AN ANALYSIS OF FACTORS AFFECTING TAX COMPLIANCE IN THE REAL ESTATE SECTOR IN KENYA: A CASE STUDY OF REAL ESTATE OWNERS IN NAKURU TOWN

OSEBE RAWLINGS PETER

GMB/NE/0203/01/12

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE OPTION) OF THE SCHOOL OF BUSINESS, KABARAK UNIVERSITY

OCTOBER, 2013

DECLARATION

This research project is my own original work presented to Kabarak University. The work has not been presented for award of a degree or any other award in any University or Institution of higher learning.

OSEBE RAWLINGS PETER

REG. NO. GMB/NE/0203/01/12

Signature……………………………….. Date………………………….

Declaration by the Supervisors

This research project has been submitted for examination with our approval as University supervisors.

DR. NZIOKI, PAUL MUOKI

Signature …………………………… Date ………………………………

Lecturer

School of Business

Kabarak University

DR. SYMON KIPROP

Signature…………………………… Date ………………………………

Lecturer

School of Business

Kabarak University

DEDICATION

I dedicate this work to the almighty God for without him I could not have made this far. My family too, this is for you.

ACKNOWLEDGEMENT

There are many people i would like to thank for enabling me to reach this stage. First, I would like to express my deepest and sincere gratitudes to my principal supervisor Dr. Paul Muoki Nzioki, Lecturer, School of Business, Kabarak University and my second supervisor Dr. Symon Kiprop, Lecturer, School of Business Kabarak University, without whose encouragement, scholarly support and commitment of time, this thesis would not have become a reality.

I would like to acknowledge the tremendous support I received from my collegues, for their encouragement and timely advice at a very critical stage in my research.

My thanks goes to the management and entire staff of Kabarak University for the support I have received over the years. There are many others who contributed in some way to this work and constraints of space do not permit me to mention them by name. But I will always remember the help I received in completion of this research project.

ABSTRACT

The main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulations of a tax system. Real estate sector is one of the fastest growing sectors of the economy in Kenya yet taxes collected from this sector have continually been on decline for the last five years. The study specifically sought to determine the effect of tax compliance cost, tax education and knowledge, fines and penalties and perceived opportunity for tax evasion on tax compliance in the Real Estate sector. The study was guided by Theory of Planned Behavior. The study used explanatory research design. A sample size of 271 was drawn from the target population of 841 real estate investors. Data was collected using structured questionnaire, coded, keyed and analyzed quantitatively using both descriptive and inferential statistics. The study findings showed 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. The study provides some preliminary evidence that imposing fines/penalties and provision of tax knowledge and education among real estate investors will improve tax compliance. Conversely, high compliances cost and high opportunity for tax evasion will reduces tax compliance among real estate investors. Thus, tax compliance cost should be in a way that does not encourage taxpayers to evade tax. There should be stiff enforcement of fines and penalties to deter tax evasion. Additionally, tax authorities should simplify processes involved in filling of returns and payment of taxes.

Key words: Taxation, Tax Compliance, Real Estate

TABLE OF CONTENT

LIST OF FIGURES

LIST OF TABLES

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter contains the background of the study where the subject at hand is introduced, statement of the problem stated, objectives of the study outlined, research hypothesis highlighted, significance of the study explained and scope of the study mentioned.

1.1 Background of the Study

Taxes play an important role in the budget of any economy and one of the main reasons why the government imposes taxes is to generate income to manage the economy and redistribute resources. Over the years, the Kenya government has undertaken various revenue administration reforms aimed at enhancing revenue collection (Masinde and Makau, 2010).

One of the measures that have been implemented in order to increase revenue collection in Kenya was the introduction of self-assessment systems (SAS) in 1992. The objectives of this system was to increase voluntary compliance, reduce tax authorities' burden of assessing tax returns and increase tax collection efficiency (reduce tax collection costs) (Masinde and Makau, 2010).

However despite various administrative reforms, levels of tax compliance have remained quite low. A study conducted by KRA, KIPPRA and the Treasury, based on 1999/2000 data revealed that VAT payment compliance was as low as 55% while return lodgment compliance was 65%(Masinde and Makau, 2010).

Tax noncompliance is a substantive universal phenomenon that transcends cultural and political boundaries and takes place in all societies and economic systems. There many studies that explain the behavior of tax compliance in a more realistic situation. They focus on the determinants of tax compliance, respectively on economic and non-economic factors (Nicoleta, 2011).

Tax non-compliance is an area of concern for all government and tax authorities, and it continues to be an important issue that must be addressed. Regardless of time and place, the main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulations of a tax system. In contrast to the majority of employed people - who in many countries are paid net salaries with taxes being deducted at source –real estate investors often need to self-assess and self-report their income and pay taxes "out of their pocket." Real estate investors not only pay their income tax but need to take account of various types of business taxes such as corporate tax, property taxes, and payroll taxes; they need to collect sales taxes such as VAT; and they need to withhold taxes such as personal income taxes in the case of having at least one employee (Christensen et al., 2001).

While previous studies on tax compliance have focused on the general factors affecting tax compliance, the focus of this study is on the factors affecting tax compliance in the real estate sector. The study specifically sought to determine the effect of tax compliance cost, tax education and knowledge, fines and penalties and perceived opportunity for tax evasion on tax compliance in the real estate sector.

1.2 Statement of the Problem

The Government of Kenya relies on tax revenues both for its recurrent and development expenditure. In pursuit of this, Kenya Revenue Authority (KRA) has been mandated to assess and account for all taxes due to the government (KRA Act cap 469). Tax compliance level which is internal factor affecting tax revenue not only undermines tax administration infrastructure but also makes the tax base narrow and inequitable. When the level of compliance is low, government revenue collections always fall behind targets. During the 2011/2012 financial year, KRA was able to collect Shs 707.4 billion against a target of 717 billion (KRA Fourth Quarter report 2011/2012). According to figures from KRA, rental income declaration declined from 5 Billion in 2007 to 1 Billion in 2009.This is despite the imposition of VAT on commercial rent by the Finance Act of 2007/2008 that would have led to higher tax revenue. In the Budget speech of 2012/2013, the Finance Minister instructed KRA to intensify revenue collection in this sector. There is therefore a need to assess the level of tax consciousness, review factors causing non-compliance and capture the expectations of the taxpaying public with a view to formulating strategies aimed at enhancing tax collection in this sector. It is against this background that this study has been undertaken with the aim of analyzing factors affecting tax compliance in the real estate sector and recommend measures to be put in place by the government and KRA to enhance tax collection in this booming sector.

1.3 Objectives of the Study

1.3.1 General Objective

To analyze the factors affecting tax compliance in Real Estate sector in Kenya.

1.3.2 Specific Objectives

i. To determine the effect of compliance cost on tax compliance level

ii. To examine the effect of tax knowledge and education on tax compliance level

iii. To assess the effect of fines and penalties on tax compliance level

iv. To evaluate the effect of perceived opportunity for tax evasion on tax compliance level

1.4 Research Hypotheses

The following hypotheses will be tested:

H_{O1}: Compliance cost has no significant effect on tax compliance level

H_{O2}: Tax knowledge and education have no significant effect on tax compliance level

$H_{O3:}$ Fines and Penalties have no significant effect on tax compliance level

H_{O4}: Perceived opportunity for tax evasion has no significant effect on tax compliance level

1.5 Significance of the Study

The government raises tax revenues to finance public security, health, education, and infrastructure. In this regard, the government has to ensure that its source of revenue is effective and efficient. The findings of this study will help the government to institute the necessary legislative and administrative measures to enhance tax compliance in cases of voluntary compliance and enforce compliance in cases of non-compliance.

Kenya Revenue Authority is interested in maximizing revenue collections and thus will find the study useful in instituting measures, policies, and initiatives to address or minimize non-compliance and thus enhance revenue collection.

Tax Practitioners assist taxpayers to interpret the complicated tax law and help them to apply the law to their tax returns. This study is of help to practitioners since it helps them understand various challenges faced by taxpayers towards voluntary compliance and help them advice their clients accordingly.

The study is of importance to the general public since it will highlight various challenges faced by the taxpayers towards compliance and the possible solutions to these challenges.

To other researchers the survey is a basis for further research, more so, when seeking to research on enhancing revenue collection through other systems that either supplement or substitute self-assessment system.

1.6 Scope of the Study

The study surveyed tax compliance status of Real Estate investors in Nakuru Town between the periods 2007 to 2011.

1.7 Limitations of the study

Non cooperative respondents especially property owners who were not willing to discuss personal finance issues. This was overcome by instilling confidence in them through assurance that the information is purely for academic purposes. Another challenge was accessing personal tax files of the respondents to determine their compliance levels. This was overcome by seeking approval from KRA management after convincing them of the importance of this study to them.

1.8 Operational definition of terms

Tax Compliance: This refers to adherence to the administrative rules of lodging and paying taxes on time. This includes compliance with the reporting requirements, procedural rules and regulations. This entails filing tax returns on time, reporting all the income and claiming the right deductions and where taxes are due making tax payments on time.

Tax Rates: Tax rates refer to the rate at which a business or person is taxed on income. It also refers to the rate of tax on goods and services.

Tax Audits: This is an exercise undertaken by tax authorities to determine if a taxpayer paid the correct amount of tax.

Level of Actual Income: In business, revenue or turnover is income that a company receives from its normal business activities, usually from the sale of goods and services to customers.

Fines and Penalties: A fine or penalty is money paid usually to a government authority, as a punishment for a crime or other offence.

Tax incentives: A tax incentive is an aspect of the tax code designed to incentivize, or encourage, a certain type of behavior.

Real Estate: Refers to land plus anything permanently fixed to it, including buildings, sheds and other items attached to the structure. Real estate can be grouped into three broad categories based on its use i.e. residential, commercial and industrial.

Tax avoidance: Refers to the legal reduction in tax liabilities by practices that take the full advantage of the tax code, such as income splitting and postponement of taxes for example through contribution to a Home Ownership Savings Plan.

