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Effect of Perceived Complexity of the Tax System on Rental Income Tax Compliance among Landlords in Chuka Town, Kenya

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Abstract

Rental income tax compliance matters because it directly affects revenue for most governments worldwide. Despite the reforms the Kenya Revenue Authority has undertaken to increase revenue collection, it has recently failed to meet its revenue targets, particularly for rental income tax. Thus, this study aims to establish the perceived complexity of the tax system and its impact on rental income tax compliance among landlords in Chuka Town, Kenya. The study was guided by the following theory. The Unified Theory of Acceptance and Use of Technology. An explanatory research design was employed. The target population was 975 rental property owners in Chuka Town. The Yamane formula determined a sample size of 283 respondents, selected through stratified random sampling. The researchers collected primary data using a structured questionnaire. Out of the 283, only 251 were completed and submitted within the stipulated data collection period. This resulted in an 88.7% response rate. The analysis used SPSS version 29 and reported means and standard deviations. Tables and pie charts presented the analyzed findings. The study further found that perceived complexity of the tax system has a significant negative effect on rental income tax compliance ($\beta = -0.300$, $p = 0.000$). The study recommends that the government establish a dedicated rental income tax desk at KRA customer service centers, including the Chuka service point, to provide landlords with specialized assistance with registration, return filing, and payment. Step-by-step guides and simplified filing procedures on the iTax platform would further reduce the effort landlords need to comply. Future research should examine how tax structure affects rental income tax compliance by investigating how elements such as tax rates, tax bands, and tax exemptions influence landlords' compliance behavior.

Keywords: *Perceived Complexity of the Tax System, Rental Income Tax Compliance, Landlords*

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1. Introduction

Tax is a major source of revenue for governments worldwide, as reflected in its share of gross domestic product (GDP). For instance, across Organization for Economic Co-operation and Development (OECD) countries, tax-to-GDP ratios ranged from 17.7% in Mexico to 43.8% in

France in 2023 (OECD, 2024). In 2023, the United States of America's tax-to-GDP ratio averaged 25.2%, compared with the OECD average of 33.9% (OECD, 2024). According to the World Bank, a tax-to-GDP ratio of 15% or higher generally supports economic growth and reduces poverty (Kagan & Uradu, 2025). As tax has become a more important government revenue source, scholarly discourse has increased on the need for tax compliance. Although enforcement has traditionally driven tax compliance, research has increasingly examined non-enforcement approaches, such as socio-psychological factors (Best, Shah & Waseem, 2021). According to Dularif and Rustiarini (2022), a judicious mix of enforcement and socio-psychological factors can foster a voluntary tax compliance culture among taxpayers, resulting in more revenue for governments.

Rental income taxes are a fundamental source of revenue for governments and local authorities (Ross & McGee, 2022). However, the revenue generated from these sources depends on many factors. According to Kirchler (2021), the factors may be individual, institutional, and economic. Regarding rental income taxpayers, Rizali (2021) found that attitudinal and knowledge differences, high tax rates, the taxation system, dishonesty among rental taxpayers, lack of awareness, and the complexity of tax law and regulation may lead to high levels of tax noncompliance. Tax compliance is viewed as the degree to which a taxpayer complies with tax rules and regulations (Sapiei & Kasipillai, 2023).

Perspectives on tax complexity vary (Tran-Nam & Evans, 2014). For instance, tax accountants view tax complexity as the time required to prepare income tax returns, including tax planning and providing tax advice and consultation. Tax lawyers view tax complexity as the difficulty of comprehending, interpreting, and applying tax laws to ensure compliance. Taxpayers evaluate tax complexity by considering the time required and costs incurred to comply with relevant tax statutes. Tax complexity also manifests in several dimensions, including computational complexity, procedural complexity, tax return complexity, and regulatory ambiguity (Pau et al., 2007; Saw & Sawyer, 2010; Borrego et al., 2015). In short, complex tax regulations make it difficult for anyone to meet their tax responsibilities.

In Kenya, Section 3(2)(a)(iii) of the Income Tax Act stipulates the taxation of "gains and profits" derived from or earned within the country. In 2015, the Finance Act amended the Income Tax Act by introducing Section 6A, which defines rental income as "gains and profits" subject to taxation under the residential rental income tax provisions (Income Tax Act, Cap 470, 2015). This amendment clarifies the scope of taxable income for individuals deriving income from residential property, aligning it with broader income tax principles.

