

Effect of Perceived Usefulness of Digitized System on Rental Income Tax Compliance Among Landlords in Makadara Constituency, Nairobi County, Kenya

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Abstract

Purpose: Despite the tremendous growth in real estate, the corresponding tax collection from the sector has remained low. The contribution by rental income earners has been low despite all the efforts to enforce rental income tax policies. The study examined the perceived usefulness of digitized system on rental income tax compliance among landlords in Makadara Constituency, Nairobi County, Kenya.

Methodology: It was guided by a unified theory of acceptance and use of technology the study adopted an explanatory research design. The target population was 4,927 landlords in Makadara Nairobi County. The sample size of the study was 369, and the study questionnaires that were correctly filled and returned were 230. The study used primary data which was collected using structured questionnaires with close-ended questions and a pilot test was conducted to test reliability and validity.

Results: The study found that Perceived usefulness of digitized system and rental income tax compliance, $\beta=0.261$ p-value =0.000<0.05.

Conclusion: Based on the findings the study recommends that the KRA should launch widespread campaigns to educate landlords about the usefulness of digitized systems. Future studies could be conducted to determine the impact of tax reforms on rental income tax compliance.

Keywords: Landlords, Perceived Usefulness of Digitized System, Rental Income Tax Compliance

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1.0 Introduction

Taxation is the main source of government revenue in both developed and developing economies. It gives countries financial independence from external assistance (OECD, 2019). However, one of the biggest threats to this method of financing governments is tax avoidance and evasion. Developing economies are worst affected by this challenge. While Developing countries record relatively higher tax performance levels (35%), African countries report less than 23% (OECD, 2019).

Rental income tax is the tax imposed on income from rent of residential buildings. Since any income that is received from renting out a property is legally chargeable to income tax, the

owners of the property are required to declare this income on their tax return. This income could be from renting out land or buildings (Berhane & Yesuf, 2019). Cytonn (2020) reported that the largest demand for housing units is driven by urban dwellers at 61%. A shortage of quality affordable housing and student accommodation has led to a 40% deficit in urban areas. The problem has been exacerbated by a rise in infrastructure development, improved roads, and utility connections with a stable GDP growth at 5.4% over the last five years, which is above 4.1%. Furthermore, demographic trends such as rapid urbanization (4.4%) as compared to the global 2.5% against a population rise of 26%. Furthermore, it provides a high total return of 25.0% against the 12.4% derived from traditional asset classes.

The performance of rental income tax can be improved in several ways. One approach is to take advantage of deductions and tax credits available for rental income, such as the residential energy credit and the mortgage interest deduction (Maharaj, 2019). Additionally, property owners can consider investing in more energy-efficient appliances and home improvements to reduce their monthly utility bills and thus, increase rental incomes. Finally, property owners can also look for ways to reduce their tax liability by using tax deferral strategies or by taking advantage of tax incentives offered by their local governments (Rothman, 2020).

In Kenya, it is a law that any income generated from any investment in the country is subject to taxation (Karanja, 2014). However, the low tax revenue is more attributed to a lack of good mechanisms to enforce tax collection. The Kenyan government needs to invest more in tax administration to ensure that no tax revenue is lost or uncollected. As such, Kenya is also ranked among countries with low performance as far as tax revenue collection is concerned (Makori et al., 2013). Although there has been significant growth in tax collection by over 300% (2010-2018), the contribution by landlords has been very low despite all the efforts by government taxing all Kenyans to support the development of the economy by paying their fair share of taxes (Karanja, 2019).

1.1 Problem Statement

Despite the high revenue target, KRA is still faced with numerous challenges, such as loopholes in a collection of rental income with many landlords failing to comply. Rental income tax remitted by landlords has been dismal notwithstanding all the efforts to enforce rental income tax policies. There has been little improvement in rental tax performance in Kenya. Kenya Revenue Authority did not meet the residential rental income tax Target in 2022/2023 Financial Year. Despite a 6.7 percent rise in collections to Sh2.166 trillion, the taxman missed its Sh2.273 trillion targets by Sh107 billion KRA, 2023. KRA did not meet its target hence affecting infrastructure development and social services.