Tax evasion: Refers to illegal and intentional actions taken by individuals to reduce their legally due tax obligations. Individuals and firms can evade taxes by underreporting incomes, sales, or wealth, by overstating deductions or by failing to file appropriate tax returns.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter covers the concept of Tax compliance, tax compliance models, Factors Affecting Tax Compliance and Conceptual Framework.

2.1 The Concept of Tax Compliance

Tax compliance is a major problem for many tax authorities and it is not easy task to persuade taxpayers to comply with tax requirements even though 'tax laws are not always precise' (James and Alley 2004).The definition of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law (James 1999).However, like many such concepts, the meaning of compliance can be seen as a continuum of definitions. One suggestion is that the degree of non-compliance may be measured in terms of the 'tax gap'. Tax gap represents the difference between the actual revenue collected and the amount that would be collected if there was 100% compliance (James 1999).

The exact meaning of tax compliance has been defined in various ways. For example, Andreoni *et al*,.(1998) defined tax compliance as the taxpayers willingness to obey tax laws in order to obtain the economy equilibrium of a country. Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes. A wider definition of tax compliance, defined in 1978 by Song and Yarbrough suggested that due to the remarkable aspect of the operation of the tax system in the United States and that it is largely based on self-assessment and voluntary compliance, tax compliance should be defined as taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place.

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 pay the right amount of taxes on time (Internal Revenue Service (IRS), 2009; Australia Tax Office (ATO), 2009; Inland Revenue Board of Malaysia (IRB), 2009).

Alm (1991)) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. According to Mohd *et al* (2011) tax compliance is defined as the taxpayer's willingness to comply with tax laws, declare the correct income, claims the correct deductions, relief and rebates and pays all taxes on time.

Allingham and Sandmo (1972) described tax compliance as an issue of 'reporting an actual income' and also claimed that compliance behavior was influenced by a situation whereby taxpayers have to make a decision under uncertainty i.e. either taxpayers would enjoy tax savings due to under reporting income or have to pay on the undeclared amount at a penalty rate which is higher than they would have paid had the income been fully declared at the correct time.

Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Mohd *et al*, .2011). Furthermore, tax compliance has also been segregated into two perspectives, namely compliance in terms of administration and compliance in terms of completing (accuracy) the tax returns (Chow, 2004). Tax Compliance in pure administrational terms therefore includes registering or informing tax authorities of status as a taxpayer, submitting a tax return every year (if required) and following the required payment time frames. In contrast, the wider perspective of tax compliance requires a degree of honesty, adequate tax knowledge and capability to use this knowledge, timeliness, accuracy, and adequate records in order to complete the tax returns and associated tax documentation (Mohd *et al*,. 2011). The wider perspective of compliance becomes a major issue in a self-assessment system since the total amount of tax payable is highly dependent on the levels of tax compliance this perspective reveals, although it is inevitable that tax authorities will seek to 'influence' the areas taxpayers have influence over determining to reduce the risks of non-compliant behavior they face otherwise e.g. through continuously conducting tax audits of different sorts and other means such as various compliance influencing activities including tax education.

Some literature like Allingham and Sandmo (1972), and Andreoni *et al*,. (1998) therefore characterize and explain tax compliance as the output of interrelation among variables including perception of equity, efficiency and incidence (public finance views).

Tax enforcement aspects like penalties and the probability of detection also relate to tax compliance while other labor market behavior factors including an individual's wages and tax bracket also contribute to tax compliance (Kirchler, 2007).

2.1.1 Tax Non-Compliance

Tax non-compliance is defined as failure to comply with tax laws and/or report incorrect income, the act of claiming incorrect deductions, relief and rebates and/or paying the incorrect amount of tax beyond the stipulated time frame (Mohd *et al*, .2011).Noncompliance is also perceived as the failure of a taxpayer to report (correctly) the actual income, claim deductions and rebates and remit the actual amount of tax payable to the tax authority on time (Kirchler, 2007).

Taxpayers vary in terms of the opportunities available to them in overstating expenses and understating incomes (Chau and Leung, 2009).Greater tax noncompliance opportunity generally result from self-employment and income sources not subject to withholding taxes. Taxes can be classified into two main types: direct and indirect taxes. Direct taxes mean the burden (incidence) of tax is borne entirely by the entity that pays it, and cannot be passed on to another entity; for example, corporation tax and individual income tax.

Indirect taxes are typically the charges that are levied on goods and services (consumptions) for example VAT (Value Added Tax), sales tax, and excise tax and stamp duties. Indirect taxes are not levied on individuals, but on goods and services. Customers indirectly pay this tax in the form of higher prices. For example, it can be said that while purchasing goods from a retail shop, the retail VAT is actually paid by the customer. The retailer eventually passes this tax to the respective authority.

The indirect tax actually raises the price of the goods and the customer's purchase by paying more for that product. Unlike indirect tax, direct taxes are based on 'ability to pay' principle but (by being very obvious to the taxpayer) they sometimes work as a disincentive to work harder and earn more because that would mean paying more tax (Mansor *et al*,2005).Individuals do not like paying taxes, and they take a variety of actions to reduce their tax liabilities. Some of these actions can be classified as tax avoidance, which is the legal reduction in tax liabilities by practices that take the full advantage of the tax code, such as income splitting and postponement of taxes for example through contribution to a Home Ownership Savings Plan.

The other classification of actions is tax evasion which consists of illegal and intentional actions taken by individuals to reduce their legally due tax obligations. Individuals and firms can evade taxes by underreporting incomes, sales, or wealth, by overstating deductions or by failing to file appropriate tax returns. In every jurisdiction, tax authorities are empowered to collect revenue from taxpayers. Although there are a number of taxpayers who have reported their income and paid their tax liabilities properly, there are a few taxpayers who have not done so.

For its part the government must take actions to ensure compliance with tax laws. In Kenya self-Assessment System was introduced in 1992 and the tenets of this system is voluntary compliance. Tax compliance can be divided into two categories namely:-

Administrative Compliance: This refers to compliance with the administrative rules of lodging and paying taxes on time. This includes compliance with the reporting requirements, procedure and regulations.

Technical Compliance**:** This refers to compliance in the computation of taxes payable in accordance with the technical requirements or provisions of the tax laws and paying the right amount of tax.

Decades of empirical work on tax compliance has produced awareness of the complexity of tax compliance and non-compliance globally. (Masinde and Makau, 2010) point out that tax compliance itself is now recognized as multifaceted construct. Many scholars such as Jackson *et al*,.(1986) have put forward some explanatory variables in analysis of tax compliance behavior.

In the midst of enormous diversity, a notably consistent theme over the past two decades of tax research has focused on identifying the costs, be they material, social or psychological, which would deter would-be evaders and counter the lure of the benefits of evasion. A preoccupation with identifying costs and benefits with the goal of developing a risk profile for tax collection agencies has meant that less attention has been directed towards managing non-compliance once it has occurred (Masinde and Makau 2010).

Based on the available literature, the dominant environmental factors currently shaping the performance of revenue administrators in developing countries are globalization, large informal sectors and limited administrative capacity. Tax policy and administrative reforms generally have one or several of the following objectives: Increasing the equity of the tax system, creating an enabling environment for private sector development, Increasing revenue collection or compliance.

On the implementation side, the challenge to coordinate policy reforms with parallel reforms in tax administration has rarely been fully addressed yet the menu of administrative reform options has been greatly enriched with new approaches to organizational design, taxpayer services, ICT solutions, human resource incentives and formal anti-corruption strategies. Compliance management is no longer based purely on an enforcement –focused approach, but on a combination of enforcement and enhanced taxpayer services.

The issue of tax compliance is extremely important both to those concerned with the key role the increased tax yields can play in restoring macroeconomic balance and those concerned with tax policy and its effects on the economy in general. The level of tax collection though important is an unsophisticated measure of the effectiveness of tax administration .A more accurate measure is the level of compliance. Facilitating compliance involves such elements as improving services to taxpayers by providing clear instructions, easy to fill forms and assisting and educating them on their duties and obligations.

Monitoring compliance requires establishing and maintaining current accounts of taxpayers and management information systems covering both ultimate taxpayers and third party agents such as banks involved in the tax system as well as appropriate and prompt procedures to detect and follow up on non-filers, nil filers and delayed payments.

Deterring noncompliance requires establishing both a reasonable risk of detection as well as applying penalties effectively. The ideal approach is to combine these measures so as to maximize their effect on compliance as it were, to move a country from a "low compliance to a high compliance environment"(Masinde and Makau 2010).

2.2 Tax Compliance Models

In explaining taxpayer's compliance behavior, that is, the reasons why taxpayers comply or do not comply, there are two broad approaches which researchers have used to explain evasion behaviors' namely Fiscal Psychology Models and Economic Deterrence Models

2.2.1 Fiscal Psychology Models

These theories of tax compliance assume that psychological factors including moral and ethical concerns are also important to taxpayers. Among these theories is the Theory of Planned Behavior which was developed by Ajzen in 1991.

This theory is a successor to the Theory of Reasoned Action of Fishbein and Ajzen (1975), Ajzen and Fishbein (1980) and Ajzen (1988).This theory tries to explain human behavior.

According to this theory, behaviors of the individuals within the society are under the influence of definite factors, originate from certain reasons and emerge in a planned way.

The ability to perform a particular behavior depends on the fact that the individual has a purpose towards that behavior (behavioral intention).Behavioral intention in turn depends on three factors that is Attitude towards the behavior, Subjective norms and Perceived behavioral control. These three factors are also under the influence of behavioral beliefs, normative beliefs and control beliefs.

The focus of this theory therefore is on the taxpayer's morals and ethics. The theory suggests that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize on increased audits and penalties as solutions to compliance issues, psychological theories lay emphasis on changing individual attitudes towards tax systems.

2.2.2 Economic Deterrence Models:

There are no fully developed economic theories addressing the issue of tax compliance but there are various models which have been developed to address the issue.

These models of tax compliance are based on deterrence theory. Deterrence theory is a theory under criminology and was developed by Becker (1968). This theory 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. This is founded in the idea that all individuals are aware of the difference between rights and wrong and the consequences associated with wrong or criminal behaviors. Proponents of deterrence theory believe that people choose to obey or violate the law after calculating the gains and consequences of their actions.

