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Effect of Taxpayer Egoism on Capital Gains Tax Compliance Among Property Owners in Kasarani Sub-County, Nairobi County, Kenya

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Abstract

Research shows that money received in taxes derived from domestic taxes has not been adequate to finance the government's annual budgets. The country has been forced to finance the deficit through debt. According to the Kenya Revenue Authority, there is a need for concerted efforts to collect more Tax through expanding the tax base. The main objective of this study was to establish the effect of taxpayer egoism on capital gains tax compliance among property owners in Kasarani subcounty, Nairobi, Kenya. The study was anchored on the Theory of Psychological Egoism Theory. The study adopted an explanatory research design. The target population was 5,278 property owners, and the sample was 371 respondents. The study further found that 278 respondents accurately filled and submitted their questionnaire responses out of 371 sample size, the remaining 93 did not submit their responses, indicating a response rate of 74.9%, and a non-response rate of 25.1%. Random sampling was used. The study also utilized primary data collected through structured questionnaires. The study found that taxpayer egoism had a negative and significant effect on capital gains tax compliance (β = -0.413, p = 0.000). Based on the findings, the KRA could enhance Psychological Egoism Theory by revealing systems automation's transformational effect, which shows that while egoism reduced capital gains tax compliance, its interaction with system automation produced a positive effect. This suggests digital systems convert taxpayer egoistic motivations into compliant behavior when evasion becomes technologically difficult. Future research could explore incorporating macroeconomic variables like property market volatility indices to explain why certain high-burden taxpayers remain compliant during market downturns, addressing the conceptual narrowness of current capital gains tax compliance models.

Keywords: *Taxpayer Egoism, Capital Gains Tax Compliance, Property Owners*

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1. Introduction

In every sovereign state across the globe, the governing authority necessitates financial resources to underpin its immediate, intermediate, and long-range undertakings, alongside covering its ongoing operational disbursements. Taxation stands as the principal wellspring of public revenue for these governments. To ensure the government accumulates sufficient funds to finance its diverse activities, it is imperative that taxpayers remit all their mandatory contributions promptly and in their entirety.

Capital gains tax is an impost applied to the increment in the worth of marketable assets, calculated from their acquisition date or a predetermined fixed date, until the moment of their disposition, at which point the tax becomes due. Experts in policy analysis have presented diverse perspectives concerning the economic repercussions of the Capital Gains Tax on any given economy. Notably, Capital Gains Tax (CGT) has been reinstated in Kenya as part of the government's strategic efforts to augment public revenue and address the existing budgetary shortfall, following an amendment introduced in the 2014 Finance Act.

CGT was brought back to Kenya by the Finance Act 2014, effective January 2015. The Finance Act 2022 reviewed the CGT rate from 5% to 15% effective 1st January 2023 in view of enhancing the CGT revenue collection to bridge the fiscal budget deficit, promote equity in taxation, broaden the tax base, and to realign Kenya with the neighboring countries, which were already charging the tax. It is crucial to remember that capital gains taxes only apply after profits have been achieved when the property is transferred. A property is considered to be transferred if it is marketed, swapped, conveyed, or otherwise relinquished through any means (even as a donation), regardless of whether compensation is involved (KRA, 2024). The stipulated deadline for Capital Gains Tax remittance is the earlier of either the seller's full receipt of the purchase amount or the formal recording of the transfer document in the recipient's name. When proprietors choose to retain their real estate, they are not obligated to remit the Capital Gains Tax.

Taxpayer egoism refers to the inclination of individuals to prioritize their financial interests over their civic duty to pay taxes, often leading to non-compliant behaviors such as tax evasion. This self-centered attitude can significantly undermine tax compliance and, consequently, public revenue (Farzbod, 2020). For instance, a study in the Amhara region of Ethiopia found that taxpayers exhibiting egoistic tendencies were more likely to engage in tax evasion, thereby adversely affecting the compliance levels (OECD, 2020). Similarly, research from Indonesia indicates that taxpayer egoism positively correlates with evading taxes, highlighting the role of self-interest in tax compliance decisions. Addressing taxpayer egoism is pivotal for fostering increased voluntary compliance and guaranteeing the overall efficacy of taxation frameworks (Pirttil¨ & Selin, 2021).