Since the inception of Monthly Rental Income (MRI) through the Finance Act 2015, there has been an elaborate framework geared towards educating and facilitating the landlords to comply with the simplified tax regime. Kenya Revenue Authority collected Ksh.10 billion from 52,000 landlords in FY2016/2017 slightly over 50% of the targeted 100,000. This can be attributed to low tax performance on rental income which has greatly undermined KRA's achievement of its revenue targets. The Finance 2023 Act has introduced a provision for appointment of rental income tax agents for collection and remittance of rental income tax to the Commissioner (effective 1st July 2023.) The tax shall be charged at 7.5% effective 1st January 2024 and remitted by the fifth working day after the deduction was made. Further, the Commissioner may revoke this appointment at any time. This study therefore sought to determine moderating effect of taxpayer awareness on the relationship between digitalization of system and rental income tax compliance among landlords in Makadara constituency, Nairobi county, Kenya.

2.0 Literature Review

2.1 Theoretical Review

The unified theory of acceptance and use of technology (UTAUT) was created by Venkatesh et al. (2003). The UTAUT model, as described by Ann et al. (2021), integrates various acceptance theories to create a unified framework for understanding technology acceptance and use. This model was developed by reviewing and synthesizing eight prominent theories and models: the Theory of Reasoned Action (TRA), the Technology Acceptance Model (TAM), the Motivational Model, the Theory of Planned Behavior (TPB), a combined TBP/TAM, the Model of PC Utilization, Innovation Diffusion Theory (IDT), and Social Cognitive Theory (SCT) (Williams et al., 2015).

These foundational theories and models have been extensively and successfully applied in numerous previous studies on technology or innovation adoption and diffusion across various fields, including information systems, marketing, social psychology, and management (Williams et al., 2015). According to the UTAUT model, the acceptance of a technology or system is largely influenced by factors such as performance expectancy, effort expectancy, social influence, and facilitating conditions (Hamzat & Mabawonku, 2018).

The UTAUT model merges the previous eight theoretical models and comprises four key constructs that determine behavioral intentions and usage behavior (Hamzat & Mabawonku, 2018). These constructs—performance expectancy, effort expectancy, social influence, and facilitating conditions—are direct determinants of usage intention and behavior (Bhuasiri et al., 2016). The UTAUT model incorporates various acceptance theories to form a unified theory of acceptance and use of technology (Ann et al., 2021). The UTAUT model is composed of four constructs: performance expectancy (PE), effort expectancy (EE), social influence (SI), and facilitating conditions (FC), which are used to predict behavioral intention and determine user behavior (Ann et al., 2021). By analyzing the presence of each of these UTAUT constructs in a "real world" setting, researchers and practitioners can assess an individual's intention to use a particular system. This approach helps identify the key factors influencing acceptance in any given context (Williams et al., 2015).

However, this study focuses specifically on the impact of facilitating conditions (supporting facilities) on the use and adoption of e-filing (online tax filing system). Facilitating conditions (FC) refer to an individual's access to various resources (both human and material) necessary to use the system (Jankeepsad, 2016). The UTAUT model also incorporates moderator variables such as gender, age, experience, and voluntariness to examine the strength of the relationships between the independent constructs and the dependent construct (Ann et al., 2021).

2.2 Empirical Review

2.2.1 Rental income tax compliance

Rental income tax is the tax imposed on income from rent of residential buildings. Since any income that is received from renting out a property is legally chargeable to income tax, the owners of the property are required to declare this income on their tax return. This income could be from renting out land or buildings (Berhane & Yesuf, 2019). The rental income tax rate of 10% tax on gross rent took effect on 1st January 2016 and applies to rental income received from calendar month of January 2016.

Eligible persons are required to file their tax return via iTax System (KRA, 2015). The 10% tax rate on gross rental income is payable by a resident person whether individual or an entity

and will apply to rental income that has accrued in or is derived from Kenya for the use of residential property where the rent income does not exceed KShs.10 million per annum (The Finance Act, 2015). The change is part of the KRA efforts to encourage property owners to be tax-compliant. The tax is simple to compute since it is based on a percentage of the gross rentals and is lower than the standard rate of 30% to reflect the fact that the landlords do not receive a deduction for the expenses incurred to generate the income (KPMG, 2015).

2.2.2 Perceived usefulness of digitized system and Rental income tax compliance

Perceived ease of use is different from perceived usefulness. Perceived usefulness refers to the extent to which a person believes that using a particular technology will enhance his/her job performance. In TAM framework, PU is hypothesized to be the direct predictor of behavioral intention to use (BI) of the technology of interest (Park, 2023). Previous studies indicate that PU is positively associated with continuance intention in the context of e-text, instant messaging, mobile service providers, online travel services, e-learning, blog learning, and knowledge creation (Chou, Min, Chang, & Lin, 2019).