Economic Deterrence model, one of the economic based models was developed by Allingham and Sandom (1972) who extended the expected utility model of criminal activity originated by Becker (1968) to the tax arena.

This model incorporates the concept of an economically rational taxpayer who will evade taxation as long as the pay-off from evading is greater than the expected cost of being caught. Allingham and Sandmo (1972) proposed a seminal economic deterrence model 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.

2.3 Compliance Cost

The costs of complying with tax obligations have generated widespread interest among academics, government policy makers and business organizations. Contemporary research in the area was pioneered by Sandford who examined the cost of complying with Valued Added Tax (VAT) and other taxes for taxpayers in the United Kingdom (UK) in the 1970s and 1980s (C Sandford, M Godwin and P Hardwick, 1989).

Sandford (1989) defined Tax compliance costs as the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. Most published research adheres to the convention established by Sandford and distinguishes between gross compliance costs and net compliance costs.Net compliance costs are defined as the gross compliance costs less tax compliance benefits which include tax deductibility benefits, cash flow benefits, and managerial benefits. Tax deductibility benefits result from the fact that business taxpayers are entitled to tax deductions for some of the compliance costs they incur. Cash flow benefits arise because of the difference between the time when the tax is collected by the taxpayer and the time when it is actually handed over to the tax authorities (B Tran-Nam et al, 2000). Managerial benefits may be derived by the taxpayers, in particular business taxpayers, where the more stringent record keeping requirements imposed by tax compliance result in the production of managerial accounting information available for decision making and other business purposes (McKerchar and Walpole,2006).

Another argument to investigate these compliance costs is that high tax rates and complex tax legislations can induce fraud. Earlier research (Franzoni, 1998) concluded that companies will create a kind of resentment against authorities who impose too high levies and too complex tax systems. This will incentivize (illegal) tax avoiding systems because of the high financial advantages and the low condemnation rates (Franzoni, 1998). In addition, because of the complexity of the system, the companies often need to rely on external tax professionals who by means of sophisticated tax avoidance engineering will minimize tax payments (Franzoni, 1998).

Finally, the general introduction of the VAT regime in almost all countries has raised interest in identifying and quantifying the impact of the new system on tax compliance costs (Evans, 2003). Acknowledging the fact that high compliance costs diminish competitiveness of the country in terms of taxation attractiveness, public services have become increasingly interested in ways to simplify their tax legislation systems.

Slemrod and Yitzhaki (1996) identified compliance costs as one of the three components of the social costs of taxation. These social costs can be paraphrased as costs incurred by society in the process of transferring purchasing power from the taxpayers to the government. The other elements are administrative costs and deadweight efficiency loss from taxation.

Administrative costs are the costs that exist besides the occurrence of compliance costs that are borne by the companies. These costs are cited as costs that the government must also take into account as a public cost to ensure that the tax legislation is obeyed. For example, it obtains the costs to collect taxes and to maintain the system to collect the taxes. These are to some extent substitutable, for example when a country transfers from a system where the tax office calculates the tax owed, to a self- assessment system. As a consequence an increased burden arises on the company. Together, the compliance costs and administrative costs are defined as the operating cost of taxation (Evans, 2001).

Deadweight efficiency loss from taxation can be defined as opportunity costs. If the compliance costs were no longer necessary, they could be used to recruit more staff, acquire additional assets or introduce higher wages for employees (Sandford, Godwin, Hardwick and Slemrod, 1989).

In general, there are several possible ways to interpret compliance costs. Firstly, compliance costs can be divided into three parts: time spent, cash expenses and psychological costs. The total time spent contains employee costs (in-house staff) and external costs (fees paid to outside accountants and other advisors). Hours by internal staff can be converted in expenses by means of an average hour rate. The psychological costs refer to the effects upon a taxpayer having to deal with tax affairs, for example mental stress. However, these costs are difficult to measure. Therefore, they are disregarded in most investigations. These compliance costs include costs that are incurred by a company, but are beyond the control of its management (Hijattulah and Pope, 2008).

Secondly, another distinction can be made between internal and external costs (Blumenthal and Slemrod, 1996). Internal costs are generated by the accounting and administration department of the company. Internal staff will prepare all information and documents for the fiscal authorities and consult external advisors when necessary. External costs are generated by the services from lawyers, accountants and other advisors. These external costs are much easier to identify and to quantify. Internal costs are more difficult to quantify since it involves subjective estimations of the time spent on different tax activities. Some studies have revealed that in most companies the internal compliance costs are substantially more important than the external (Hijattulah and Pope, 2008).

2.4 Tax Knowledge and Education

The influence of knowledge on compliance behaviors has been assessed in various researches. Knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Kasipillai, Norhani, and Noor, 2003).

Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010). Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment (Eriksen&Fallan, 1996). Self assessment system (SAS) requires taxpayers to understand all the laws and regulations that govern taxation. This is necessary because taxpayers will have to calculate themselves the amount of tax they need to pay and make the payment (Kasipillai, 2003). Taxpayers will readily accept any new system introduced, like the SAS, if they have ample knowledge to understand the system. Thus, education programs organized by the tax authority or other public education institutions are needed to enhance taxpayers' ability to understand Self assessment system and to increase their confidence in fulfilling their responsibilities as taxpayers (Mohani, 2001).

Greater education is directly linked to a likelihood of compliance. Educated taxpayers may be aware of non compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance (Chan et. al. 2000). Chan *et. al*. also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2001). Taxpayers who have attended a tax course would be expected to have better tax knowledge and tax compliance attitude in comparison with taxpayers who have never attended a tax course (Mohd, 2010). Hite and Hasseldine (2001) highlighted that tax authority need to emphasize teaching tax courses because of impact of education on compliance.

2.5 Fines and Penalties

Fines and penalty rates may substitute each other due to their multiplicative linkages as long as neither of them is set to zero (Kirchler et al 2007). Higher fines simply make evading taxes more hazardous for taxpayers and should deter them from evasion.

Empirically, the deterrent effect of fines could not always be supported. The observed effects were weaker than expected and some studies even suggest that an increase of penalties can have undesirable effect and result in more tax avoidance (Kirchler et al, (2007).

Alm et al., (1992) supports the evidence that fines do affect tax compliance though the impact was virtually zero. Friedland *et al*,. (1978) compliance was strongly affected by the amount of fines than by audit probabilities. Several studies however found no support for the deterring effects of fines since it was weak (Andreoni, 1998).Some of the findings suggest that a policy based on deterrence is effective only in combination with frequent Audits (Kirchler et al., 2007).

From the tax administration viewpoint, researchers have concluded that compliance could be influenced by educating taxpayers of their social responsibilities to pay and thus their intention would be to comply. As a behavior problem, tax compliance depends on the cooperation of the public. There are greater gains in assisting compliant taxpayers meet their fiscal obligations rather than spending more resources pursuing the minority of no-compliers. Assisting tax payers by improving the flow and quality of information or education them (e.g., TV campaigns) in to becoming more responsible citizens has the potential to yield greater revenue than if it were spent on enforcement activities. A theoretical economic model introduced by Allingham and Sandmo (1972) has clearly indicated that penalties as well as audit probability have an impact on tax compliance. The higher the penalty and the potential audit probability the greater discouragement for potential tax evasion.

The most extreme penalties will have no effect, if it is common knowledge that audits virtually do not occur. The increasing tax avoidance and tax resistance due to an increase of fines puts into question how fines should be assessed to be effective. On the one hand fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent effect on tax payers. On the other hand, if fines are too high, the tax system would be perceived as unjust and unfair and taxpayers would use any possibility to legally avoid taxes (Kirchler et al., 2007).In Kenya for instance, the maximum penalty for tax evasion is 20% of the evaded amount (Sec 72 D IT Act, Cap 470).In summary evidence suggests fines have mixed impact on tax compliance, the study hypothesize that fines have no significant positive effect on tax compliance.

2.6 Perceived Opportunity for tax evasion

Business owners are often mentioned as a high-risk group in terms of tax compliance because their opportunities to evade are high. Opportunity has often been documented as a major explanatory factor in non-compliance (Webley, 2004). In particular, if incomes are not subject to automated third-party reporting, or if taxes are not withheld at source (e.g. in cases of receiving gross incomes or cash payments), opportunities to evade taxes exist (Williams and Round, 2009).

The link between opportunity and non-compliance seems to have at least two different facets. First, in cases where people do not deliberately capitalize on opportunities, the specific circumstances leading to evasion opportunities might still lead to non-compliance. Opportunities usually come about when tax filings are not entirely automated. Through the lack of automation tax filing procedures are more likely to become error prone even without intent to capitalize on the entailed opportunities. Consequently, opportunities may lead to an increase in intended as well as unintended non-compliance. For instance, Robben et al. (1990b) show that an experimentally induced opportunity to cheat (more possibilities to deduct non-deductible expenses) increased non-compliance regardless of whether the participants actually intended to be non-compliant or not.

Second, assuming that people are willing to capitalize on opportunities, they are able to do so only if the opportunities are recognized in the first place. However, opportunities to evade often tend to remain unnoticed. While many taxpayers perceive opportunities for evading small amounts, only a minority perceives opportunities for evading larger amounts (Antonides and Robben, 1995). Such failure to perceive opportunities even persists in laboratory experiments explicitly manipulating opportunity. Whereas controlling for intended evasion annihilated the effect of opportunity on evasion, simultaneously controlling for intended evasion and perceived opportunity re-established the main effect of opportunity on non-compliance (Robben et al., 1990b). Indeed, it has been shown that those actually evading perceive increased opportunities to do so (Ashby et al., 2009).

Overall, actual opportunities can increase both intentional and unintentional evasion. Although such a distinction is theoretically and practically meaningful, it is difficult to determine whether filing errors were intentional or not. For example, in a study by Slemrod et al. (2001), taxpayers were informed that their tax files would be closely examined. Those with considerable opportunities to evade, including small business owners, reacted to this message by increasing their tax payments significantly. Even though this might indicate severe tax evasion – as assumed by Slemrod et al. (2001) increased tax payments in response to the prospect of being audited may also originate from increased willingness to avoid errors. Those taxpayers facing high opportunities for evasion might feel less certain about how to pay their taxes correctly (Ahmed and Braithwaite, 2005), and consequently, threats may also elicit partly unintentional over-reporting, just to be on the safe side.