Rental Income Tax, commonly referred to as Monthly Rental Income or MRI, was introduced in Kenya through the Finance Act 2015 and came into effect on 1st Jan, 2016. Landlords in Kenya pay this tax, and effective 1st January 2024, the applicable tax rate was adjusted to 7.5% of the gross rent received, down from 10% at the initial implementation phase. Taxation of rental income is based on how the rented property is used, for commercial or residential purposes. Thus, all people, including partnerships and companies, that rent out property to tenants for commercial or residential purposes must pay income tax on the rent they receive. To demonstrate compliance, landlords in Kenya must file their MRI returns and make payment by the 20th of the subsequent month, even when they have not received any rent from tenants.

Chuka town is one of the rapidly growing urban areas in Tharaka-Nithi County, Kenya. It is the commercial hub of Tharaka-Nithi County and is home to Chuka University, one of Kenya's public institutions of higher learning. According to Murithi (2020), the past decade has seen an influx of investors into Chuka town, enhancing the real estate sector's attractiveness for property development. Different financial institutions have also expanded their operations to Chuka town, allowing real estate investors to access funds for property development. Together, these factors have resulted in a booming real estate sector, which could help bridge the above-stated gaps in rental income tax collections in Kenya. Against this background, the proposed study sought to evaluate the current state of rental income tax compliance.

1.1 Problem Statement

Ideally, rental income tax compliance would generate the revenues governments need to finance recurrent and development expenditures, thereby supporting economic growth. However, in many European Countries, rental income taxes relative to gross domestic product are relatively higher, while they are lower in American countries (OECD, 2024). In Africa, rental income tax compliance is a challenge, accounting for about 14%, 6%, and 10% of total tax revenues collected in Ghana, Sierra Leone, and Gambia, respectively (World Bank, 2024). These figures show that actual revenue from rental income taxes is far below potential revenue, indicating significant gaps.

In East Africa, Tanzania and Ugandan governments have persistently struggled with low rental income tax compliance, partly because most property owners do not understand how the government intends to spend the revenues collected (Mwigamba, 2024). These challenges are compounded in Kenya, where the gap between estimated and actual rental income tax collected by KRA is estimated at Ksh. 83 billion per year (KRA, 2025). In the financial year 2023/2024, KRA only collected Ksh. 14.4 billion in rental income tax, which was far below the projected target (KRA, 2025). Chuka town has witnessed significant development in the past decade, including the establishment of Chuka University and rapid urbanization. This has led to a booming real estate sector characterized by investor-led residential property development. Despite these developments, rental income tax remains one of the most elusive tax heads in Chuka town, according to KRA. Therefore, this study analyzed the effect of perceived complexity of the tax system on rental income tax compliance among landlords in Chuka Town, Kenya.

2. Literature Review

2.1 Theoretical Review

2.1.1 Unified Theory of Acceptance and Use of Technology (UTAUT)

The Unified Theory of Acceptance and Use of Technology (UTAUT), developed by Viswanath Venkatesh and colleagues, is highly relevant for explaining the perceived complexity of the tax system, particularly in adopting and using electronic tax systems. The theory argues that four major constructs influence individuals' intention to use a technological system: performance expectancy, effort expectancy, social influence, and facilitating conditions (Venkatesh et al., 2003). Among these constructs, effort expectancy directly explains perceived complexity because it measures how easy a system is to use. When taxpayers perceive tax systems as difficult to understand, technically demanding, or complicated to navigate, they are less likely to adopt and use them effectively, reducing tax compliance (Saptono et al., 2023).

Perceived complexity may arise from complicated online filing procedures, unclear tax regulations, frequent system changes, or lack of technical knowledge among taxpayers. UTAUT suggests that when taxpayers believe digital tax systems require excessive effort, their behavioral intention to use them declines (Venkatesh et al., 2003). As a result, taxpayers may delay filing returns, make filing errors, or avoid compliance altogether. Therefore, the theory emphasizes the importance of designing simple, user-friendly tax systems supported by adequate taxpayer education and technical assistance (Evans, 2024).

Evidence indicates that perceived tax complexity negatively affects taxpayers' compliance intentions. A study conducted in Ghana by Owusu et al. (2023) found that perceived tax complexity significantly influences tax compliance intentions among self-employed taxpayers. Likewise, Saad (2024) observed that high compliance costs, difficult procedures, and lack of understanding of tax systems discourage voluntary compliance behavior among taxpayers in developing countries.

