income tax among landlords in Nakuru Municipality. A sample of 94 respondents was selected to take part in the study using convenience sampling technique. Primary data was collected by seeking opinion from selected landlords using questionnaires.

Results of the research show that, the level of full compliance to the provisions of the rental income tax policy was low. Only 39.0% of the landlords indicated that they fully complied with the provisions. The most common form of non-compliance was through overstatement of expenses and deductions that would in turn reduce taxable pay and the amount of tax, similarly understatement of incomes was also common. Most of the landlords avoided the outright non-compliance where they did not submit returns or pay taxes at all instead they had irregular payment and tax reduction. The study recommended that Kenya Revenue Authority should embark on public awareness campaigns to educate the public on their role and responsibilities in taxation rather than approaching the matter from a legal obligation perspective. This would create a sense of responsibility in compliance rather than fear for non-compliance. Putting in place active customer oriented information desk was also found to be necessary.

Key Words: Rental income tax, compliance, Perception, Knowledge, Cost

1.0 Introduction

Taxation remains to be the main source of government revenue in both developed and developing economies. It also provides an important avenue for financial independence of nations from external assistance (OECD, 2009). However one of the biggest threats to this method of financing governments is tax avoidance and evasion. Developing economies are worst affected by this challenge. While Developing countries record relatively higher tax compliance levels (35%), African countries report less than 23% (GIZ, 2010). Budgetary shortfalls and taxation gaps prevail in fiscal plans, resorting to dependence on unsustainable financial sources such as Bank loans and multilateral donors. Developing countries therefore need to develop and implement policies that reduce prevailing shortfalls and unhealthy dependence on donor funds. The motivations for tax evasion are complex and have challenged taxation authorities throughout the world.

Various studies have been done to provide an in depth understanding on the key motivators to tax evasion (Marti, 2010; Pope & Abdul-Jabbar, 2008; Ouma et.al.2007 & Kirchler, 2007). Despite this, the problem continues to bit the economy in Kenya. Evidence suggests that lack of appropriate tax policy, low compliance and poor tax administration are linked to high levels of tax evasion and avoidance reported in developing countries (GIZ, 2010). However, taxpayer knowledge, perceptions and the cost of compliance have not been studied. KRA (2012) revealed that less than 40 per cent of the landlords and developers had complied with tax requirements, and government went in to reinforce the rental income tax provisions. Taxation on rental income by the Kenya Revenue Authority has been in existence since implementation of income tax act of 1973.

However majority of landlords have not been complying with the Act due to lack of government mechanisms to identify and bring landlords into the tax net. Majority of landlords have also been collecting rent by themselves or using unregistered agents making it difficult to trace their income for the purpose of taxation. The move by the government to tighten the law on taxation on rental income amidst increasing cost of doing business in Kenya has received mixed reactions from landlords due to their impact on business. This underscores the need to establish the Factors Affecting Compliance on Rental Income Tax Policy by Landlords in Nakuru Municipality.

2.0 Literature Review

Empirical evidence about the extent of tax non compliance for different world regions is very limited. A new study by GFI estimates that African countries have lost US$854 billion in cumulative capital flight over the period 1970-2008 (GFI, 2010). According to Marti (2010) tax compliance is a complex term to define. Researchers have defined tax compliance as the fulfillment of all tax obligations as specified by the law freely and completely. The tax compliance which is anchored on taxation policies cut across all industries but studies have already established that regulatory burdens fall disproportionately on specific industries, the worst affected according to (Pope & Abdul-Jabbar, 2008) are the small and medium enterprises globally. Their size and ability to fulfill tax obligations make it hard for them to comply since most have limited access to resources and inadequate expertise to comply with diverse and complicated regulations. In reference to tax compliance, majority of enterprises found not to comply have been grouped in one category termed the underground economy (Parliamentary Budget Office, PBO, 2010). According to PBO, underground economy refers to transactions that go unreported and unrecorded for taxation.

