

## The Effect of Culture of Tax Payers on Monthly Rental Income Tax Compliance Among Landlords in Lower Kabete, Kenya

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### Abstract

**Purpose;** Tax is the most important stream of revenue for government's development projects and services including health care, infrastructure, education, and electricity. Efforts must be made by governments to ensure that it is accurately and efficiently collecting revenue to facilitate the government's operations. Therefore, the purpose of this study was to determine the effect of culture of a taxpayer on monthly rental income tax compliance among landlords in Lower Kabete, Kenya. The theory that guided this study was Ability to pay theory and Behavioral Theory.

**Methodology;** Explanatory research design was used in this study. The target population of the study was 2156 and a sample size of 337 landlords in Lower Kabete, Kenya. The response rate for the survey, was 70.9%, with 239 out of 337 respondents. Questionnaires were used to collect primary data and analysis included both descriptive and inferential statistics.

**Results;** The study found that culture of taxpayers had a positive and significant effect on monthly rental income tax compliance  $\beta = 0.180$ ,  $p = 0.002$ .

**Recommendation;** The government should focus on fostering a positive culture of tax compliance by promoting awareness and community-level discussions on the importance of tax adherence.

**Keywords:** Landlords, Culture of Taxpayer, and Monthly Rental Income Tax Compliance

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### 1. Introduction

Taxation is a mandatory expense or transfer of resources from the individual to the public sector paid based on criteria and without regard to specific advantages received to achieve some of the country's economic and social goals (Olaoye et al., 2018; Faheem and Alzoubi, 2019; Tarfa et al., 2020). On top of this, taxation is a public duty and a contribution levied by the government on its subjects and businesses to empower them to finance or operate public facilities and fulfill other social responsibilities. As a result, taxes are the primary foundation

of government revenue. However, there are different problems in collecting appropriate taxes. Most researchers agree that taxation is compulsory payment by taxpayers to public investments.

Rent income tax is an essential revenue source for governments worldwide, whether in a developing or established nation. However, the amount of revenue a government can raise from this depends, among other things, on the compliance of individuals with the country's tax regulations (Kirchler, 2019). It is argued that rent income tax, like other forms of taxes, has problems such as differences in attitudes and understanding, a lack of awareness, the dishonesty of rent taxpayers, an unfair tax rate, and the complexity of tax rules, among others. It is also observed that several developing nations have tax administrations with limited power to ensure rental income tax compliance (Kuria, 2013).

Residential rental income, also known as Monthly Rental Income (MRI) refers to income derived from renting out residential properties for use or occupation. This tax applies to individuals and corporations with residential property only. The tax was effective from 1<sup>st</sup> January 2016. The landlord is required to pay rental income tax at a rate of 7.5% on the gross rent received either monthly, quarterly, semi-annually, or annually, though the return must still be filed monthly. In addition, no expenses, losses, or capital allowances are allowed for deduction from the gross rent at the time of filing the return. Therefore, a landlord earning gross rent of Ksh. 100,000 in a particular month will be required to pay rental income tax at the rate of 7.5%, that is  $7.5\% \times 100,000 = 7,500$ .

According to Schumpeter, (2021), the initial understanding of the concept of tax culture was entirely connected to the creators of the tax system. The other side, taxpayers as crucial one, was not taken into consideration. He said: "Tax culture is an expression of human spirituality and creativity" which relates to refined and educated tax systems. Here, the income tax is perceived as the "sweetest blossom of tax culture, the 'highest achievements' of the technique of taxation and tax equity. Schumpeter relates the term tax culture to progressiveness in tax systems and their modern design. Not less important are tax administration, tax economists, politicians, and academics – in one word the whole national tax system.

Lower Kabete is the name given to a region straddling Kiambu County and Nairobi County, Kenya. It falls between Wangige Area and Kitisuru Estate. Lower Kabete is roughly 12 Kilometers from Nairobi CBD. The larger part of the Kabete area is, however, in Kiambu County with the border commencing at Rhythms College near the present-day Kabete Shopping Center some 5 Kilometers from the Wangige Market. A small portion of Lower Kabete is in the Westlands constituency of Nairobi County. These areas are known for their serene environments and relatively low-density housing, making them popular among the middle and upper classes.