Therefore, integrating UTAUT into tax compliance studies helps explain how taxpayers' perceptions of complexity influence their willingness to adopt electronic tax systems and comply with tax obligations. In Kenya, taxpayers may find systems such as iTax and electronic invoicing complex because of technical requirements, navigation challenges, or limited digital literacy. When taxpayers perceive these systems as difficult to use, they are less likely to adopt them effectively, which can reduce compliance levels (Saptono et al., 2023). This theory supports the perceived complexity of the tax system.

2.2. Empirical Review

2.2.1 Rental Income Tax Compliance

Tax compliance is a general concept that refers to the intention of taxpayers to adhere with the formulated tax laws and regulations in a country. It can be reflected in taxpayers' registration status, tax calculation, payment, and tax return filing (Abdu & Adem, 2023). From a technical point of view, tax compliance arises whenever taxpayers report all their income and pay their due taxes under established tax provisions (Dularif & Rustiarini, 2022). Therefore, tax compliance is the ability to pay all tax dues, submit tax returns, and disclose all taxable sources of income, with or without minimal facilitation and assistance from tax authorities.

Different scholars have measured rental income tax compliance using diverse measures and proxies. For instance, Ndegwa (2025) measured rental income tax compliance through tax payment and return filing. Ogeng'o, (2025) used timely submission of returns and payment of tax due to measure rental income tax compliance. In Njiru's (2022) study, monthly tax payments and tax return submission measured rental income tax compliance. Ojuma and Kosgei (2021) measured rental income tax compliance using tax revenues collected and income disclosure. Waweru, Njeru, and Omwenga (2023) measured rental income tax compliance through timeliness in filing returns, efficient computational procedures, prompt tax submission, and ease of access to tax systems and platforms.

2.2.2 Perceived Complexity of Tax System

Borrego et al. (2015) analyzed the tax professionals' perception of tax system complexity in Portugal. The paper presented results from 994 questionnaires completed by tax professionals. The survey found that tax professionals perceived three dimensions of tax complexity: legal complexity; complexity of preparing information and record-keeping; and complexity of tax

forms. The exogenous factors include tax knowledge, which has a negative effect, and company size, which has a positive effect, on tax professionals' perceptions of tax complexity. Understanding these relationships is a key issue for tax policymakers, as it can help reduce their negative effects on perceptions of tax complexity. Therefore, this paper contributes to the international tax literature by presenting empirical evidence concerning the dimensions of tax complexity.

Gambo et al. (2014) analyzed the effect of tax complexity on tax compliance in an African self-assessment environment. The study population covered all African countries; however, the authors selected a sample of 44 countries. Using Pearson Correlation and the OLS Regression Method, the sourced data were analyzed in SPSS version 19. The results indicate a significant negative effect of tax complexity on tax compliance in Africa: taxpayers spend an extra day (19 hours) beyond the regional average on tax compliance in a self-assessment environment. Therefore, a good self-assessment system should be simple and less complex to achieve an acceptable level of tax compliance among taxpayers.

Serem et al. (2017) reviewed the effect of tax system simplicity on tax compliance among rental income earners in Kenya, using Eldoret Central Business District as a case study. The target population was 332, and a sample of 181 was selected using simple random sampling. The researchers designed and distributed a five-point Likert scale questionnaire to the respondents. The researchers established validity and reliability through a pilot test. Data were analyzed using descriptive and inferential statistics with the Statistical Package for the Social Sciences. The study tested hypotheses at the 0.05 level of significance (95% confidence level) using Chi-Square values. The study found that rental income earners' income level influenced their level of tax compliance. The study recommended that the government improve the taxation system and ensure taxpayers can easily understand it.

Abdul and McFie (2020) studied the effect of tax complexity on compliance behavior of large and medium-sized business taxpayers in Kenya. The study utilizes the Partial Least Squares (PLS) approach with a sample of 142 businesses. The findings reveal that although fairness perceptions are multidimensional, only exchange fairness affects business taxpayers' tax compliance behavior; however, complexity affects different aspects of fairness. Perceived behavioral control was found to have a significant negative effect on compliance behaviour.

2.3 Conceptual Framework

The conceptual framework provides a structured foundation for research, offering a theoretical basis to define concepts, establish their scope, and illustrate relationships among variables (Kombo & Tromp, 2009). Creswell (2013) noted that it helps researchers systematize linkages among concepts and identify literature gaps, thereby strengthening the study's structure. This study's conceptual framework comprised the independent variable, perceived complexity of the tax system, and the dependent variable, Rental Income Compliance, as shown in Figure 1.