Ouma et al. (2007) states that underground economy comprises both legal and illegal activities but the most dominant component was the micro and small enterprises whose transactions remain largely undocumented and unaccounted for. In the past the rental business in the country have been operating as underground business in the country in that majority of landlords have been renting out, and collecting monthly incomes and not providing enough documentation for the purpose of taxation. The current study is based on the fact that there has been non compliance on taxation and lack of information on rental income tax to the Kenya Revenue Authority by landlords hence this is largely accounted as informal or underground economy.

Despite that rental business has been largely operating as an informal segment, there is a rapid growth in the real estate business adding into informal sector. Informal sector comprises economic activities not regulated by laws such as environmental, labor or taxation, but is subject to the regulations of the local authorities. Studies estimate that informal businesses account for 35-50% of GDP in many developing countries. Similarly, in Kenya, the informal sector is quite large contributing over 25% of the country's GDP (Economic Survey, 2012).

Due to the challenges associated with difficulty in taxing informal segments of the economy, growth in this segment translates to loss in government revenues. According to the Institute of Economic Affairs IEA (2011), there is a strong relationship between the size of informal sector and the inability of the Government to collect the requisite taxes. On the other hand, from the informal sector point of view, tax evasion is driven generally by a perception that the tax burden is too high. In theory, a taxpayer's incentive to comply with a tax system depends on an assessment of the relative benefits and costs of complying versus noncompliance.

Tax non-compliance occurs in different forms; it could either be failure to submit a tax return within the stipulated period or non submission, understatement of income, overstatement of deductions, failure to pay assessed taxes by due date (Kasipillai & Abdul Jabbar, 2006) and in some cases non-compliance may mean an outright failure to pay levied taxes. Studies have shown that the problem of tax evasion is a widespread one (Kasipillai & Abdul Jabbar, 2006). Furthermore, Fagbemi, Uadile and Noah (2010) found that it is prevalent in developing countries and it hinders development thereby leading to economic stagnation and other socio-economic problems.

The taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behaviour. Studies have shown that, those factors which influence tax compliance and/or non-compliance behaviour differ from one country to another and also from one individual to another (Kirchler, 2007). They include: taxpayers perceptions of the tax system and Revenue Authority (Ambrecht, 1998); peer attitude or subjective norms; taxpayers' understanding of the tax system or tax laws (Silvani, 1992; Le Baube, 1992); motivation such as rewards (Feld, Frey & Targler, 2006) and punishment such as penalties (Allingham & Sandmo, 1972); cost of compliance (Slemrod, 1992; Le Baube, 1992); enforcement efforts such as audit; probability of detection; difference across - culture; perceived behavioural control (Furnharn, 1983); ethics or morality of the taxpayer and tax collector; equity of the tax systems; demographic factors such as sex, age, education and size of income (Murphy, 2004) .

This study holds that the factors that influence taxpayers compliance to rental income tax can be grouped into knowledge, perception and economic factors mainly the cost of compliance and the amount of tax involved.

2.1 Tax Payer Perception, Attitudes and Behaviour

The interaction between the tax collector and the taxpayer plays a key role in influencing perceptions that shape tax behaviour. OECD (2010) warns that revenue body must be cautious when using controlling and supportive approaches to influence behaviour. If a revenue body's approach is perceived as very controlling, it can cause taxpayers to feel distrusted. Research implies that when taxpayers feel distrusted, they may adopt the same attitude towards the revenue body, and this may reduce compliance. Instead, a revenue body should send a clear signal to the general public that non-compliant behaviour is seen by society as wrong. By suggesting that society view this behaviour as wrong, existing personal norms are reinforced. Generally a positive effect of perceived fairness in tax related affairs will strengthen tax compliance.