Kasarani sub-county represents an electoral district situated within Nairobi. It stands as one of the seventeen constituencies comprising Nairobi City County. The entirety of this constituency is located within the geographical confines of Nairobi City County, encompassing a total area of 152.60 square kilometers (58.9 sq mi). Thereby, it stands as the second-largest electoral district within Nairobi, with Lang'ata being the largest. This constituency shares its borders with the Ruaraka, Embakasi Central, Embakasi North, Embakasi East, and Roysambu constituencies to its west; Ruiru constituency to its north; Matungulu constituency to its east; and Mavoko constituency to its south-east. The sub-county maintains identical geographical limits with the former Kasarani Division. Notably, localities such as Njiru, Ruai, and Kamulu are situated within Njiru Sub- County. The entirety of the Roysambu and Ruaraka constituencies, along with a portion of Embakasi North, are encompassed within the Kasarani sub-county. This Sub-County's administrative center is located in Kasarani, and its operations are overseen by the Deputy County Commissioner, who functions under the purview of the Ministry of Interior.

1.1 Problem Statement

Even though CGT was reintroduced in 2014 to widen the tax base of Kenya, its efficiency has fallen short of expectations. It is expected that taxpayers are compliant and patriotic; however, figures show otherwise, for instance FY 2020/21, 2021/2022, 2022/23. Data for the target for the North of Nairobi region FY 2019/20, KRA collected Ksh 1,909m against a target of Ksh 2,411m. In FY 2020/21, when the target was Ksh 1,809m, KRA collected Ksh 1,222m. Against a target of 2,877m in FY 2021/22, KRA collected Ksh 1,634m, while only Ksh 1,587m was collected out of a target of 2,505m in FY 22/23. For FY 2023/24, KRA collected Ksh 1,498, even with the reduced target of Ksh 1,542 m (KRA, 2024).

Based on the available empirical research, it seems that not much research has been done in Kenya about the variables affecting capital gains tax compliance following the 15% CGT rate hike. It is also clear that the purpose of the CGT modification was to mitigate any potential deficit the nation would have had in the 2022/2023 fiscal year. The principal objective of this research is to ascertain the effect of taxpayer egoism on capital gains tax compliance among property owners in Kasarani Sub-County, Nairobi County, Kenya.

2. Literature Review

2.1 Theoretical Review

2.1.1 Theory of Psychological Egoism

The doctrine of psychological egoism presents a rather unusual characteristic. Although it frequently enters into philosophical discourse, it has not been explicitly endorsed by a large number of prominent thinkers throughout the annals of philosophy. Its primary proponents are most frequently cited as only Thomas Hobbes (1651) and Jeremy Bentham (1781). Psychological egoism posits the theory that individuals are inherently driven by their self-interest, thereby suggesting that all human endeavors, even those that appear to be altruistic, are ultimately motivated by a pursuit of personal benefit. In the context of taxation, this perspective can manifest as taxpayer egoism, where individuals prioritize their financial benefits over societal obligations, potentially leading to behaviors like tax evasion.

The psychological egoism theory holds that self-interested people do not give social and monetary assets that might assist the larger community. According to McConnell (1978), psychological egoism is the theory that claims that every individual is psychologically inclined to simply consider their interests. According to this theory, selfishness drives people to participate in communal events. Individual agenda-driven taxpayers frequently evade their financial obligations.

The hypothesis of psychological egoism maintains that every individual's conduct, pursuits, and choices are propelled by personal advantage. This concept is considered reductive as it asserts that all motivations are fundamentally self-serving (Feinberg, 2018; Tomaszewski, 2021). Consistent with the tenets of psychological egoism, those focused on self-interest do not concern themselves with social and economic resources that could benefit the broader community. The proposition of psychological egoism, which states that each person is inherently predisposed to prioritize only their well-being or concerns, is precisely defined as psychological egoism (McConnell, 1978). Consequently, this framework suggests that

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individuals engage in communal endeavors primarily due to self-centeredness. For instance, taxpayers motivated by individual gain are inclined to avoid their fiscal obligations