To conclude, opportunity is a key constituent of small business tax compliance and its role is moderated by its perceptual correlates. Given the opportunity to evade, those unwilling to evade may become involuntarily non-compliant and those willing to evade may fail to perceive the chance to do so. In order to determine the actual effect of opportunity, it is necessary to control for compliance intention as well as opportunity perception.

2.7 Conceptual Framework

This study conceptualizes that the tax compliance could be affected by compliance cost, perceived opportunity, fines and penalties, tax knowledge and education. 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 Figure 2.1

(Independent variables)

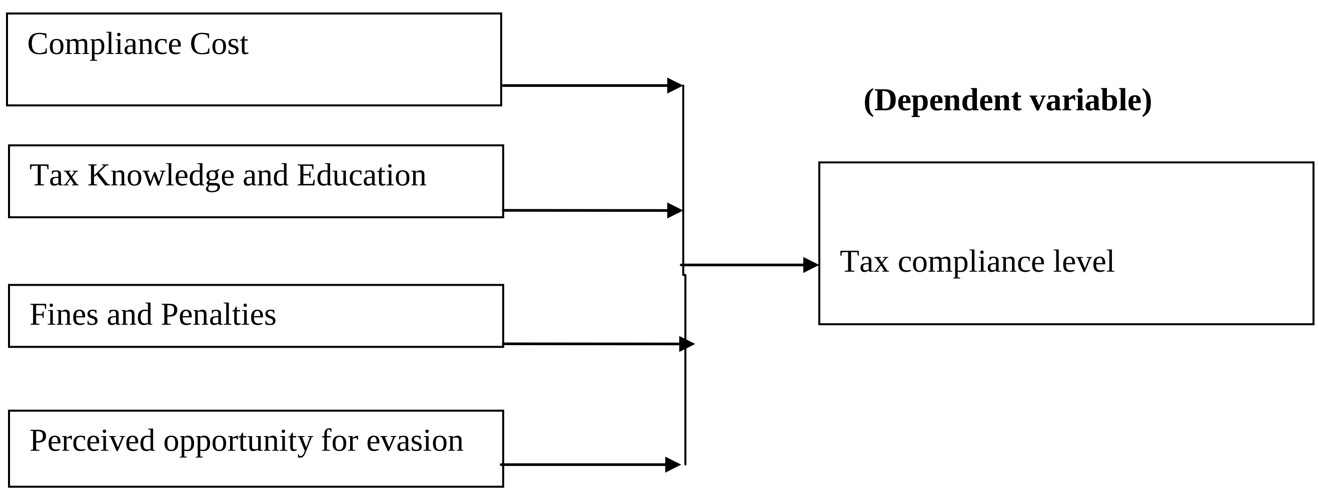

Figure 2.1: Conceptual Framework

Source: Researcher (2013)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design and research methodology that was employed in this study. This is set out under the sub-headings containing research study site, research design, target population, sampling for the study, data collection instruments and procedure, and finally, the data analysis and presentation methods to be used in the study.

3.2 Study Area

The study was conducted in Nakuru town which is located in the Central Rift valley region in Kenya. The area was selected because it is one of the fastest growing towns in Kenya in terms of population and economic activities especially real estate.

3.3 Research Design

A research design is a plan, structure and strategy conceived in order to obtain answers to research questions and control variables. It helps to control the experimental, extraneous and error variables of a particular research problem being investigated (Creswell, 2005). This study employed qualitative and quantitative research design that would enable it collect requisite information about the factors that affect the tax compliance among real estate investors. Such a design is a systematic empirical inquiry in which the researcher does not have direct control of independent variables because they cannot be manipulated (Creswell, 2005). Inferences about relations among variables are made without direct intervention from concomitant variation of independent and dependent variables (Creswell, 2005). As this design does not allow the researcher to manipulate either the independent variables or the research setting, it is apt, because of its higher external validity and less cost. This allowed the study to be completed within the constraints imposed by limited time and financial resources.

3.4 Target Population

The target population consists of all the real estate investors within Nakuru Town during the study period. The study sought information from the owners and managers of each real estate. According to Nakuru Municipal council records, there were 841 registered real estate investors in Nakuru town as at December, 2012.

3.5 Sample Size

To make valid statistical inferences from the results obtained, it is necessary for statistical tests to have enough power, that is, the probability of finding a difference if in fact the difference existed. Small samples result in statistical tests having unacceptably low power, which inevitably results in an inability to reject a false null hypothesis (Sedlmeier and Gigerenzer, 1989). The objective of this study was to determine whether the conceptualized factors affect the tax compliance within Nakuru Town. The study used Yamane (1967:886) simplified formula to calculate sample sizes.

$n = N/(1+Ne^2)$

Where, n = sample size, N=population size, e=0.05 is the level of precision

This formula was used to calculate the sample sizes for the study as follows:

$n = 841/1+841(0.05*0.05) = 271$

3.6 Sample and Sampling Procedure

Collection of data from all the real estate investors in the town was not feasible due to constraints imposed by limited time and financial resources. Thus, a representative sample was used in the study. The study employed simple random sampling technique in the selection of the sample. With this sampling technique, each member of the population has an equal chance of being included in the sample and each sample of a particular size has the same probability of being chosen.

3.7 Data Collection

3.7.1 Nature and Source of Data

This study used both primary and secondary data. Information was obtained from the real estate investors using questionnaires and observation to generate primary data, while the secondary data was obtained from existing databases/literature such as KRA revenue reports and Kenya National Bureau of Statistics reports. The data collected included information on real estate sector, tax compliance in this sector, biographical information of the respondents, proxy variables representing cost of tax compliance, tax knowledge and education, perceived opportunity for tax evasion and fines and penalties.

Primary data was collected mainly through administration of pre-tested structured likert scale questionnaires in the field. This was an ideal tool for use since it reduces the incidence of missing data and low rate of return from the respondents, as the researcher and two research assistants personally administer the questionnaires to the real estate investors. The Structured questionnaires were used to ensure that all respondents answer the same set of questions. Questions asked were in form of five point likert type, closed-ended. This ensured easy handling and amenability to statistical analysis of closed-ended questions combined with the free-flowing opinions from open-ended questions.

3.7.2 Methods of Data Collection

A combination of data collection techniques was employed in the study to gather both primary and secondary data which is both qualitative and quantitative in nature.

3.8 Validity of the Research Instrument

According to Paton (2002), validity is the quality attributed to a proposition or a measure of the degree to which they conform to established knowledge or truth. An attitude scale is considered valid, for example, to the degree to which its results conform to other measures of possession of the attitude. Validity therefore refers to the extent to which an instrument can measure what it ought to measure. It therefore refers to the extent to which an instrument asks the right questions in terms of accuracy. Mugenda *et al.* (1999) looked at validity as the accuracy and meaningfulness of inferences, based on research results.

The content validity of the instrument was determined in two ways. First, the researcher discussed the items in the instrument (questionnaire) with supervisors, lecturers and colleagues from the School of Business. Since the determination of content validity is judgmental, all these people helped to refine the definition of the topic of concern, the items to be scaled and the scales to be used.

Secondly, content validity of the instrument was determined through piloting, where responses of the subjects were checked against the research objectives. Piloting involved using 20 real estate investors in the neighboring Naivasha town. This town was chosen because of its proximity to the research area, and hence it is expected that the factors under investigation closely mirror those of Nakuru Town.

3.9 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. Reliability of the test items in the questionnaire was tested by calculating a Cronbach's alpha during piloting. The Cronbach's alpha value was found to be above the threshold of 0.7 hence reliable.

3.10 Data Analysis and Presentation

Questionnaires received from respondents and interview schedules were checked for completeness with repeat calls being made for incomplete questionnaires to maintain the number of respondents. Categorization and coding was then done and data entered into SPSS for windows version 20 for analysis. Both descriptive and inferential tests were used in the analysis.

Data was described or summarized using descriptive statistics such as mean and frequencies, which helped in meaningfully describing the distribution of responses. Various inferential statistics was used to infer population characteristics from the sample. Pearson's correlation coefficient was used to establish relationships between variables.

A Multiple linear regression model was used to predict tax compliance using the four independent variables in the study: tax compliance cost, tax knowledge and education, fines and penalties and perceived opportunity for tax evasion. In addition, the β coefficients for each independent variable generated from the model was subjected to a z –test, in order to test each of the hypotheses under study. The regression model used to test is shown below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where; Y - Tax compliance

α - Constant

$\beta_1, \beta_2, \beta_3$ and β_4 - Coefficient indicating rate of change of tax compliances as tax compliance cost, tax knowledge and education, fines and penalties and perceived opportunity for tax evasion changes

X1 - tax compliance cost

X2 - tax knowledge and education

X3 - tax fines and penalties

X4 - perceived opportunity for tax evasion

ε - Error term

All the above statistical tests were analyzed using the Statistical Package for Social Sciences (SPSS), version 20. All tests were two-tailed. Significant levels were measured at 95% confidence level with significant differences recorded at $p < 0.05$.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter presents results of the study based on the formulated objectives and hypotheses as presented in chapter one. The chapter analyzes the variables involved in the study and estimate the conceptual model described in chapter two. In the first two sections data description and analysis is presented. The model estimation and the analysis of the results are then discussed. Finally concluding remarks are made. Data description involves a discussion on the sources of data and definitions of the dependent and the independent variables. Data collected was quantitatively analyzed and presented in tables. Hypotheses are also tested with the study accepting or failing to accept them depending on the *p* values and *t* test value.

4.2 Demographic Information

Demographic information shows the characteristics of the elements in the sample size: As such the researcher sought to establish the general information of the respondents, which forms the basis under which the interpretations are made. Demographic factor one analyzed the gender of the respondents. This information was necessary to enable the researcher to obtain information on whether the respondents were either male or female. Seventy two (72%) of the respondents were male whereas twenty eight percent (28%) were female.