Studies have been conducted on the influence of perceptions on distributive fairness and its effects to affect tax compliance. People who experience their tax burden to be higher than others tend to be less compliant with tax laws (Kinsey, Grasmick & Smith, 1991). Likewise, the more people believe that the government takes good care of their paid taxes and spends it carefully, the more compliant they tend to be. Studies suggest that procedural fairness influences the acceptance of decisions made by the tax authority builds trust in the tax authority among private taxpayers (Braithwaite, 2003; Murphy, 2004). Procedural fairness is important for tax authorities, since by enacting fair procedures authorities support their legitimacy and trust (Tyler, 2006). Kirchler, Niemirowski and Wearing (2006) found that perceived supportiveness of advice by tax officers was associated with self-reported compliance and studies by Pommerehne and Frey (1992) and Torgler (2005) show that if taxpayers have a say in political decisions with regard to financial issues tax morale is stronger.

The recent move by the Kenya Revenue Authority (KRA) to obtain information about landlords from utility companies such as the Kenya Power and water supply companies is an indication of lack of trust that landlords will voluntarily declare their rental properties and income for taxation. The authority even worsens the situation by asking the members of the public and tenants to report their landlords and provide information on their bank accounts. This implies perceived lack of fairness between the two parties which this study sought to investigate and document on how this affects tax compliance in the rental income tax.

2.2 Knowledge on Taxation

Knowledge about taxation, the benefits of taxation and the dangers of non-compliance remain a key impediment to tax compliance in many countries. Countries such as the US, Canada, Japan, New Zealand, Australia, the UK and Malaysia have all been implementing a continuous tax education for taxpayers and children as future taxpayers (Palil, 2010). Various countries such as the USA, the UK and Australia also have developed interactive websites, disseminated leaflets together with tax returns, opened call centers', created advertisements or supplied reminders via television and radio (e.g. to remind taxpayers of deadline dates for filings). In addition to tax education, knowledge about tax laws also plays a major role in determining taxpayers' compliance behaviour (Eriksen and Fallan, 1996). Carroll (2011) on taxation among women in the informal sector in Ghana found out that despite the fact that more than half (65 per cent) of the women surveyed were aware that they have to pay taxes, more than half were not well informed as to why they paid tax and more than 50 per cent did not enjoy' the benefits of paying it. However, tax education alone cannot guarantee continued tax compliance.

Palil (2010) states that, in addition to tax education, knowledge about tax laws also plays a major role in determining taxpayers' compliance behaviour. Therefore a step ahead, for example continuous education programmes and effective monitoring mechanisms must be taken into account by tax authorities to ascertain that taxpayers have a good and reasonable knowledge and understanding of tax matters. On the contrary, awareness and attitude of the taxpayer himself is more important since the effectiveness of tax education depends on the readiness, acceptance and honesty of taxpayers.

This study holds that tax education and knowledge has several roles to play in compliance to rental income taxation. First is the declaration of property and income for the purpose of taxation, it is important that landlords have the right knowledge on what to declare for the purposes of taxation. Secondly proper financial records should be kept to ensure accurate calculation of taxes and thirdly, filing and payments of the taxes to the Kenya revenue authority and finally auditing. The fact that currently filling of tax returns and claims are done online in Kenya, it makes the process even more complex and time consuming. This also requires one to have a wide knowledge on the financial processes involved, the legal implications of every step and remedies to challenges encountered. Lack of one or a combination of these skills may therefore hinder one from compliance

2.3 Cost of Compliance

Economic theories on taxation hold that, taxpayers are amoral utility maximizes. They are influenced by economic motives such as profit maximization, therefore, they analyze alternative compliance paths for instance whether or not to evade tax. Secondly there is a wide perception by the tax payer that tax is a burden especially the small and medium enterprises (Vihanto, 2000) Therefore, the cost of compliance to taxation play a key role in determining taxpayers willingness to pay tax.

Compliance costs refer to the costs a taxpayer has to bear to gather the necessary information, fill out tax forms etc, can be an additional reason for tax evasion and avoidance.