Davis (2019) emphasized that perceived usefulness and perceived ease of use are an individual’s subjective appraisal of performance and effort respectively, hence they are not necessarily objective. Davis however believed that though these are just human beliefs, they are meaningful variables indicating behavioral determinants of adoption of an information system. Fishbein and Ajzen (2022) further stated that according to Fishbein’s Model for the Prediction of Intentions, “the general subjective norm is determined by the perceived expectations of specific referent individuals or groups and by the person’s motivation to comply with those expectations” Additionally, according to Miller & Khera (2020), the influence of subjective norms are culturally specific.

2.3 Conceptual Framework

Cooper and Schindler (2018) define a conceptual framework as a construct that shows the relationship between the variables in a study. The framework helps specify and define the concepts within the problem of the study. The conceptual model represented in Figure 1.

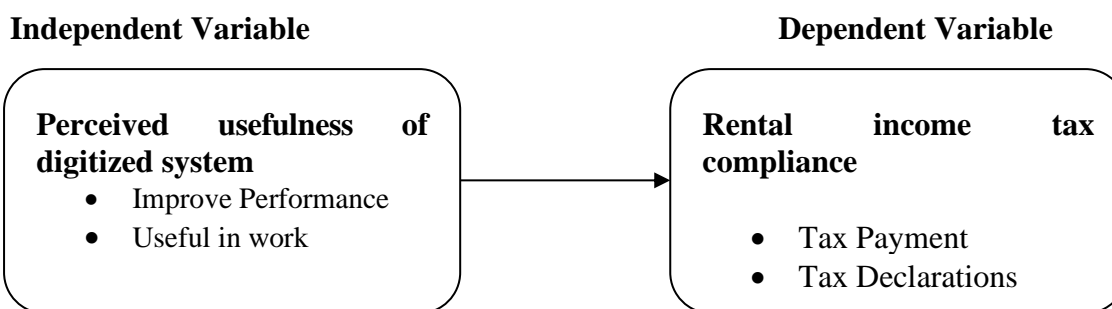


Figure 1: Conceptual Framework

3.0 Methodology

Akhtar (2016) defines research design as the blueprint, which guides the conduct process of a study with a clear plan for data collection, measurement, and analysis to give answers to the research questions. This study adopted an explanatory research design, which was used to establish the cause and effect in the relationship between the variables. The target population consisted of 4,927 landlords from Makadara Constituency in Nairobi County. Makadara Constituency comprises four wards: Harambee, Maringo/Hamza, Makongeni, and Viwandani. Makadara was chosen because as Nairobi grows, Makadara has experienced rapid urbanization

and infrastructural changes. This could make it an ideal location for research on urban planning, housing, or infrastructure development. The study had a sample size of 369 landlords in Makadara Constituency, out of 369 respondents targeted, 230 questionnaires were correctly filled and returned.

4.0 Results and Discussion

4.1 Descriptive Statistics

4.1.1 Perceived usefulness of digitized system

The descriptive statistics on the perceived usefulness show Table 1 "I would find the tax system useful" received a mean score of 4.01, indicating that respondents generally agree with this statement. The standard deviation of 1.047. "Using the tax system increases my productivity" had a mean score of 4.03, reflecting general agreement among respondents. The standard deviation was 1.071, "Using the tax system enables me to accomplish tasks more quickly" garnered a mean score of 3.91, indicating that respondents slightly agree with this statement. The standard deviation of 1.055 "Using the tax system would make it easier to file my tax returns" received a mean score of 3.83, showing slight agreement among respondents. The standard deviation was 1.027, and "Using the tax system would improve my performance" had a mean score of 3.88, indicating slight agreement among respondents. The standard deviation was 1.059.

Table 1: Descriptive statistics Perceived usefulness

	N	Mean	Std. Deviation	Skewness	Kurtosis
I would find tax system useful	230	4.01	1.047	-.740	-.678
Using tax system increases my productivity.		4.03	1.071	-.727	-.799
Using tax system enables me to accomplish tasks more quickly.		3.91	1.055	-.581	-.888
Using a tax system would make it easier to file my tax returns.		3.83	1.027	-.565	-.689
Using tax system would improve my performance.		3.88	1.059	-.601	-.761
Aggregate Mean		3.93			

4.1.2 Rental Income Tax Compliance

Table 2 illustrates the "I understand rental income tax obligation," the mean score is 3.92 (SD = 1.050), "I always file return as required by law" has a mean score of 4.07 (SD = 1.057), "I remit taxes due on time," the mean score is 4.03 (SD = 1.038). As a rental income earner, I file tax returns every month," the mean score is 3.94 (SD = 1.035), "KRA has offered an enabling environment for tax filing" has a mean score of 3.99 (SD = 1.024), Overall, the aggregate mean of 3.99 across all items.