Demographic factor 2 shows the age brackets of respondents, (5.2%) of the respondents are between 20-30 years of age, (7.4%) are between 30-40 years, (24.7%) are in the 40-50 age bracket. Respondents between 50-60 years are (47.6%) and those above 60 years of age are fifteen point one percent (15.1%). This result illustrates that most of the real estate investors are generally above 40 years.

Demographic factor 3 examines the academic qualifications of the respondents. The information is necessary to enable the researcher to know whether the respondents are educated or illiterate. Information on the academic qualifications of the respondents is statistically shown in table 4.1 below. It reflects the academic qualifications of the respondents. Sixteen point six percent (16.6%) have a high school certificate; Thirty two point eight percent (32.8%) have a Degree/Professional, forty two point four percent (42.4%) hold a Certificate/diploma and eight point two percent (8.2%) have a post graduate qualification. The study indicates that majority of respondents in the study area are fairly educated.

Table 4.1 Demographic Information

		Frequency	Percent
Gender	Male	195	72
	Female	76	28
	Total	**271**	**100**
Age bracket	20-30	14	5.2
	30-40	20	7.4
	40-50	67	24.7
	50-60	129	47.6
	Above 60	41	15.1
	Total	**271**	**100**
Highest Academic Qualification	High school	45	16.6
	Certificate/Diploma	115	42.4
	Degree/Professional	89	32.8
	Post-graduate qualification	22	8.2
	Total	**271**	**100**

4.3 Information about Real Estates

Research findings on information about Real Estates revealed that majority of the estates have been in operation for between 6-10 years (47.6%) followed by those that have been in operation for 11-20 years (24.7%),0-5 years (15.1%) and estates that have been in operation for over 20 years (12.5%).

Findings on the annual turnover affirmed that the turnover below 5 million was sixty one point six percent 61.6% whereas turnover between 5-10 million was twenty four point four percent 24.4% .In addition, annual turnover between 11-15 million was eight point one percent 8.1% and annual turnover between 16-20 million was four point two percent 4.2%. Annual turnover above 21 million was one point eight percent 1.8% .The results reveal that most of the real estate investors have their annual turnover below 5 million.

Table 4.2 Information about Real Estates

		Frequency	Percent
Years in operation	0-5	41	15.1
	6-10	129	47.6
	11-20	67	24.7
	Over 20	34	12.5
	Total	**271**	**100**
Annual turnover	Below 5 million	167	61.6
	5-10 million	66	24.4
	11-15 million	22	8.1
	16-20 million	11	4.1
	Over 21 million	5	1.8
	Total	**271**	**100**

4.4 Tax characteristics

Tax characteristics were inquired from respondents. The use of E-filling was also inquired from the respondents. Majority of the respondents were found to have never used E-filling as shown by fifty five percent (55%) while those who had used E-filling were forty five percent (45%). Respondents found to be using E-filling have been using it between 0-1 years at fifty five point seven percent (55.7%),between 1-2 years twenty five point four percent (25.4%) and those who have used E-filling for between 2-3 years are thirteen point nine percent (13.9%) while those having filed over 3 years are five percent (5%).

Respondents found to have attended formal taxation course organized by KRA or university or any other institution were twenty six point two percent (26.2%) against seventy three point eight percent (73.8%) who have never attended any taxation course.

In relation to being audited, majority of respondents seventy eight point six (78.6%) have never been audited while only twenty one point four percent (24.1) have been audited. Among those who have been audited, sixty nine percent (69%) have been audited between 0-1 times whereas thirty one percent (31%) have been audited 2-3 times.

Findings further reveal that respondents who have been penalized by KRA because of not filling a tax return are seventeen percent (17%) while those that have never been penalized are eighty three percent (83%).On matters pertaining filling of tax returns, fourteen point one (14.1%) percent of the respondents have been penalized by KRA because of late filing of returns whereas a majority eighty five point nine (85.9%) have never been penalized.

In relation to income declaration, (80.8%) of the respondents were involved in under reporting of income whereas (19.2%) declared the correct income. The research also established that (91.9%)

of the respondents were involved in over claiming deductions whereas (8.9%) gave the accurate claim of deductions.

Table 4.3 Tax characteristics

		Frequency	Percent
have you ever used E-filling	Yes	122	45
	No	149	55
	Total	**271**	**100**
if yes how long have you been using E-filling to file your tax returns	0-1 years	68	55.7
	1-2 years	31	25.4
	2-3 years	17	13.9
	Over 3 years	6	5.0
	Total	**122**	**100**
have you ever attended any formal taxation course organized by KRA or university or any other	Yes	71	26.2
	No	200	73.8
	Total	**271**	**100**
have you ever been audited by KRA			
	Yes	58	21.4
	No	213	78.6
	Total	**271**	**100**
if yes how many times	0-1	40	69
	2-3	18	31
Have you ever been penalized by KRA as a result of the following			
Not filling a tax return	Yes	46	17
	No	225	83
	Total	271	100
Late filing of tax	Yes	38	14.1
	No	233	85.9
	Total	271	100
Have you ever engaged in the following: Under reporting income	Yes	52	19.2
	No	219	80.8
	Total	271	100
Over claiming deductions	Yes	24	8.9
	No	247	91.1
	Total	271	100

4.5 Tax compliance level

The results in table 4.4 reveal that most of real estate owners do not file their tax returns on time (mean = 2.9). They also do not pay the right amount of taxes on time (mean = 2.71). These results indicate low levels of tax compliance among the real estate investors. From the above findings, monitoring compliance requires establishing and maintaining current accounts of taxpayers and management information systems covering both ultimate taxpayers and third party agents such as banks or tax consultants involved in the tax system as well as appropriate and prompt procedures to detect and follow up on non-filers, nil filers and delayed payments. Such measures require establishing both a reasonable risk of detection as well as applying penalties effectively. The ideal approach is to combine these measures so as to maximize their effect on compliance as it were, to move a country from a "low compliance to a high compliance environment" (Masinde and Makau , 2010).

Table 4.4: Tax Compliance level

	Mean	Std. Deviation	Skewness	Kurtosis
The business files its tax returns on time	2.9	2.339	0.735	1.523
The business pays the right amount of taxes on time	2.71	0.263	-1.841	2.76

4.6 Tax Compliance Cost

Findings on tax compliance cost shows that respondents were satisfactory on the cost of filling a tax return (mean=2.95) which confirms that the respondents agreed that the cost of filling a tax return is fair, also respondents believe the cost of hiring a tax agent is fair (mean= 2.87). Similarly, the cost of travelling in order to fill a return is fair (mean=3.46).

Table 4.5 Tax compliance Cost

	Mean	Std. Deviation	Skewness	Kurtosis
How do you rate the cost of filing a tax return	2.95	1.343	0.178	-1.401
How do you rate the cost of hiring a tax agent	2.87	1.414	0.343	-1.226
How do you find the cost of travelling in order to file a return	3.46	1.03	-0.344	-0.422

4.7 Fines and Penalties

Findings on Fines and Penalties reveal that the enforcement is not very strong (mean=3.37), respondents were not certain on whether the penalty is lower than their tax saving due to not complying with tax laws (mean=3.08).Finally, respondents seemed unsure on whether serious enforcement and penalty by the KRA may result if they do not comply (mean=3.06).

Table 4.6 Fines and Penalties

	Mean	Std. Deviation	Skewness	Kurtosis
The penalty rates are very low and I can afford to pay the penalty	3.21	1.185	0.016	-1.151
The enforcement is very weak	3.37	1.298	-0.323	-1.004
I believe that the penalty is lower than my tax saving due to not complying with tax laws	3.08	1.182	-0.077	-1.143
Serious enforcement and penalty by the KRA may result if I do not comply	3.06	1.389	-0.006	-1.219
Fines and Penalties	3.18	0.89536	0.59	-0.058

4.8 Perceived Opportunity for Tax Evasion

Regarding findings on Perceived opportunity for tax evasion in table 4.5, respondents agreed that since supporting documents do not need to be sent to the KRA, they can manipulate the figure in the tax return(mean =4.27), respondents were not certain if they are detected not reporting the exact income, that the tax authority is tolerant towards the offence and most probably it will escape without any punishment (mean=2.78), respondents disagreed that the tax authority has limited capability to investigate all income reported to them so they have an opportunity not to report their exact income(mean=2.4) and they were uncertain on the probabilities of being detected by the tax authority for not declaring the exact income that they receive (mean=2.74).In general, findings on perceived opportunity for tax evasion was found to be (mean=3.126)

Table 4.7 Perceived opportunity for tax evasion

	Mean	Std. Deviation	Skewness	Kurtosis
Since the supporting documents do not need to be sent to the KRA,I can manipulate the figure in the tax return	4.27	0.788	-1.348	2.778
If detected not reporting my exact income, I believe that the tax authority is tolerant towards my offence and most probably it will escape without any punishment	2.78	1.417	0.037	-1.452
I believe the tax authority has limited capability to investigate all income reported to them so I have an opportunity not to report my exact income	2.4	1.362	0.473	-1.078
I believe that the probabilities of being detected by the tax authority for not declaring the exact income that I receive are low	2.74	1.317	0.121	-1.239
Tax evasion	3.126	0.93536	0.195	-1.242

4.9 Tax Knowledge and Education

Further, tax knowledge and education was inquired from the respondents. From the study results, respondents are not certain on how to declare actual income received from all sources to the tax authority (mean=2.77). Also, respondents are not certain on how to keep records/documents pertaining to income and expenditure for a period of seven years after submission of the tax return (mean=2.62) and they seem not to understand that they should pay tax due within the prescribed period from the date of issue of the notice of assessment or within the stipulated period (mean=2.93).It was revealed that respondents are not very sure that they should obtain a tax payer identification pin number (mean=2.83). Further, respondents seem not to know which income should be included or excluded in determining the taxable income (mean=2.51). Generally tax knowledge and education was (mean=2.7336)

Table 4.8 Tax knowledge and Education

	Mean	Std. Deviation	Skewness	Kurtosis
I know how to declare actual income received from all sources to the tax authority	2.77	1.137	0.132	-1.126
I know how to keep records/documents pertaining to income and expenditure for a period of seven years after submission of the tax return	2.62	1.229	0.368	-0.98
I understand that I should pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period	2.93	1.393	0.134	-1.321
I know I should obtain a tax payer identification pin number	2.83	1.384	0.149	-1.321
I know which income should be included or excluded in determining the taxable income	2.51	1.374	0.754	-0.723
Tax knowledge and Education	2.7336	1.03738	0.49	-0.809

4.10 Correlation Statistics

Correlation statistics is a method of assessing the relationship between variables/factors. To be precise, it measures the extent of association between the ordering of two random variables although, a significant correlation does not necessarily indicate causality but rather a *common linkage* in a sequence of events. Thus, the study analyzed the relationships that are inherent among the independent and dependent variables as well as among the independent variables/ factors. The results regarding this were summarized and presented in table 4.9

Pearson Correlations results in table 4.9 showed that tax knowledge and education was positively and significantly correlated to tax compliance ($r=0.675$, $\rho<0.05$). Thus tax knowledge and education had 67.5% positive relationship with tax compliance. Tax fines and penalties was the second component to be positively related with tax compliance ($r = 0.710$, $\rho<0.05$) an indication that tax fines and penalties had 71% significant positive relationship with tax compliance. Perceived opportunity for tax evasion was significantly associated with tax compliance as shown by($r = -0.269$, $\rho<0.05$) implying that perceived opportunity for tax evasion had a 26.9% negative relationship with tax compliance.