A study by Atawodi and Ojeka (2012) on the factors that affect tax compliance among small and medium enterprises (SMEs) in North Central Nigeria found out that tax rates are a major challenge facing micro and small enterprises across the globe. Despite the fact that they face other tax related issues, it is the problem of high tax rate that mostly promotes non-compliance and pushes most SMEs to remain in the informal sector. This concurs with another study by Carroll (2011) in Ghana, who found out that the impact tax payments had on women's businesses and livelihoods was varied. Thirty-seven per cent of women surveyed reported that these had no impact on their livelihoods, while in the focus group discussions, some said it had a positive impact on their livelihoods as their taxes pay for hospitals, schools and so on. Others who formed majority reported a reduction in profits as a result of paying tax, and some said their ability to provide for their families was negatively impacted by the amount of tax they had to pay.

The World Bank's (2008) world development indicator for "time to prepare and pay taxes" shows that while preparing and paying taxes requires 210 hours on average in high income OECD countries, the required time extends to 1080 hours in Bolivia and Vietnam and even 2600 hours in Brazil. In Kenya the time for preparing and paying taxes amount to 417 hours in a year. In countries where compliance costs are very high, the probability of the taxpayer complying with such a great variety of taxes is low. This study conceptualizes that, compliance to tax policies implies that, one has to honor their tax payments, fines and penalties. Also one has the responsibility to provide accurate information to the tax authority for the purposes of tax calculations and finally, do tax filling.

Costs are incurred in acquiring and organizing information, hiring internal auditors and purchase of materials and stationeries. A lot of time is spent in calculation and filing of taxes, an average of 210 hours in a year (OECD, 2009). In most cases, this requires hiring of professional services. All these amount to compliance costs in addition to the tax payable which may discourage landlords from complying with rental income taxes.

Based upon the literature reviewed, the following three null hypotheses were constructed:

H_{01} : Landlord's perceptions do not influence compliance with rental income tax policy in Nakuru municipality

H_{02} : The level of knowledge on taxation does not influence landlords' compliance to the rental income tax policy in Nakuru Municipality

H_{03} : Cost of complying with rental income tax policy does not influence landlords' compliance to the rental income tax policy in Nakuru Municipality

3.0 Methodology

The study adopted descriptive survey research design to establish the relationship between dependent variable which is compliance to rental income tax policy and the independent variables for example perception, knowledge and cost. Quantitative data was collected using questionnaires. Convenience sampling technique was used to select respondents from the entire population. This ensured that all landlords were given an equal chance of being selected into the study sample. The target population for this study comprised of landlords identified as operating rental businesses within Nakuru Municipality by the Kenya Revenue Authority. The sample size for this study was determined using the formula by Nassiuma (2000) where a sample size of 94 respondents was arrived at.

To ensure reliability of the study findings, piloting of the questionnaires was conducted among 9 selected landlords in Nakuru Municipality, Cronbach's Coefficient Alpha was computed for the instrument which revealed a reliability coefficient of 0.81. The questionnaires were then declared reliable for the study based on guidelines from (Fraenkel & Wallen, 2000). The formulated hypotheses were tested using the Pearson Correlations generated by SPSS version 17 at 5% level of significance.

4.0 Results and Discussions

4.1. Compliance to Rental Income Tax

The overall rating on compliance indicated that compliance was low. Although 35.1% of the landlords indicated that they rarely submitted tax returns after the stipulated time so they complied most of the times while 16.9% submitted their tax returns on time. On the other hand, 29.9% often failed while 1.3% always failed to file tax returns on time therefore not complying. Majority 54% also indicated that they have never failed to submit tax returns at all, 13.7% often failed to submit tax returns on time while 1.4% have always not submitted tax returns indicating full non compliance.

Another form of non-compliance explored was the accuracy of the income and expenditure amounts submitted to Kenya Revenue Authority for tax computations. The study found out that 43.8% of the landlords indicated that they often understated their incomes while 27.4% did it but on moderate number of occasions, minority 13.7% indicated that they rarely understated their income while 15.1% have never under stated it. Inflation of expenditures is also a common way of non compliance as indicated by 35.5% of the landlords who often overstated their expenses and 14.7% always did it, and 39.7% who rarely overstated their expenses.

Majority of the landlords rated themselves moderately high on the actual payment of taxes since 45.2% rarely failed to remit their taxes on time, however, 23.3% often failed while 5.5% always failed to remit taxes on time.