2.1.2 The Technology Acceptance Model (TAM)

The Technology Acceptance Model (TAM), which was developed by Davis (1986), is one of the most widely used research models in studying the determinants of information technology (IT) usage and has been applied extensively to evaluate user acceptance of information technologies, including e-invoicing. The model postulates that IT acceptance is determined by a person's perceived usefulness (PU), perceived ease of use (PEU), and attitude towards adopting a specific technology, following the thread of belief–intention–behavior. Perceived usefulness reflects the belief of a person that their productivity will be enhanced when adopting a specific information technology (Davis, Bagozzi & Warshaw, 1989).

The model defines perceived ease-of-use as the perception of a person that using a particular technology will be effortless. According to TAM, an individual's behavior of adopting a given technology is determined by their intention. Individuals tend to form the intention to behave when they think the behavior is useful or can enhance their performance, and when they hold positive attitudes. In other words, behave is regarded as determined together by attitudes and PU. Furthermore, TAM presumes that PU has a positive effect on attitudes as well, and likewise, this relationship can be applied to that of PEU on attitudes.

As users perceive the technology to be easy to use, it is expected to save effort and to improve their performance. PEU is considered to have a direct effect on PU, moderated by external variables such as training and user support, which impact PEU and in turn affect the actual adoption. Governmental intervention is brought into consideration in that by targeting companies that do business with it first, it can help create a ripple effect among suppliers to adopt e-invoice (Davis et al., 1989). TAM was, however, developed in the setting of IS usage within organizational boundaries, where availability of technological resources, training, IS experience, and the expertise of users are homogenous to some extent; whereas, in a tax invoice management system setting, not everyone has an equal opportunity or adequate expertise to adopt the system.

2.2 Empirical Review

2.2.1 Taxpayer Egoism and Capital Gains Tax Compliance

Taxpayers can develop a self-serving or egoistic behavior by deliberately evading taxes and fabricating fraudulent documents, often guided by corrupt tax professionals. In such scenarios, individuals who evade taxes engage in illicit practices, where morally deficient (selfish) individuals have the opportunity to exploit those driven by egoism (Frecknall-Hughes et al., 2017; Tadesse, 2022). The inherent psychological egoism of taxpayers consistently prioritizes self-interest. Under the influence of egoistic conduct, taxpayers prefer lower tax rates that minimize their overall tax burden (Boadway et al., 2007; Kaulu, 2022). Taxpayer egoism often aligns with individualism, which can potentially impede societal progress. Therefore, concentrated efforts are necessary to curtail tax evasion and psychologically egoistic practices.

Conversely, even if self-centered psychological tendencies negatively influence revenue performance, the extent of this impact may not consistently be substantial. Psychological egoism is connected, either directly or indirectly, to the actions of individuals who engage in tax evasion (Malezieux, 2021). The aforementioned researchers largely agree on the detrimental effect that psychological egoism has on the effectiveness of revenue collection, irrespective of whether this impact is statistically significant or not. Notably, the initial two scholars underscored that these effects are considerable and necessitate substantial intervention.

According to the psychological egoism theory, people who put their priorities first usually ignore any possible benefits to society or the economy that could arise from carefully paying their taxes. (Mu et al., 2023; Tomaszewski, 2021). This self-prioritization can lead to a predisposition for engaging in behaviors that solely benefit the individual rather than the community. For instance, taxpayers motivated by personal gain may actively seek to circumvent their tax responsibilities. Empirical evidence indicates that individuals possessing egoistic personality traits are frequently catalysts for non-compliance with tax regulations (Korndörfer et al., 2020). As a socially undesirable characteristic, egoism can ultimately culminate in criminal behavior, particularly when it fails to adhere to tax laws (Paulhus & Jones, 2021). Furthermore, Chayati et al. (2024) discovered that taxpayer egoism positively influences the intent to evade taxes, further reinforcing the idea that a strong focus on personal advantage can significantly impact tax compliance behaviors.