Finally, tax compliance cost was significantly positively correlated to tax compliance ($r=-0.613$, $\rho<0.05$).Therefore, Tax compliance cost had 61.3% negative relationship with tax compliance.

Table 4.9 Correlation Statistics

	Level of Tax compliance	Tax compliance cost	Tax Knowledge and education	Tax fines and penalties	Perceived opportunity for tax evasion
Level of Tax compliance	1 0				
Tax compliance cost	-.613** 0	1			
Tax Knowledge and education	.675** 0	.664** 0	1		
Tax fines and penalties	.710** 0	.488** 0	.513** 0	1	
Perceived opportunity for tax evasion	-.269** 0	.199** 0.001	.262** 0	.239** 0	1

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

4.11 Regression

A Multiple linear regression model was used to predict tax compliance in the study. The prediction was carried out basing on the effect of the four independent factors: tax compliance cost, tax knowledge and education, tax fines and penalties and perceived opportunity for tax evasion. In addition, the b coefficients for each independent variable generated from the model was subjected to a t-test, in order to test each of the hypotheses under study. The study thus came up with a model summary, the anova for the effect sizes and the regression model as presented in table 4.10, 4.11 and 4.12.

From table 4.10, the findings indicated that the model correlation coefficient was 0.804 which indicated that the model predicted over 80% of the change in the independent variable. This relationship was significant considering the coefficient of determination value of 0.647. The model was adequate in this case as indicated by the Durbin-Watson statistic value of 1.929 which is in the range of 1 to 2.

Table 4.10: Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0.804	**0.647**	**0.638**	**0.56069**	**1.929**

a)Predictors: (Constant)Tax compliance cost, Tax knowledge and education, tax fines and penalties, perceived opportunity for tax evasion
b)Dependent Variable: Tax compliance level
Source: (Survey Data, 2013)

The ANOVA model in table 4.11 showed that the regression model was also adequate. The effect size of the regression model was shown to be over 75 that contributed by the residual mean sum of squares. The F-ratio was 75.739 at 4 degrees of freedom which are the four factors. This represented the effect size of the regression model and was significant with a p-value of 0.000.

Table 4.11: ANOVA Model

	Sum of Squares	df	Mean Square	F	Sig.
Regression	119.05	5	23.81	75.739	0.000
Residual	65.075	207	0.314		
Total	184.124	212			

Dependent Variable: Tax compliance
Predictors: (Constant), Tax compliance cost, tax knowledge and education, tax fines and penalties and perceived opportunity for tax evasion.
Source: (Survey Data, 2013)

4.12 Coefficients Model

The regression results in table 4.12 show that each of the predicted parameters in relation to the independent factors were significant; β_1= -.317 (p-value = 0.000 which is less than α = 0.05) which implies that we reject the null hypothesis stating that there is no significant relationship between tax compliance cost and tax compliance level. This indicates that for each unit increase in the negative effect of tax compliance cost, there is 0.317 units decrease in tax compliance level. Furthermore, the effect of tax compliance cost was stated by the t-test value = 6.531 which implies that the standard error associated with the parameter is less than the effect of the parameter.

The table also shows that β_2 = 0.331 (p-value = 0.000 which is less than α = 0.05) which indicates that we reject the null hypothesis stating that there is no significant relationship between tax knowledge and education and tax compliance. This implies that for each unit increase in tax knowledge and education, there is up to 0.331 unit increase in tax compliance. Also the effect of tax knowledge and education is shown by the t-test value of 6.557 which implies that the effect of tax knowledge and education surpasses that of the error by over 6 times.

The value of β_3 = 0.111(p-value = 0.021 which is less than α = 0.05) which implies that we reject the null hypothesis stating that there is no significant relationship between tax fines and penalties and tax compliance. This indicates that for each unit increase in tax fines and penalties, there is up to 0.111 units increase in tax compliance. The effect of tax fines and penalties is stated by the t-test value = 2.334 which indicates that the effect of tax penalties and fines is over2 times that of the error associated with it.

The findings also showed that β_4 was -0.194 (p-value = 0.000 which is less than α = 0.05) which implies that we reject the null hypothesis that states that there is no significant relationship between perceived opportunity for tax evasion and tax compliance levels. This implies that there is up to 0.194 unit decrease in tax compliance for each unit increase in perceived opportunity for tax evasion.

The rule of thumb was applied in the interpretation of the variance inflation factor (VIF). From table 4.12, the VIF for all the estimated parameters was found to be less than 4 which indicate the absence of multi-collinearity among the independent factors. This implies that the variation contributed by each of the independent factors was significantly independent and all the factors should be included in the prediction model.

Table 4.12 Coefficients model

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	**Std. Error**	**Beta**	**T**	**Sig.**	**Tolerance**	**VIF**
(Constant)	-0.391	0.274		-1.428	0.155		
Tax compliance cost	-0.302	0.046	-0.317	-6.531	0.000	0.725	1.379
Tax knowledge and education	0.386	0.059	0.331	6.557	0.000	0.669	1.495
Tax fines and penalties	0.169	0.072	0.111	2.334	0.021	0.759	1.317
Perceived opportunity for tax evasion	-0.208	0.057	-0.194	-3.646	0.000	0.600	1.666

Dependent Variable: Tax compliance

Source: (Survey Data, 2013)

4.13 Discussion of the findings

As stated by **Hypothesis 1** that tax compliance cost has no significant effect on tax compliance level, research findings show inconsistency with the hypothesis hence, compliance cost was negatively correlated to tax compliance level (coefficient estimate (β_1 = -0.317, p value =0.000). High compliance cost has been found to diminish the competitiveness of the country in terms of taxation attractiveness thus tax authorities are interested in making the tax legislations simpler in order to avoid this situation. This study finding is in agreement with Slemrod and Yitzhaki (1996) that compliance cost is one of the three elements of social costs of taxation which are incurred when purchasing power is transferred from the taxpayers to the government. As Hijattulah and Pope (2008) argue compliance costs include costs that are incurred by a company, but are beyond the control of its management hence tax compliance cost is likely to affect tax compliance in the real estate sector.

In terms of internal and external costs, (Blumenthal and Slemrod, 1996) argue that Internal costs are generated by the accounting and administration department of the company who will prepare all the required information by the fiscal authorities and consult when it is deemed necessary. External costs are generated from the service of lawyers, accountants and other advisors and are easier to identify and quantify as compared to the internal costs, these factors contribute to compliance cost and affect tax compliance by real estate owners.

Hypothesis 2 states that tax knowledge and education has no significant effect on tax compliance. Research findings are not in agreement with the hypothesis (coefficient estimates (β_2 = 0.331, p value =0.000).A high level of tax knowledge and education contributes immensely to tax compliance. This in agreement with studies by (Kasipillai, Norhani, and Noor, 2003) that knowledge relates to compliance due to its effect on understanding about taxation regulations and information pertaining to the opportunity to evade tax.

A study by (Mohd, 2010) asserts that tax knowledge is necessary to increase public awareness on taxation rules and the role of taxation in national development. Once individuals have the knowledge pertaining the importance of taxation, they will be influenced to comply without any enforcements or pressure on them. In addition attitude towards taxation can also be improved through taxation knowledge, thus when a taxpayer has a positive attitude toward tax, this may influence him or her to comply (Eriksen&Fallan, 1996). Education programs organized by the tax authority or other public education institutions are needed to enhance taxpayers' ability to understand Self assessment system since it involves calculation of amount of tax needed to be paid. If tax knowledge is enhanced tax payers will readily accept forms of payment of tax like the SAS (Self Assessment system). (Chan et. al. 2000) argues that greater education leads to high compliance since individuals who are well educated understand well the tax system, have high levels of moral development and thus they are highly likely to comply. Findings from the tax administration view point revealed that educating taxpayers on their social responsibility to pay tax would in turn influence tax payers to comply with the payment of tax. Therefore, assisting taxpayers by ensuring proper flow of quality information through media and educating them results in high compliance in paying tax hence potential to yield greater revenue than if it were spent on enforcement activities.

Hypothesis 3 states that tax fines and penalties have no significant effect on tax compliance. Research findings are not in agreement with the hypothesis since fines and penalties has coefficient estimate (β_3 = 0.111, p value =0.021), hence hypothesis 3 does not hold. Higher fines simply reduce the cases of tax evasion thus encouraging tax compliance. This in agreement with studies by Friedland et al. (1978) that compliance was strongly affected by the amount of fines than by audit probabilities. Studies by Allingham and Sandmo (1972) indicate that penalties as well as audit probability have an effect on tax compliance, thus the higher the penalty and the potential audit probability the greater discouragement for potential tax evasion.