Outright failure to pay levied taxes was also low since 63.0% of landlords indicated that they have never failed to pay levied taxes.

Table 1: Compliance to Rental Income Tax

	A 5	O 4	M 3	R 2	N 1	Mean Rating
a) Failure to submit a tax return on time	1.3%	29.9%	16.9%	35.1%	16.9%	2.6
b) Non submission of tax returns at all	1.4%	13.7%	2.7%	27.4%	54.8%	1.8
c) Understatement of income	0%	43.8%	27.4%	13.7%	15.1%	3.0
d) Overstatement of deductions	14.7%	35.3%	8.8%	39.7%	1.5%	3.2
e) Failure to pay assessed taxes by due date	5.5%	23.3%	26.0%	45.2%	0%	2.9
f) Outright failure to pay levied taxes	1.4%	21.9%	6.8%	6.8%	63.0%	1.9

A=Always, O=Often, M=Moderate, R=Rare, N=Never

Finally the study asked landlords to indicate their overall honest opinion on their level of compliance on whether they fully (yes), sometimes or never paid rental income taxes as shown on Figure 1.
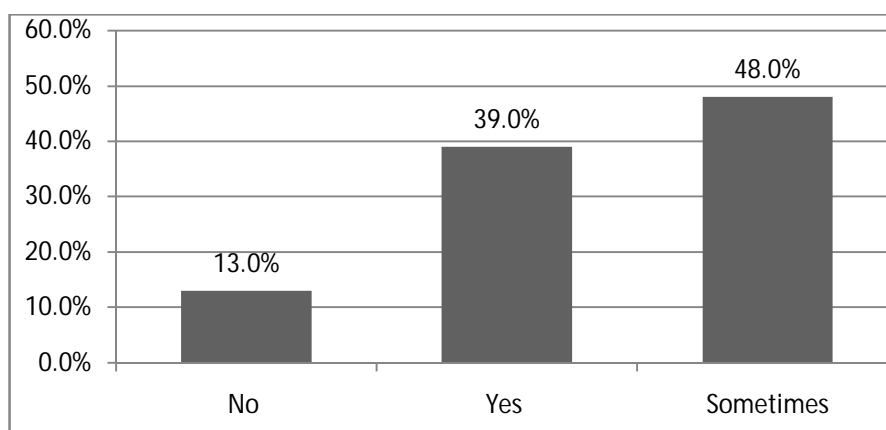
Figure 1: Overall opinion on compliance

The study found out that 39.0% fully complied with the rental income tax while 48.0% said that they complied sometimes, on the other hand 13.0 % were not compliant at all. This closely related to a pilot study by KRA (2012) among landlords in Nairobi's residential neighborhoods which revealed that less than 40 per cent of the landlords and developers had complied with tax requirements. However, it contradicts GIZ (2010) statistics that tax compliance in African countries was less than 23%.

4.2 Perception on Compliance

The results in Table 2 indicate that majority of the landlords who responded 63.6% strongly disagreed and 24.7% disagreed that KRA implements taxation fairly on all sectors of the economy, which implies that they were of the view that KRA was biased towards exploiting some sectors of the economy while they were lenient on others.

Studies by Wenzel (2003) and Kirchler (2007) on the influence of perceptions on distributive fairness and its effects to tax compliance have also shown that, people who perceive their tax burden to be higher than others tend to be less compliant with tax laws. In addition to that majority of the landlords also felt that KRA was too harsh in implementing tax collections. This is according to 40.3% of the landlords who strongly agreed and 32.5% who agreed that KRA is exercising excessive control on taxation, only 5.2% strongly disagreed and 9.1% disagreed. This perception could lead to resistance in the payment of taxes by landlords.

It is the public opinion that the staffs of the KRA are hostile and do not respond to customers' needs promptly when they need help. This is evident from the majority 41.6% of landlords who strongly agreed and 28.6% who agreed that KRA officials are supportive and respond promptly to tax queries.