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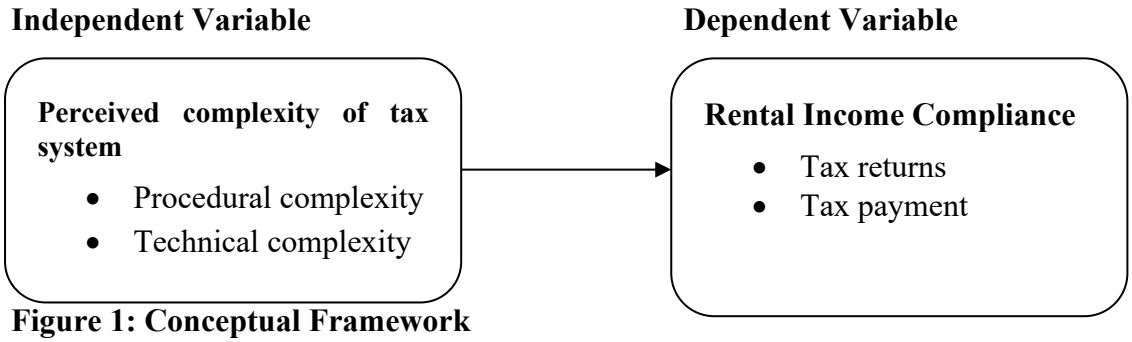


Figure 1: Conceptual Framework

3. Methodology

Research design is a guide and plan that informs data collection and analysis in a study (Hunziker & Blankenagel, 2021). It is an overall strategy that guides the study from start to finish and helps achieve the formulated objectives. This study adopted an explanatory research design. According to Takona (2024), an explanatory design seeks to explain a given phenomenon or the relationship between variables. It aims to clarify how and why certain variables influence each other. The target population is a collection of people and objects with similar attributes that are of key interest to the researcher (Willie, 2024). A target population, according to Mugenda and Mugenda (2003), is the population to which a researcher wants to generalize the study results. The target population was 975 rental property owners in Chuka town KRA (2025). The sample was 283 respondents. The questionnaires show that of the 283 issued, only 251 were completed and submitted within the stipulated data collection period. The study used descriptive statistics and regression analysis. This resulted in a response rate of 88.7%. The non-response rate of 11.3% was as a result of a lack of interest in the topic.

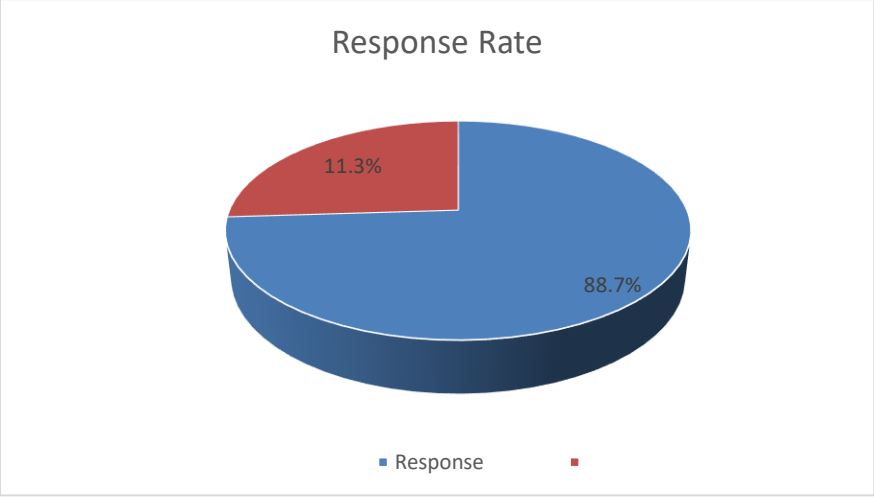


Figure 1: Response Rate

Reliability analysis

Reliability is the degree to which a study instrument measures a test item consistently. It is the ability of a test instrument or item to perform the intended function adequately without failure (Hossan, Wolfs & Petkovic, 2025). In this study, the questionnaire's reliability will be determined after the pilot test results. Values of Cronbach's alpha coefficients were computed from the duly filled questionnaire after pilot testing. As recommended by Ahmed and Ishtiaq