### **1.1 Problem Statement**

Taxation on rental income by the Kenya Revenue Authority has been in existence since implementation of Income Tax Act of 1973. However, majority of landlords have not been complying with the Act due to lack of government mechanisms to identify and bring landlords into the tax net. From the available evidence, it is clear that absence of suitable tax policy, low compliance, and poor tax administration are connected to high levels of tax avoidance in developing nations (GIZ, 2020).

Rental income tax remitted by property owners has been dismal notwithstanding all the efforts to enforce rental income tax policies. There has been little improvement in rental tax compliance in the region. Kenya Revenue Authority recently in the 2023/2024 Financial Year did not achieve its tax target of 2.537 Trillion. Kenya Revenue Authority collected 2.407 Trillion. As for the rental income, the Kenya Revenue Authority did not meet its target in 2023/2024 financial year. They collected 11.03 billion against the target of 13.11 billion, (KRA report, 2024). This underscores the need to determine the effect of culture of taxpayers on monthly rental income tax compliance among landlords in Lower Kabete, Kenya.

## **2. Literature Review**

### **2.1 Theoretical Review**

#### **2.1.1 Ability To pay theory**

This theory was developed by Smith and Pigou (1903) “The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state.”

The ability-to-pay principle requires that the total tax burden be distributed among individuals according to their capacity to bear it, taking into account all of the relevant personal characteristics. This is the most popular and commonly accepted principle of equity or justice in taxation as citizens of a country pay taxes to the government in accordance with their ability to pay. It seems that if the taxes are levied on this principle as stated above, then justice can be achieved. The most suitable taxes from this standpoint are personal levies (income, net worth, consumption, and inheritance taxes) (West, 2016). The economists are not unanimous as to what should be the exact measure of a person's ability or faculty to pay

Similarly, in vertical equity, the tax should be charged based on individuals' income. For instance, vertical equity is progressively achieved by strategic policies and planning. Although tax rates discriminate on taxpayers' income, still a considerable level of tax compliance is recorded (Robert, 2020). Similarly, today, the Ability to pay provides principles of fair taxation when it comes to fiscal substance. Here, the concept demands tax fairness in which the tax burden is managed, and taxpaying is equally imposed on individuals (Podlipnik, 2017). The theory supports the dependent variable which is rental income tax compliance.

#### **2.1.2 Behavioral Theory**

These theories were developed in an attempt to address the shortcomings of economic theory. Ajzen & Fishbein advanced the Reasoned Action theory (TRA) in the 1980s, demonstrating that compliance behavior of tax payers is determined by their perception of subjective norms and attitude towards the tax. That is the taxpayer's compliance behavior will be determined by whether their social network would accept their planned course of action in terms of compliance and noncompliance (Devos, 2014). Therefore, TRA indicates that a taxpayer's compliance behavior is determined by the nature of a person and the other reflecting social factors (Ajzen & Fishbein, 1982).

In 1980 with a view to understanding compliance behavior, Lewis examined the attitudes and perceptions of taxpayers in line with TRA. His findings stated the three parameters that determine compliance behavior specifically tax evasion include: age, one's norms and values, and assessments of the number of persons involved in tax evasion.

In addition, Smith & Kinsey (1978) stated that circumstantial factors were essential in determining compliance and noncompliance decisions, case in point, information accessibility, and cost of compliance. In the approach of Sandmo and Allingham (1972), tax morale spells out the level of tax compliance by placing into consideration the tax regulation and action of government administrations which is in line with the perspective that key social norms, like civic duty or religion, mold tax motive. In comparison to this purportedly policy-autonomous ethos, the psychological tax commitment is influenced by government policy, tax authorities' actions, and government organizations. Tax morale becomes intrinsic instead of explaining the extent of tax compliance. The theory supports independent variables which are culture of taxpayer, taxpayer perception, social norms

## **2.2 Empirical Review**

### **2.2.1 Monthly Rental Income Tax Compliance**

Rental income tax is a tax payable by residents on residential rental income accrued or derived in Kenya to use to use or occupy a property when the rent revenue ranges between Kshs. 288,000 (that is 24,000 per month) and Kshs.15 million per year (KRA, 2020). Any money obtained from allowing someone else to utilize property that you own or have rights to is known as residential rental income (Waruiru, 2021).