This creates a very weak relationship and lack of trust for KRA, 42.9% of landlords strongly disagreed, and 31.2% disagreed that there is trust between the KRA and the taxpayers (landlords). This implies that those who pay tax do so for lack of another alternative but not the desire to finance government operations. This concurs with a study by OECD (2010) which revealed that when taxpayers feel distrusted, they may adopt the same attitude towards the revenue body, and this may reduce compliance. According to the landlords, despite the new taxation measures released by the government regularly, the KRA still remains adamant in providing advice and direction on compliance.

This is evident in the landlords' responses where 46.8% strongly disagree and 29.9% disagreed that KRA provides advice to taxpayers who are in need. The public also does not trust that government makes good utilization of taxpayer's money according to 61.9% of the respondents who strongly disagreed that the government puts into good use taxpayers money. These findings were in line with Carroll (2011) in Tanzania who established that citizens' attitudes and tax-paying behaviors change significantly after service provision improved.

Table 2: Landlords perceptions on compliance with rental income tax policy

Perceptions	SA (5)	A (4)	NS (3)	D (2)	SD (1)	Mean Rating
a) The KRA implements taxation fairly across all sectors	0%	3.9%	7.8%	24.7%	63.6%	1.5
b) KRA is exercising excessive control on taxation	5.2%	9.1%	13.0%	32.5%	40.3%	2.1
c) KRA officials are supportive and respond promptly to tax queries	1.3%	9.1%	19.5%	28.6%	41.6%	2.0
d) There is mutual trust between KRA and landlords	0%	7.8%	18.2%	31.2%	42.9%	1.9
e) KRA provides advice to tax payers who are in need	2.6%	11.7%	9.1%	29.9%	46.8%	1.9
f) The government has put taxpayers money into good use	0%	13.0%	15.6%	19.5%	61.9%	1.8

SA=Strongly Agree, A=Agree, NS=Not Sure, D=Disagree, SD=Strongly Disagree

4.3 Knowledge on Taxation

The results in Table 3 indicate that 32.5% of the landlords rated themselves good and 26.0% fair on the knowledge and ability to perform basic tax calculations. However, over one third considered themselves unable to do basic tax calculations, 24.7% rated themselves poor while 10.4% very poor. Generally landlords scored average on ability to perform basic tax computations at a mean rating of 3.0. More than half 53.2% of the landlords also considered themselves fair in knowledge to file tax returns while 22.1% considered themselves good and 5.2% very good. However, a small segment 16.6% considered themselves poor and 2.6% very poor on knowledge and ability to file returns.

In order to comply with taxation it is important that one has the basic understanding on the rules, regulations and policies government taxation in particular market segments. However majority of the landlords 44.2% rated themselves poor and 24.7% very poor on the laws guiding the payment of rental income tax, 29.9% considered themselves fair while 1.3% were good.

This implies a poor understanding on the provisions of rental income taxation which to a large extent may hinder compliance. Knowledge on claim procedure was also low as evidenced by majority of the landlords who rated themselves fair, 33.8% poor and 15.6% very poor. Knowledge on tax planning among landlords was also moderate, 45.5% rated themselves poor while 29.9% were fair.

Finally knowledge on tax appeal procedures was rated low among landlords where 40.3% of the landlords rated themselves poor and 28.6% very poor only a few, 6.5% rated themselves good.

Generally, the scores on knowledge on taxation among landlords ranged between low and moderate but landlords were least knowledgeable on understanding of the laws guiding payment of rental income tax, and procedures for appealing KRA decisions both at a mean rating of 2.1.

However, majority have some basic knowledge on tax computation at a mean rating of 3.0.