2.2.2 Capital gains tax

Capital gains tax constitutes a fiscal levy imposed on the profits generated from the disposition of a capital asset. As per Oserogho (2014), capital gains tax represents a financial obligation payable by the proprietor of a capital asset on the profit obtained from selling the asset, exceeding its initial acquisition and maintenance expenses, along with any costs incurred during the asset's disposal (Oserogho, 2014). This implies that capital gains tax is exclusively applied to capital assets, as explicitly defined by the Capital Gains Tax Act of 2004. In this context, a capital asset is broadly interpreted to encompass any type of property, irrespective of whether it is fixed, circulating, movable, immovable, tangible, or intangible, including stocks or bonds, and regardless of its utilization for business or professional purposes (Katwa & Obala, 2023). Typically, numerous jurisdictions levy CGT on realized gains rather than on accrued gains. However, this principle can vary across different nations, influenced by their prevailing inflation rates and corresponding tax rates.

In spite of deducting the incidental costs, this tax still faces administrative challenges. When property owners wish not to pay the Capital Gains Tax, they hold onto their property. This is known as the lock-in effect (Klein, 2019). Consequently, the individual owning the property might be willing to settle for a diminished rate of return before taxation, in comparison to what they would anticipate from entirely new investment opportunities lacking any accumulated gains. This has an overall effect of distorted allocation of capital geographically. An additional hurdle confronting the Capital Gains Tax is the issue of tax avoidance, primarily stemming from the inherent characteristics of its collection methodology. This challenge arises because the specific manner in which this tax is gathered can inadvertently create avenues for taxpayers to legally minimize their obligations. The 15% CGT is collected by the Kenya Revenue Authority. The Kenyan government, through the KRA, has conducted awareness campaigns to help taxpayers to appreciate the value of voluntary tax compliance (Omwenga and Ogaga, 2022).

Reintroduction of CGT in 2014 by the Kenyan Government meant that the investors would forego part of the gains they used to pocket on disposal of their properties in the form of taxes.

This also affected the investors who were trading in shares listed at the Nairobi Stock Exchange (NSE). Increasing the CGT rate from 5% to 15% is likely to have a negative impact on the local investments as well as investment into the country by external investors. For instance, property owners may refrain from disposing of their property since 15% of the gain on disposal will be taxed as CGT.

2.3 Conceptual Framework

Creswell (2013) noted that such a framework assists the researcher in delineating key concepts, charting the conceptual boundaries, organizing the connections between concepts, and pinpointing areas requiring further exploration within existing literature. In the context of this particular study, the independent variable examined will be taxpayer egoism, while capital gains tax compliance acts as the dependent variable. As indicated in Figure 1.

Independent Variable		Dependent Variable
Taxpayer egoism Tax avoidance Tax laws	→	**Capital Gains Tax Compliance.** • Tax payments • Returns filed

Figure 1: Conceptual Framework

3. Methodology

Research methodology pertains to the specific approaches and techniques employed to identify, select, process, and critically assess information pertaining to a given study topic. The methodology segment is crucial as it empowers the reader to definitively evaluate the overall authenticity and dependability of a research project. It functions as a meticulously crafted plan, detailing how the investigator gathered and analyzed the data essential for achieving the predetermined study objectives (Kothari, 2006). This study employed an explanatory research design, given that this particular design utilizes hypotheses to account for the causal forces behind observed phenomena, in this instance, the effect of capital gains tax compliance. The target population for this study was 5,278 property owners in Kasarani sub-county, KRA (2024). Table 1 shows that 278 respondents accurately filled and submitted their questionnaire responses out of 371 sample size, the remaining 93 did not submit their responses, indicating a response rate of 74.9%, and a non-response rate of 25.1%.

Table 1: Response Rate

	%	Number
Respondents	74.9%	278
Non-Respondents	25.1%	93
Sample size	100%	371

Reliability Test

The study assessed reliability by calculating Cronbach's Alpha scores. According to Kien and That (2022), a coefficient of 0.7 is a generally accepted benchmark indicating acceptable reliability, while a score of 0.7 or higher signifies good reliability. Table 4.1 shows that the construct of capital gains tax compliance shows excellent internal consistency with a Cronbach's alpha of 0.949 across five statements. Taxpayer egoism maintains strong reliability, yielding a Cronbach's alpha of 0.894 over five statements.