Initially, rental property owners needed to submit taxes and file their tax returns on an annual basis. Later, the government differentiated premises, structured and initiated a streamlined tax system for residential property through the 2015 Finance Act, called MRI tax which came into effect on 1st January 2016. The institution of this tax regime was meant to deal with the issue of low compliance levels within the residential rental income taxpayers in Kenya and improve the revenue generated from the sector. In this establishment, residential property owners are expected to pay 10 percent of the gross rent collected to the KRA monthly (Waruiru, 2021) or annually. Despite the introduction of a simplified tax regime for residential premises, there is still non-compliance and therefore this underscores the need to ascertain the determinants of residential rental income tax compliance among landlords

### **2.2.2 Culture of taxpayer and Monthly rental income tax compliance**

Kasper and Streit (2021) emphasize that a common culture produces predictability and an orderly evolution of the corresponding institutions. The shared values act as a filter and serve as 'the cohesive cement for the evolving internal rules of society'. Heinrich et al. (2019) argue that culture transmission mechanisms provide a means to solve the problem of cooperation, building a mechanism similar to conformism, which creates a force that maintains common behavior and thus cooperation. It speeds up learning by reducing individual information costs, as experimentations.

Elly (2019) aimed to profile the attributes that define tax compliance for SMEs in Tanzania. Data was collected using a survey technique with a total of 158 SMEs. Factor reduction and descriptive statistics for frequency and percentage were used to analyze the data. The results show that SMEs' tax compliance issues include the feeling that entrepreneurs pay fair taxes if the taxpayer knows the reason for paying the tax, the simplicity of the tax law, the nature of the reporting requirements and tax rates, or the amount of tax accrued. When factors influencing SMEs' culture towards tax were classified, three groups were formed. Economic factors, which include audit frequencies, compliance, and non-compliance, meaning the same

thing in terms of financial costs, penalties for non-compliance/severity of fine, financial implications, complexity of tax system, likelihood of being caught, and levels of tax rates. There were two psychological variables: equality and fairness, and tax exemptions. The final category included societal issues such as other taxpayers' rates of evasion, the impact of tax compliance, and government-provided public benefits.

Lumumba, Wanjohi, and Magutu (2020) used the example of SME revenue from enterprises in the Kirinyaga District to survey taxpayer compliance attitudes and culture in Kenya. The findings reveal that in Kenya, there is a clear link between taxpayer culture and compliance with tax regulations. A correlation of 0.846 backs up this claim. This indicates that in Kenya, tax compliance is driven by taxpayer views and culture.

2.3 Conceptual Framework

Conceptual framework is a visual or written presentation that explains either graphically or in narrative form the main factors, concepts, or variables and the supposed relationship among them (Miles and Huberman, 2020). Figure 1 shows the conceptual model depicting the nature of the relationship between the independent variable's Culture of taxpayer and dependent variable's Monthly Rental Income Tax Compliance