Table 3: Rating on Knowledge on Taxation

Knowledge of Taxation	VG 5	G 4	F 3	P 2	VP 1	Mean Rating
a) Calculation of tax	6.5%	32.5%	26.0%	24.7%	10.4%	3.0
b) Filing returns	5.2%	22.1%	53.2%	16.9%	2.6%	3.1
c) Understanding of the laws guiding payment of rental income tax	0.0%	1.3%	29.9%	44.2%	24.7%	2.1
d) Claim procedures	0.0%	7.8%	42.9%	33.8%	15.6%	2.4
e) Tax planning	6.5%	6.5%	29.9%	45.5%	11.7%	2.5
f) Procedures for appeal	0.0%	6.5%	24.7%	40.3%	28.6%	2.1

VG=Very Good, G=Good, F=Fair, P=Poor, VP=Very Poor

4.4 Costs Associated with Compliance

According to results in Table 4, auditing costs according to 65.8% of the landlords were high while 27.6% considered auditing costs as moderate, 6.5% were of the contrary opinion that auditing costs were low.

The actual tax payable for rental income was considered by majority 42.1% as high and 22.4% as very high; of the contrary view were 22.4% who considered these costs low.

Costs associated with, the time spent on tax calculations were considered moderate by majority 43.4% of the landlords and low by 35.5%, minority 21.1% found these costs high which indicates that time may not be a significant factor hindering tax compliance. Another different cost associated with compliance is the hiring of personnel both tax experts and internal staff for tax computations. Majority 55.3% of the landlords were of the opinion that the cost of hiring tax professionals was high while 10.5% indicated very high, 13.2% found it moderate, a few indicated that 7.9% indicated that the costs were low and 13.2% very low.

Similarly, the cost of hiring staff in charge of record keeping and tax computations were also considered high by 64.5% and very high by 11.8%.

Generally landlords considered the costs of complying with the rental income tax high, both direct and indirect costs.   The major costs identified that could affect compliance were the tax levied at a mean of 3.7, followed by the cost of auditing, cost of hiring professionals, and the need to hire staff for book keeping and tax computations at a mean of 3.6.

Table 4: Costs associated with compliance

	VH 5	H 4	M 3	L 2	VL 1	Mean Rating
a) Auditing costs	0.0%	65.8%	27.6%	6.5%	0.0%	3.6
b) Actual tax payable	22.4%	42.1%	22.4%	13.2%	0.0%	3.7
c) Time lost in tax calculations	0.0%	21.1%	43.4%	35.5%	0.0%	2.9
d) Cost of hiring professionals	10.5%	55.3%	13.2%	7.9%	13.2%	3.4
e) Hiring staff to do tax calculations and record keeping	11.8%	64.5%	6.6%	10.5%	6.6%	3.6

VH=Very High, H=High, M=Moderate, L=Low, VL=Very Low

4.5 Hypothesis testing

H_{01}: Landlord's perceptions do not influence compliance with rental income tax policy in Nakuru municipality

The first hypothesis of this study was: landlord's perceptions do not influence compliance with rental income tax policy in Nakuru municipality.

To test this, spearman correlation analysis was done between the overall landlords' perception and their compliance to rental income tax. The results are shown on Table 5.

Table 5: Spearman correlation on perception and compliance

		Level of Compliance
Landlords overall perception	Correlation Coefficient	0.233*
	Sig. (2-tailed)	0.047
	N	68

*. Correlation is significant at the 0.05 level (2-tailed).

Results of the correlation tests indicated that there was a positive correlation between landlords perception and compliance $r_s = 0.233$, P < 0.05. We reject the null hypothesis and conclude that landlord's perceptions influence compliance with rental income tax policy in Nakuru municipality. Landlords with negative perceptions on the rental income tax policy are more likely not to comply.

This concurs with findings by Kirchler (2007) that although tax payer perceptions vary from one individual to another, their perceptions of the tax system and Revenue Authority highly affects their level of compliance. In Ghana, Carroll (2011) also found out that despite the fact that more than half of the women surveyed were aware that they have to pay taxes, more than 50 per cent did not enjoy' the benefits of paying it.

H$_{02}$:The level of knowledge on taxation does not influence landlords' compliance to the rental income tax policy in Nakuru Municipality

The second hypothesis of this study was: The level of Knowledge on taxation does not influence landlords' compliance to the rental income tax policy in Nakuru Municipality. This was tested by correlating the level of landlords' knowledge on rental income tax policy and their level of compliance. The results are presented on Table 6.