Table 2: Descriptive statistics rental income tax compliance

	N	Mean	Std. Deviation	Skewness	Kurtosis
I understand rental income tax obligation	230	3.92	1.050	-.664	-.482
I always file returns as required by law.		4.07	1.057	-.888	-.211
I remit taxes due on time.		4.03	1.038	-.817	-.234
As a rental income earner, I file tax returns every month.		3.94	1.035	-.641	-.562
KRA has offered an enabling environment for tax filing		3.99	1.024	-.722	-.420
Aggregate Mean		3.99			

4.2 Correlation Analysis

Correlation Analysis is a tool in statistics used to determine the direction of the relationship between the variables in a research study, Table 3 shows that Perceived usefulness of digitized system shows a positive and significant correlation with Rental Income Tax Compliance at 53.0% p-value =0.000<0.05.

Table 3: Correlations Statistics of Independent and Dependent Variable

	VAT Compliance	Tax invoice management system
Perceived usefulness of digitized system	0.530**	1
Rental Income Tax Compliance	0.530**	1

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

4.3 Regression Analysis

The results in Table 4 indicated that Perceived usefulness of digitized system had a positive correlation with rental income tax compliance up to 5.30% or (R= 0.530). The results reveal that Tax Perceived usefulness of digitized system caused a variation of 28% ($R^2=0.280$ and adjusted $R^2 =0.274$) on rental income tax compliance. This implies that the remaining 72 % of the change was caused by other factors not included in the model.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.530 ^a	.280	.274	.34871

a. Predictors: (Constant), Perceived usefulness of digitized system _mean

The analysis of variance in Table 5 indicates that there is a significant variation caused by Perceived usefulness of digitized system on Rental Income Tax Compliance, F statistic of 198.67, and p-value of $0.000 < 0.05$.

Table 5: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	128.742	1	128.742	198.67	0.000
	Residual	147.804	228	0.648		
	Total	276.546	229			

a. Dependent Variable: Rental Income Tax Compliance

b. Predictors: (Constant), Perceived usefulness of digitized system

The hypothesis H_{01} stated that Perceived usefulness digitized system has no significant effect on rental income tax compliance among landlords in Makadara Constituency, Nairobi County, Kenya. The results in Table 6 revealed that p-value was less than 0.05, $\rho=0.000$ which implies that relationship was statistically significant and therefore hypothesis was rejected.

Table 6: Regression Coefficients

Model		Standardized Coefficients		Unstandardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.643	0.229		2.808	.005
	Perceived Usefulness of Digitized System	.261	.062	.270	4.210	.000

a. Dependent Variable: Rental Income Tax Compliance

4.4 Discussion of the Findings

To determine the effect of Perceived usefulness of digitized system on rental income tax compliance among landlords in Makadara constituency, Nairobi County, Kenya. The study found that Perceived usefulness of digitized system has a positive and significant correlation with rental income tax compliance $r= 0.530$ p-values $=0.000 < 0.05$. The coefficient analysis shows that there is a positive and significant effect of Perceived usefulness of digitized system on rental income tax compliance $\beta=0.261$, p-value = $0.000 < 0.05$. The study concurs with Togler et al. (2022) demonstrates how governance impacts tax compliance. Cum-mings et al. (2021) found that individual perceptions of good governance increase tax compliance. However, the relationship between tax compliance and quality of governance remains to be studied in the existing literature review, especially in developing countries (Sebele-Mpofu 2020).

5.0 Conclusion

The study found that Perceived usefulness of digitized system has a positive and significant correlation with rental income tax compliance. The coefficient analysis shows that there is a positive and significant effect of Perceived usefulness of digitized system on rental income tax compliance.

6.0 Recommendations

Based on the findings the study recommends that the KRA should launch widespread campaigns to educate landlords about the usefulness of digitized system.

A study could be conducted to determine the impact of tax reforms on rental income tax compliance.

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