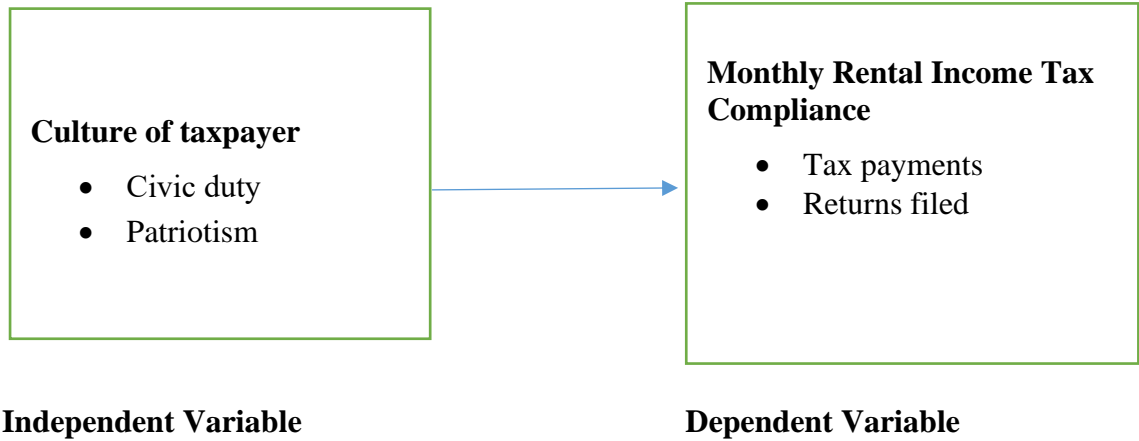


Figure 1: Conceptual Framework

3. Methodology

Khan (2018) defines research design as the blueprint of techniques adopted by the researcher to test the relationship between the dependent and independent variables. For this study, an explanatory research design was used. The explanatory research design tries to explain the nature of certain relationships and investigates the causal relationship between variables. The target population was 2156 monthly rental income compliance among landlords in Lower Kabete, Kenya KRA, (2023). By using Yamane's formula of sample size with an error of 5% and with a confidence coefficient of 95% (Yamane, 1967), the calculation from a population of 2156 landlords comes to 337 with the response rate for the survey, as presented in Figure 1 was 70.9% with 239 out of 337 targeted participants.

Sekaran (2003) stated that the reliability of a measure is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the "goodness" of a measure. The reliability analysis was done using Cronbach's Alpha which is usually



interpreted as the mean of all possible split-half coefficients. Table 1 shows that specifically, the construct “Monthly Rental Income Tax Compliance” demonstrated a high reliability with an  $\alpha$  of 0.917 across 5 items, suggesting that the items consistently measure the intended construct. Similarly, “Culture of Tax Payers” also showed high reliability ( $\alpha = 0.911$ , 5 items), indicating a strong internal consistency.

**Table 1: Test of Reliability of Questionnaire**

Factor	Number of Items	Cronbach Alpha score	Conclusion
Monthly Rental Income Tax Compliance	5	0.917	Reliable
Culture of Taxpayers	5	0.911	Reliable

**4. Results and Discussion**

**4.1 Descriptive statistics**

**4.1.1 Descriptive Statistics Culture of Taxpayers**

**Table 2** shows that the statement “Paying taxes is my civic duty” received a mean score of 3.91 (SD = 1.123), indicating that respondents generally agree with this statement. The statement “I find the government’s transparency on how it uses tax revenue” received a mean score of 4.04 (SD = 1.038), showing that respondents tend to agree with this statement. The item “Paying taxes is an expression of patriotism” received a mean score of 3.81 (SD = 1.142), indicating that respondents generally agree with this statement. On people who avoid paying taxes are unethical” received a mean score of 4.01 (SD = 1.063), showing that respondents tend to agree with this statement. The standard deviation implies moderate variability in responses. The item “In my culture, we discuss tax obligations more often” received a mean score of 4.02 (SD = 0.985), indicating that respondents generally agree with this statement.

**Table 2: Culture of Taxpayers**

	N	Mean	SD
Paying taxes is my civic duty	239	3.91	1.123
I find the government’s transparency on how it uses tax revenue.		4.04	1.038
Paying taxes is an expression of patriotism.		3.81	1.142
People who avoid paying taxes are unethical		4.01	1.063
In my culture, we discuss tax obligations more often.		4.02	.985

#### 4.1.2 Descriptive Statistics for Monthly Rental Income Tax Compliance

**Table 3:** showed that the statement “I file my returns accurately” had a mean response score of 3.91 (SD = 1.115), indicating that respondents tend to agree with this statement. The standard deviation suggests moderate variability in responses. The item “I pay rental income tax by the due date because I believe it is morally right” had a mean response score of 4.01 (SD = 1.039), The statement “I always remit my rental income tax to KRA in time” had a mean response score of 3.79 (SD = 1.133), indicating that respondents agreed with this statement. The standard deviation suggests moderate variability in responses. With regard to I compute and pay my rental income tax correctly and in good time as stipulated by the law” had a mean response score of 4.02 (SD = 1.067), indicating that respondents agreed with this statement. The statement “I fully understand my tax obligation” had a mean response score of 4.03 (SD = 0.991), indicating that respondents tend to agree with this statement. The standard deviation suggests moderate variability in responses.