Table 6: Spearman correlation between level of knowledge and compliance

		Level of Compliance
Landlords level of knowledge on rental income tax	Correlation Coefficient	0.421*
	Sig. (2-tailed)	0.037
	N	68

*. Correlation is significant at the 0.05 level (2-tailed).

Results of the correlation tests indicate that there was a positive correlation between landlords level of knowledge on the rental income tax policy and their level of compliance with the policy, $r_s = 0.421$, P < 0.05. This implies that landlords who were more knowledgeable on the policy showed higher levels of compliance therefore it can be concluded that knowledge influences compliance

Therefore we reject the null hypothesis and conclude that the level of knowledge on taxation influences landlords' compliance to the rental income tax policy in Nakuru Municipality. This is in agreement with Pope and Abdul-Jabbar, (2008) who found out that, the size and ability to fulfill tax obligations make it hard for small businesses to comply since most have limited access to resources and inadequate expertise to comply with diverse and complicated regulations.

Palil (2010), states that, in addition to tax education, knowledge about tax laws also plays a major role in determining taxpayers' compliance behaviour.

H$_{03}$: Cost of complying with rental income tax policy does not influence landlords compliance to the rental income tax policy in Nakuru Municipality

The third hypothesis of the study was: Cost of complying with rental income tax policy does not influence landlords' compliance in Nakuru Municipality.

This hypothesis was tested by correlating the landlords perceived cost of compliance with their level of compliance to rental income tax policy. The test results are presented on Table 7.

Table 7: Spearman Correlation between perceived cost and compliance

		Level of Compliance
ost of compliance	Correlation Coefficient	0.226*
	Sig. (2-tailed)	0.046
	N	68

*. Correlation is significant at the 0.05 level (2-tailed).

Results of the correlation tests indicated that there was a positive correlation between landlords' perceived costs of compliance and their level of compliance with the rental income tax policy, $r_s = 0.226$, $P < 0.05$. This means that landlords who perceived compliance as a costly undertaking showed higher levels on non-compliance. Thus we reject the null hypothesis and conclude that the perceived cost of complying with rental income tax policy influences landlords' compliance with the rental income tax policy. Chipeta (2010) while studying on the ethics of tax evasion also identified tax rates as one of the causes of tax evasion, the study pointed out that a higher tax rate increased taxpayers' burden and reduced their disposable income therefore, the probability of evading tax was higher. This is also in line with economic theories on taxation which hold that, taxpayers are amoral utility maximizes. They are influenced by economic motives such as profit maximization; therefore, they analyze alternative compliance paths.

Conclusions

The study therefore concludes that: generally the perception of landlords on rental income taxation and the taxman was negative and this highly influenced their non compliance. Taxpayers do not consider the implementation of this taxation in good faith and also feel that taxes are not put into good use.

Therefore they only pay tax only when necessary and are ready to use any alternative to evade or underpay taxes. This highly influences their compliance. The knowledge on the rental income tax policy also remains low especially on the provisions of the policy itself. This highly influences non compliance. However, most of the landlords have basic understanding on tax calculations and procedures for filing returns. The cost of compliance also played a key role in determining the level of compliance. The costs includes both direct taxes and indirect tax costs such as auditing costs, costs of hiring personnel and experts for the purposes of compliance. Perception, knowledge and cost are major components in compliance to rental income tax policy.

Recommendations

The study therefore recommends that Kenya Revenue Authority should embark on public awareness campaigns to educate the public on their role and responsibilities in taxation rather than approaching the matter from a legal obligation perspective. This will create a sense of responsibility in compliance rather than fear for non-compliance. Putting in place active customer oriented information desk is also necessary. Further the Kenya Revenue Authority should put in more robust measures to educate the public and the landlords in particular on the provisions of the rental income tax policy through regular training programmes, workshops, and seminars.

Landlords should also be educated on basic tax calculations to reduce the indirect costs associated with compliance with this policy.

Loopholes that allow corruption to thrive should be sealed so as the tax payers can feel that their taxes are put into good use. These would increase the compliance level.

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