Table 2: Test of Reliability of Questionnaire

Factor	Number of Items	Cronbach Alpha score	Conclusion
Capital Gains Tax Compliance	5	0.949	Reliable
Taxpayer egoism	5	0.894	Reliable

De Vos (2002) further describes data analysis as a complex and imaginative endeavor, distinguished by the researcher's engagement with the study participants and the resulting information generated. According to Hyndman (2008), data processing involves transforming responses gathered from questionnaires into a standardized format suitable for manipulation to yield meaningful statistical outcomes.

Data analysis encompasses several distinct phases, including systematic coding, meticulous editing, accurate data entry, and meticulous oversight of the entire data processing continuum. For the specific purposes of this research, primary, or quantitative data, was meticulously gathered. Consequently, this numerical information was rigorously evaluated using a precise numerical scale. Quantitative data fundamentally refers to information that articulates the specific quantity or measurable amount of something (Quang and Hong, 2009). To draw meaningful inferences, Pearson correlation and regression analysis were strategically employed to determine the presence and nature of relationships among the diverse variables under scrutiny.

4. Results and Discussion

4.1 Descriptive Statistics for Taxpayer Egoism

Table 3 shows that the item I would avoid paying taxes if I could do so legally has a mean response of 2.24 (SD = 0.898), indicating that respondents generally disagreed with this statement. The low standard deviation suggests limited variation in responses. For the statement, I only comply with tax laws because of the fear of penalties, the mean is 2.50 (SD = 0.853), reflecting overall disagreement. The particular statement, "The best way to handle people is to tell them what they want to hear," yielded a mean score of 2.17, accompanied by a standard deviation of 0.968. Conversely, I feel a moral obligation to pay taxes for the benefit of society has a mean of 3.45 (SD = 1.200), indicating respondents leaned toward agreement. Finally, the statement A person should obey only laws that seem reasonable has a mean of 3.54 (SD = 1.043), reflecting uncertainty to slight agreement.

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Table 3: Taxpayer Egoism

Statements	N	Mean	SD
I would avoid paying taxes if I could do so legally	278	2.24	.898
I only comply with tax laws because of the fear of penalties.		2.50	.853
The optimal approach for managing individuals involves telling them what they desire to learn.		2.17	.968
I sense a moral duty to contribute taxes for society's advantage.		3.45	1.200
An individual ought to adhere solely to statutes that appear sensible.		3.54	1.043

4.2 Descriptive Statistics for Capital Gains Tax Compliance

Table 4 shows that the item indicates that for the statement, "It is my responsibility to register with KRA as a property owner and obtain a KRA PIN," the average response was 4.09, accompanied by a standard deviation of 0.706. This signifies that the surveyed individuals largely concurred with this particular assertion. The relatively low standard deviation further suggests minimal dispersion in the responses, highlighting a general agreement among the participants on this point. For the item, I have a KRA PIN, which I use to file Capital Gain Tax returns. The mean response was 4.04 (SD = 0.657), suggesting that respondents generally agreed with this statement. The low standard deviation implies minimal variation in responses. I recognize the importance of maintaining accurate records of my property transfers and sales for tax reporting purposes. This statement has a mean of 4.02 (SD = 0.638), indicating overall agreement. The narrow standard deviation suggests strong consistency in responses. For the assertion, "I understand that when I sell or transfer a property, I should pay capital gains tax on time," the average response was 4.08, with a standard deviation of 0.672. This indicates a general concurrence among the respondents. For the question of ensuring accurate remittance of the appropriate capital gains tax when transferring my property, and that I make the payments promptly. This item has a mean of 4.07 (SD = 0.646), again indicating agreement. The standard deviation points to low variability.