**Table 3: Monthly Rental Income Tax Compliance**

	N	Mean	SD
I file my returns accurately	239	3.91	1.115
I pay rental income tax by the due date because I believe it is morally right.		4.01	1.039
I always remit my rental income tax to KRA on time.		3.79	1.133
I compute and pay my rental income tax correctly and in good time as stipulated by the law.		4.02	1.067
I fully understand my tax obligation.		4.03	.991

#### 4.2 Correlation Analysis

The correlation analysis assessed the nature of the relationships between each of the predictor variables, and the outcome variable. The correlation matrix showed that the correlation between Culture of Taxpayer showed a significant and positive correlation at 47.7%, p-value = 0.013) with Monthly Rental Income Tax Compliance, suggesting that a stronger Culture of Taxpayer is associated with better compliance.

**Table 4: Correlations Statistics**

	Monthly Rental Income Tax Compliance	Culture of Taxpayer
Monthly Rental Income Tax Compliance	1	0.477**
Culture of Taxpayer	0.477**	1

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

### 4.3 Regression Analysis

Table 5 showed that culture of taxpayer had a positive correlation with Monthly Rental Income Tax Compliance up to 47.7% or ( $R = 0.477$ ). The results reveal that culture of taxpayer caused a variation of 22.7% or ( $R^2 = 0.227$  and adjusted  $R^2 = 0.223$ ) on Monthly Rental Income Tax Compliance. The remaining 77.3% of variation was caused by other factors not included in the model.

**Table 5: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.477 <sup>a</sup>	.0227	.223	.32568

a. Predictors: (Constant), Culture of Taxpayer \_mean

**Table 6** shows that there was an F statistic of 310.890 and a p-value of  $0.000 < 0.05$ , which indicates that the regression model explained a significant proportion of the variance in monthly rental income tax compliance.

**Table 6: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	148.295	1	148.295	310.890	0.000
	Residual	113.230	237	0.477		
	Total	261.525	238			

a. Dependent Variable: Monthly Rental Income Tax Compliance.

b. Predictor: (Constant), Culture of Taxpayer

**Table 7** shows that A unit change in the Culture of taxpayers causes a 0.180 significant increase in monthly income tax compliance,  $\beta = 0.180$ , p-value = 0.002.  $H_{01}$  stated that Culture of taxpayers has no significant effect on monthly rental income tax compliance among landlords in Lower Kabete, Kenya. This highlights the role of taxpayer culture in enhancing compliance, was rejected  $p < 0.05$

**Table 7: Regression Coefficient analysis**

Variable	Standardized $\beta$	Std. Error	t-Statistic	Unstandardized $\beta$	Prob.
Constant	0.328	0.134	2.448		0.010
Culture of Taxpayer	0.180	0.056	3.214	0.198	0.002



#### 4.4 Discussion

The study sought to establish the effect of culture of taxpayers on monthly rental income tax compliance among landlords in Lower Kabete, Kenya. The correlation matrix of study found Culture of Taxpayer showed a moderately positive and significant correlation ( $r = 0.477$ ,  $p$ -value = 0.013) with Monthly Rental Income Tax Compliance, suggesting that a stronger Culture of Taxpayer is associated with better compliance. The study further found that culture of taxpayers had a positive and significant effect on monthly rental income tax compliance  $\beta = 0.180$ ,  $p = 0.002$ . The findings concur with Kasper and Streit (2021): who Emphasized that common culture creates predictability and fosters cooperation, supporting the idea that culture positively affects tax compliance.

#### 5. Conclusion

The study concludes that the culture of taxpayers has a significant positive effect on monthly rental income tax compliance. The moderately positive correlation and significant effect indicate that fostering a stronger culture among taxpayers enhances compliance with rental income tax obligations. This conclusion underscores the importance of nurturing positive cultural attitudes and ethical norms related to tax payment to improve compliance among landlords.

#### 6. Recommendations

The government should focus on fostering a positive culture of tax compliance by promoting awareness and community-level discussions on the importance of tax adherence. This could be achieved through public campaigns aimed at instilling ethical norms and a sense of national duty regarding tax payment.

Future research should examine the impact of technological literacy and digitalization on monthly rental income tax compliance.

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