Hypothesis 4 states that perceived opportunity for tax evasion has no significant effect on tax compliance. Research findings show inconsistency with the hypothesis; hence perceived opportunity for tax evasion was correlated to tax compliance, (coefficient estimates (β_4 = -0.194, p value =0.000). Opportunities to evade tax may lead to an increase in intended as well as unintended non-compliance. The study findings are in agreement with Robben et al. (1990b) that an experimentally induced opportunity to cheat increased non-compliance regardless of whether the participants actually intended to be non-compliant or not. (Antonides and Robben, 1995) assert that many taxpayers perceive opportunities for evading small amounts while only a minority perceive opportunities for evading larger amounts.

The study findings are also in agreement with (Slemrod et al. (2001) in a study where taxpayers were informed that their tax files would be closely examined. Small business owners who had an opportunity to evade payment of tax reacted to this message by increasing their tax payment in order to avoid errors. This confirms that those taxpayers facing high opportunities for evasion might feel less certain about how to pay their taxes correctly. Consequently, threats may also elicit partly unintentional over-reporting; just to be on the safe side (Ahmed and Braithwaite, 2005). It is therefore noted that opportunity for tax evasion is a key constituent of Real Estate investors' tax compliance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECCOMENDATIONS

5.1 Introduction

The general objective of this study is to analyze the factors affecting tax compliance in real estate sector in Kenya. The target population consists of all the real estate investors within Nakuru Town during the study period; According to Nakuru Municipal council records, there are 841 registered Real Estate investors in Nakuru town as at December, 2012.The study also made inference on the hypothesis that compliance cost, tax knowledge and education, fines and penalties and perceived opportunity for tax evasion have no significant effect on tax compliance level.

5.2 Summary of findings

Findings on gender revealed that there are more male than females among the respondents indicating that more men than female are real estate investors. It was also affirmed that majority of the respondents were between the age bracket of 50-60 years and they. It was also brought to light that majority of respondents were fairly educated, those with a diploma contributing the highest percentage followed by those with an undergraduate degree affirming that there were moderate levels of literacy among the respondents.

Findings on information about the real estate's affirmed that majority of the estates have been in operation for between 6-10 years confirming the recent boom in the sector. In terms of annual turnover, majority of the estates have a turnover below 5 million.

Findings on tax characteristics acknowledges that the use of E-filling was unknown to most of the respondents and majority of the respondents have never been audited as compared to those who have been audited and a small percentage of the respondents have attended a formal taxation course organized by KRA or university.

The study found that compliance levels among real estate investors is low. There is therefore a need for tax authorities and the government to come up with strategies to effectively monitor this category of taxpayers with a view of enhancing compliance levels.

On matters pertaining being penalized by KRA as a result of not filing tax returns, majority of the respondents have not been penalized. The study also found out that most of the respondents under reported their income and over claimed deductions.

A determination of the effect of compliance cost on tax compliance level revealed a strong negative correlation meaning that compliance cost has a significant effect on the level of tax compliance. This means that higher compliance costs will reduce tax compliance levels.

The study also examined the effect of tax knowledge and education on tax compliance level. The findings show a strong positive relationship between the two implying that enhanced knowledge on taxation will in turn enhance tax compliance.

An assessment of the effect of fines and penalties on tax compliance levels revealed that there is a significant positive relationship between them. This implies that an effective use and enforcement of fines and penalties on tax offenders will enhance levels of tax compliance.

The study having evaluated the effect of perceived opportunity for tax evasion on tax compliance level concluded that there is a negative relationship between the two implying that a perceived opportunity for tax evasion will lead to lower levels of tax compliance.

5.3 Conclusion

These study findings provide direct evidence that tax compliance cost is a contributory factor in tax compliance, and an indication of its magnitude effect. From the study findings there is enough proof to conclude that tax compliance cost is associated with high levels of tax compliance.

The study also provides some preliminary evidence that fines and penalties play a vital role in improving tax compliance. Specifically, for a tax system with fair tax rates of fines and penalties, tax compliance is likely to improve.

The study results also inferred that perceived opportunity for tax evasion has a significant effect on tax compliance. This is because through opportunity, induced opportunity to cheat increased non-compliance regardless of whether the participants actually intended to be non-compliant or not.

Finally, the study concludes that tax knowledge and education has a significant effect on tax compliance. It is therefore prudent for the tax system to enhance education on how to file tax returns and the importance of paying tax.

5.4 Recommendations

From the study findings it was deduced that tax compliance cost has a profound effect on tax compliance. The findings suggest tax systems with low tax compliance costs are most likely to be complied with. Therefore, the tax compliance cost should be in a way that does not encourage taxpayers to evade tax.

The study finds strong support for the argument that fines and penalties impacts highly on tax compliance, thus there should be moderate levels of fines and taxes to employ. This way, real estate owners will be encouraged to comply since they will keep accurate records for taxation purposes in order to avoid fines and penalties.

Also, tax knowledge and education has a significant effect on tax compliance. Thus the tax system should not only provide a clear and simple guideline on how to fill tax returns but also enhance taxpayer education services to enable the taxpayers understand their rights and obligations as taxpayers. This way tax compliance levels will increase.

Finally, perceived opportunity for tax evasion has a significant effect on tax compliance, therefore the tax system should target individuals at all levels of income to seal loopholes that may encourage tax evasion. Tax systems should also enhance surveillance and monitoring to ensure that all the taxpayers are brought into the tax net. Specifically, for real estate investors, mapping of all the properties should be done to ensure that they are recruited into the tax net.

5.5 Further Research Recommendations

In future, researchers should replicate this study to cover the whole country. A study on the self-assessment system can also be carried out to determine its effectiveness on enhancing tax compliance levels. Further the study should also put into consideration the influence of Economic conditions on tax compliance.

REFERENCES

Ahmed, E. and Braithwaite, V. (2005), "Understanding small business taxpayers - issues of deterrence, tax morale, fairness and work practice", *International Small Business Journal*, Vol. 23 No. 5, pp. 539-68.

Ajzen, I. (1991). *Theory of planned behavior*.Organizational Behavior and Human Decision Processes, 50, 179-211.

Allingham, M.G., and Sandmo, A. (1972).“Income tax evasion: A theoretical analysis”. *Journal of Public Economics*, 1(3-4), 323-38.

Alm, J. (1991), “Tax compliance and administration”, *Economics department at Andrew Young School of policy studies,* Georgia state university

Alm, J., Jackson, B., and McKee, M. (1992).“Institutional uncertainty and taxpayer compliance”.*American Economic Review*, 82(4),1018-26

Andreoni, J, Erard, B., and Feinstein, J. (1998).“Tax compliance”.*Journal of Economic Literature*, 36, 818-60.

Antonides, G. and Robben, H.S.J. (1995), "True positives and false alarms in the detection of tax evasion", *Journal ofEconomic Psychology*, Vol. 16 No. 4, pp. 617-40.

Ashby, J.S., Webley, P. and Haslam, A.S. (2009), "The role of occupational taxpaying cultures in taxpaying behaviour and attitudes", *Journal of Economic Psychology,* Vol. 30 No. 2,pp. 216-27.

Azjen, I. and Fishbein, M. (1980), *Understanding Attitudes and Predicting Social Behaviour,* Prentice Hall Englewood Cliffs, NJ.

Becker, Gary S. (1968). Crime and Punishment: An Economic Approach. *Journal of Political Economy*, 78, 169-217.

B Tran-Nam et al, (2000) “Tax compliance costs: Research methodology and empirical evidence from Australia” 53(2) *National Tax Journal* 229, 232.

Blumenthal, M. and Slemrod, J. B., (1996), “The income tax compliance costs of big businesses”, *Public finance quarterly*, 24 (4) , pp. 411-38

Boukaertm B., De Geest, G. (Eds.), *The Economicand Public Tax Law.* Cheltenham: Edward Elgar.

C Sandford, M Godwin and P Hardwick (1989)., Administrative and compliance costs of taxation

Chan, C.W., Troutman, C.T., and O'Bryan, D. (2000). An expanded model of taxpayer compliance: Empirical evidence from United States and Hong Kong. *Journal of International Accounting, Auditing and Taxation*, 9(2), 83 –103.

Chan, C.W., Troutman, C.T., and O'Bryan, D. (2000), 'An expanded model of taxpayer compliance: Empirical evidence from United States and Hong Kong', *Journal of International Accounting, Auditing and Taxation* 9(2), 83 -103.

Chan, C.W., Troutman, C.T., and O'Bryan, D. (2000). An expanded model of taxpayer compliance: Empirical evidence from United States and Hong Kong. *Journal of International Accounting, Auditing and Taxation*, 9(2), 83 -103.

Christensen, K;R. cline; and T. Neubig. ―Total Corporate Taxation: ―Hidden, Above-the-Line, Non-Income Taxes.‖ *National Tax Journal*, Vol. 54:3 (September 2001): 495-506.

Eriksen, K., and Fallan, L. (1996).“Tax knowledge and attitudes towards taxation: A report on a quasi experiment”. *Journal of Economic Psychology*, 17, 387–402.

Evans, C., (2001), “The operating costs of taxation: a review of the research”, *Journal of the institute of economic affairs*, 21(2), pp. 5-10

Evans, C., (2003), “Studying the studies: an overview of recent research into taxation operating costs”, *E-journal of tax research*, 1(1) pp 64-92

Evans, C., Ritchie, K., Tran-Nam, B., and Walpole, M. (1997).*A report into taxpayer costs of compliance*. Commonwealth of Australia, Canberra.

Fishbein, M., and Ajzen, I. (1975).*Belief, Attitude, Intention and Behavior: An Introduction to Theory and Research.* Massachusetts: Addison-Wesley.

Franzoni, L. (2000). Tax evasion and tax compliance.In *Encyclopedia of Law and Economics*, Volume VI.

Franzoni, L., (1998), Tax Evasion and Tax compliance, *encyclopedia of law and economics*

Friedland, N., Maital, S., and Rutenberg, A. (1978).A simulation study of income tax evasion.*Journal of Public Economics*, 8, 107-116.