Table 4: Capital Gains Tax Compliance

Statements	N	Mean	SD
Obtaining a KRA PIN and registering with KRA as a property owner are my responsibilities.	278	4.09	.706
I have a KRA PIN, which I use to file Capital Gain Tax returns.		4.04	.657
I understand the necessity of maintaining precise records for property transfers and sales for fiscal reasons.		4.02	.638
I recognize that upon property sale or transfer, capital gains tax is due promptly.		4.08	.672
I pay the accurate capital gains levy promptly upon property transfer.		4.07	.646

4.3 Correlation Analysis

To assess the associations between independent variables, Pearson correlation coefficients were computed. These coefficients measure the linear relationship between variables, where values approaching +1 or -1 indicate stronger positive or negative correlations, respectively. The analysis quantifies both the direction and magnitude of these bivariate relationships, with coefficients near zero suggesting negligible linear association. Taxpayer egoism shows a significant negative relationship with capital gains tax compliance ($r = -.826$, $p = .022$), consistent with Hallsworth et al.'s (2021) findings that self-interest and tax evasion are closely linked.

Table 5: Correlation Statistics

	Capital Gains Tax Compliance	Taxpayer egoism
Capital Gains Tax Compliance	1	0.826**
Taxpayer egoism	-0.826**	1
Sig.	0.022	

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

4.4 Regression Analysis

The regression analysis was conducted to determine the effects of taxpayer egoism on capital gains tax compliance among property owners in Kasarani Sub-County, Nairobi County, Kenya. Table 6 showed that taxpayer egoism caused a variation of 68.2% or (R^2=0.682 and adjusted R^2 =0.675) on capital gains tax compliance.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.826[a]	0.682	.675	.30265

a. Predictors: (Constant), Taxpayer egoism _mean

Table 7 showed that there was an F statistic of 141.546 and a p-value of 0.000<0.05, which indicates that the model was significant in explaining the variance caused by capital gains tax compliance.

Table 7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	34.679	1	34.679	141.546	.000[b]
1	Residual	67.798	276	.245		
	Total	102.477	277			

a. Dependent Variable: Capital Gains Tax Compliance

b. Predictors: (Constant), Taxpayer egoism

Table 8 showed unit change in taxpayer egoism causes a -0.413 decline in capital gains tax compliance (β = -0.413, p = 0.000). This strong negative effect implies that self-interested taxpayers are more likely to evade taxes if they prioritize personal gain over societal contributions. The hypothesis was rejected.

Table 8: Regression Coefficients

Variable	Standardized β	Std. Error	Unstandardized β	t-statistic	Prob.
constant	4.580	0.232		19.741	0.000
Taxpayer egoism	-0.413	0.075	221	-5.507	0.000

4.5 Discussion of the Findings

The study sought to determine the effect of taxpayer egoism on capital gains tax compliance among property owners in Kasarani Sub-County, Nairobi County, Kenya. The correlation analysis found that taxpayer egoism had a significant and negative relationship with capital gains tax compliance (r = -.826, p = .022), consistent with which implies that findings of self-interest and tax evasion are closely associated. The regression analysis found that taxpayer egoism had a negative and significant effect on capital gains tax compliance (β = -0.413, p = 0.000). This strong negative effect implies that self-interested taxpayers are more likely to evade taxes if they prioritize personal gain over societal contributions. In concurrence with the study findings, Frecknall-Hughes et al. (2017) and Tadesse (2022) linked egoism to tax evasion, while Korndörfer et al. (2020) and Chayati et al. (2024) confirmed that self-interest drives non-compliance. These align with the study's strong negative relationship.

5. Conclusion

The study concludes that heightened levels of egoism, characterized by a primary focus on individual financial gain and self-interest, correlate strongly with reduced adherence to capital gains tax reporting and payment obligation. The H04 was rejected. This study contributes new empirical evidence on how egoism manifests in property tax evasion tactics, enriching the limited literature on behavioral economics in African real estate markets. The findings advocate for behavioral nudges in enforcement strategies.

6. Recommendations

Based on the findings, the KRA could enhance Psychological Egoism Theory by revealing systems automation's transformational effect, which shows that while egoism reduced capital gains tax compliance, its interaction with system automation produced a positive effect. This suggests digital systems convert taxpayer egoistic motivations into compliant behavior when evasion becomes technologically difficult. Future research could explore incorporating macroeconomic variables like property market volatility indices to explain why certain high-burden taxpayers remain compliant during market downturns, addressing the conceptual narrowness of current capital gains tax compliance models.

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