Friedland, N., Maital, S., and Rutenberg, A. (1978). A simulation study of income tax

Hijattulah, A. and Pope, J., (2008), Exploring the relationship between tax compliance costs and compliance issues in Malaysia, journal of applied law and policy

Hite, P., and Hasseldine, J. (2001).A primer on tax education in the United States of America.Accounting Education, 10(1), 3-13.

Jackson. B.R., and Milliron, V.C. (1986), 'Tax compliance research: Findings, problems, and prospects', *Journal of Accounting Literature* 5, 125-65.

James, S and Alley, C. (2004), 'Tax compliance cost', University of Exeter Business School Streatham, United Kingdom, *Taylor and Francis Journals*, vol. 9, No.3, 281-289.

James, S., and Alley, C. (2004). Tax Compliance, self assessment and taxadministration. *Journal of Finance and Management in Public Services,* 2(2),27-42.

Kasipillai, J and Abdul Jabbar, H. (2006), 'Gender and ethnicity deference in tax compliance', School of Business, Monash University Malaysia, *journal of Asian academy of management,* Vol. 11, No. 2, 73-88.

Kasipillai, J Norhani,A. and Noor Afza, A. (2003), 'The influence of education on tax avoidance and evasion', *eJournal of tax research,* Vol. 1 No. 2, available at http://www.atax.unsw.edu.au/ejtr.html, accessed in March, 2013

Kasipillai, J. (2000). *A Practical Guide to Malaysian Taxation-Current Year Assessment.*Kuala Lumpur: McGraw-Hill.

Kasipillai, J. (2002). Investigations and tax audit under the self assessment system. *The*

Kasipillai, J., and Baldry, J. (1998). What do Malaysian taxpayers know? *Malaysian Accountant,* February, 2-7.

Kasipillai, J., Aripin, N., and Amran, N.A. (2003).The influence of education on taxavoidance and tax evasion.*eJournal of tax Research,* 1(2), 134-46.

Kasipillai, J., Udin, N.M., and Ariffin, Z.Z. (2003). How do moral values influence tax

Kirchler, E. (2007), *The Economic Psychology of Tax Behaviour*, Cambridge University Press, Cambridge.

KRA Domestic Taxes department; *Income Tax at a glance*

Mansor, M., Tayib, M., and Yusof, R.N. (2005). Tax administration system: a study on the efficiency of Malaysian indirect taxes. *International Journal of Accounting, Auditing and Performance Evaluation, 2(3), 321-43.*

McKerchar and M Walpole (eds), (2006) Further Global Challenges in tax Administration 415, 416.

Mohani, A. (2001). *Personal income tax non-compliance in Malaysia.*PhD thesis. Victoria University: Melbourne, Australia.

Mohd Rizal Palil and Ahmad Fariq Mustapha (2011); Determinants of Tax Compliance in Asia: A case of Malaysia,European*Journal of Social Sciences*Vol 24 No 1.

Mohd, R. (2010), *Tax knowledge and tax compliance determinants in self assessment system*, a thesis submitted to the University of Birmingham for the degree of Doctor of Philosophy, available at http://www.acta.uob.edu.au/asfc.html, accessed in March 2013.

Robben, H.S.J., Webley, P., Elffers, H. and Hessing, D.J. (1990a), "Decision frames, opportunity Tax compliance and tax evasion: an experimental approach", *Journal of Economic Behavior and Organization,* Vol. 14 No. 3, pp. 353-61.

Sandford, C. (1993). *Successful Tax Reform: Lesson From an Analysis of Tax Reform in Six Countries.* Birmingham: Fiscal Publications.

Sandford, C., and Wallschutzky, I.G. (1994a). Self-assessment and all that-UK proposals in the light of Australian experience. *Management Accounting*,July/August, 34, 57.

Sandford, C., and Wallschutzky, I.G. (1994b). Self assessment for income tax: Lessons from Australia. *British Tax Review,* 3,213-220.

Sandford,C., Godwin, M., and Hardwick, P. (1989).*Administrative and Compliance Cost of Taxation.* Birmingham: Fiscal Publications.

Sanford, C., Godwin, M., Hardwick, P. and Slemrod, J., (1989), Administrative and compliance costs of taxation, fiscal publications, *journal of economic literature*, issue 3

Singh, P. (2003), 'Behavioral intention of tax non compliance among sole proprietors', School of Business, Monash University Malaysia, *journal of Asian academy of management,* Vol.2, No. 6, 47-56, available at

Slemrod, J., and Venkatesh, V., (2002), The tax compliance costs of large and mid-size businesses, a report to The IRS LMSB division ,Submitted by the Office of Tax Policy Research, university of Michigan business school

Slemrod, J., Blumenthal, M. and Christian, C. (2001), "Taxpayer response to an increased probability of audit: evidence from a controlled experiment in Minnesota", *Journal of Public Economics*, Vol. 79, pp. 455-83.

Slemrod,J. and Yitzhaki, S., (1996), *the costs of taxation and the marginal efficiency cost of funds*, International Monetary Fund staff papers, 43(1) 42

Webley, P. (2004), "Tax compliance by businesses", in Sjogren, H. and Skogh, G. (Eds), *New Perspectives on Economic Crime,* Edward Elgar, Cheltenham.

Williams, C.C. and Round, J. (2009), "Evaluating informal entrepreneurs' motives: evidence from Moscow", *International Journal of Entrepreneurial Behaviour& Research,* Vol. 15 No. 1,pp. 94-107.

www.ijbssnet.com/journals/Vol._2_No._6;_April_2003/15.pdf, accessed April, 2013.

Appendix 1: Questionnaire

The purpose of this survey is to analyze the factors affecting tax compliance in the real estate sector with the aim of formulating policies aimed at enhancing tax collection. All responses/answers provided in this survey will only be used for academic purposes and will be kept confidential.

SECTION A:BACKGROUND INFORMATION OF THE RESPONDENTS

1. Gender: Male ☐

   Female ☐

2. What is your age bracket?

AGE BRACKET	TICK APPROPRIATELY
20-30	
30-40	
40-50	
50-60	
Above 60	

3. What is your highest level of education?

Level of Education	Tick Appropriately
High School Certificate	
Certificate/Diploma	
Degree/Professional	
Masters	
PHD	
Other(Specify)	

SECTION B: BACKGROUNG INFORMATION OF THE BUSINESS.

1. What is the name of your business/property? (Optional)………………………………………………..

2. How many properties do you own/manage? ……………………………………………………………

3. How long have you been in the business?

YEARS	TICK APPROPRIATELY
0-5	
6-10	
11-20	
OVER 21	

4. What is your annual turnover?

TURNOVER	TICK APPROPRIATELY
Below 5 million	
5-10 MILLION	
11-15 MILLION	
16-20 MILLION	
OVER 21 MILLION	

5. Have you ever used 'E-filing' to file your tax returns?

YEARS	TICK APPROPRIATELY
0-1	
1-2	
2-3	
OVER 3	

6. Have you attended/passed any formal taxation course/training organized by KRA or university or other

   Yes ☐ No ☐

7. Have you ever been audited by KRA

   Yes ☐ No ☐

   7a) If Yes, how many times?………………………….

8. Have you ever been penalized by the KRA due to the following conditions?

	Yes	No
Not filing a tax return		
Late filing of tax return		

9. Have you ever engaged in the following?

	Yes	No
Under reporting income		
Over claiming deductions		

SECTION C: TAX COMPLIANCE LEVEL

Tick Appropriately.	Strongly disagree (1) Disagree (2) Not Certain (3) Agree (4) Strongly agree (5)				
	1	2	3	4	5
The business files its tax returns on time					
The business pays the right amount of taxes on time					

SECTION D: TAX COMPLIANCE COST

Tick Appropriately.	Very High (1) Low (2) fair (3) High(4) Very High (5)				
	1	2	3	4	5
How do you rate the cost of filing a tax return					
How do you rate the cost of hiring a tax agent					
How do you find the cost of travelling in order to file a return					

SECTION E: FINES AND PENALTIES

Tick Appropriately.	Strongly disagree (1) Disagree (2) Not Certain (3) Agree (4) Strongly agree (5)				
	1	2	3	4	5
The penalty rates are very low and I can afford to pay the penalty					
The enforcement is very weak					
I believe that the penalty is lower than my tax saving due to not complying with tax laws.					
Serious enforcement and penalty by the KRA may result if I do not comply					

SECTION F: PERCEIVED OPPORTUNITY FOR TAX EVASION

Tick Appropriately.	Strongly disagree (1) Disagree (2) Not Certain (3) Agree (4) Strongly agree (5)				
	1	2	3	4	5
Since the supporting documents do not need to be sent to the KRA, I can manipulate the figure in the tax return					
If detected not reporting my exact income, I believe that the tax authority is tolerant towards my offence and most probably it will escape without any punishment.					
I believe the tax authority has limited capability to investigate all income reported to them so I have an opportunity not to report my exact income					
I believe that the probabilities of being detected by the tax authority for not declaring the exact income that I receive are low.					

SECTION G: TAX KNOWLEDGE AND EDUCATION

Tick Appropriately.	Strongly disagree (1) Disagree (2) Not Certain (3) Agree (4) Strongly agree (5)				
	1	2	3	4	5
I know how to declare actual income received from all sources to the tax authority					
I know how to keep records/documents					

pertaining to income and expenditure for a period of seven years after submission of the Tax Return					
I understand that I should pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period					
I know I should obtain a tax payer identification pin number					
I know which income should be included or excluded in determining the taxable income					

Appendix II: Work plan

Activity	**Duration**
Proposal writing	3 months (March, April and May 2013)
Proposal defence	June, 2013
Field work	2 months (June and July 2013)
Data analysis and writing of the first draft of the project	1 month(August 2013)
Presenting to supervisor for marking	August 2013
Compiling and writing final project	September 2013
Submission for examination	October 2013

Source, Researcher (2013)

Appendix III: Budget

Item	**Amount (Shs)**
Travelling expenses(within Nakuru town)	3,000
Field subsistence	12,000
Research assistant wages	20,000
Photocopier services	4,000
Printing services	6,000
Internet services	3,000
Stationery	1,000
Miscellaneous expenses	1000
TOTAL	50,000

Source, Researcher (2013)