(2021), Cronbach's alpha values above 0.7 indicate that the study tool has a reliable scale. Reliability was measured using the Cronbach alpha coefficient, which is a measure used to assess the reliability of a set scale or test items. This study tested the instrument's reliability using Cronbach's alpha coefficient, with a threshold of 0.7. The scale measuring rental income tax compliance in Table 1 produced a Cronbach's alpha of 0.869 based on five items. This value exceeds the conventional threshold of 0.70 and falls within the "good" range of reliability, indicating that the five items designed to capture tax return filing and tax payment behaviors consistently measure the same overarching construct of compliance. The perceived complexity of the tax system scale produced a Cronbach's alpha of 0.741 based on five items, reflecting acceptable internal consistency.

Table 1: Test of Reliability of Questionnaire

Factor	Number of Items	Cronbach Alpha score	Conclusion
Rental income tax compliance	5	0.869	Reliable
Perceived complexity of the tax system	5	0.741	Reliable

4. Results and Discussion

4.1 Descriptive Analysis

4.1.1 Descriptive Statistics of Perceived Complexity of The Tax System

Table 2 presents descriptive statistics for the perceived complexity of the tax system, measured on a 5-point Likert scale (5 = strongly agree, 4 = agree, 3 = undecided, 2 = disagree, 1 = strongly disagree). Specifically, respondents agreed most strongly with the statement "I understand the procedure for filing rental income tax," which had the highest mean (4.41). Since this mean is closer to 4 (agree) than to 5 (strongly agree) when rounded to the nearest whole number, it suggests general agreement. The standard deviation of 0.642 implies that the responses were moderately close to the mean. Similarly, respondents agreed with the statement "I am able to file rental income tax through i-tax," with a mean of 4.40, which rounds to 4 on the Likert scale. The standard deviation of 0.652 shows that responses were moderately close to the mean. Respondents also agreed with "The new tax system motivates me to comply with tax laws," as evidenced by a mean of 4.31, rounding to 4. The standard deviation of 0.719 reflects moderate variability around the mean. For the statement "I understand the procedures for paying rental income tax," the mean was 4.21, which also rounds to 4, denoting agreement. The standard deviation of 0.681 indicates moderate dispersion. In contrast, respondents were less agreeable with the statement "I am able to successfully navigate through the Electronic Rental Income Tax System (eRITS)," with a mean of 3.90. Since this mean rounds to 4 (agree) on the Likert scale, it still reflects agreement, albeit weaker than the other items. The standard deviation of 0.776 indicates greater variability in responses than for the other statements. The overall mean of 4.246 indicates that, on average, respondents agreed with the statements regarding the tax system's complexity.

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Table 2: Descriptive statistics of Perceived Complexity of the Tax System

	n	Mean	Std. Deviation
I understand the procedures for paying rental income tax	251	4.21	0.681
I understand the procedure for filing rental income tax	251	4.41	0.642
I am able to file rental income tax through i-tax	251	4.40	0.652
I am able to successfully navigate through the Electronic Rental Income Tax System (eRITS)	251	3.90	0.776
The new tax system motivates me to comply with tax laws	251	4.31	0.719
Mean of means		4.246	0.694

4.1.2 Descriptive Statistics of Rental Income Tax Compliance

Table 3 presents the descriptive statistics for rental income tax compliance among respondents. First, the descriptive summary shows that, on average, respondents agreed with the statement "I file accurate rental income tax returns," with a mean of 4.13, which is closer to 4 on the Likert Scale. The standard deviation of 0.988 indicates that responses were moderately spread around the mean. In addition, the statement "I file our tax return on time" had a mean of 4.09, indicating agreement, as the rounded mean approximated 4 on the Likert scale. The standard deviation of 0.832 suggests that the responses were moderately close to the mean. The statement "I declare the correct income" had a mean of 4.08, which also reflects agreement, as the mean rounded to 4 = Agree. The standard deviation of 0.837 indicates moderate variability in responses around the mean. The analysis shows that, on average, the respondents agreed with the statement "I always report all tax liabilities following applicable tax laws," which recorded the highest mean of 4.33. Since the mean rounds to 4 on the Likert scale, this indicates general agreement. The standard deviation of 0.984 implies that the responses were moderately dispersed around the mean. Finally, the statement "I pay the tax liability that arises from my rental income tax obligation without failure" had a mean of 3.88, which, when rounded to the nearest whole number, is closer to 4, indicating agreement. The standard deviation of 0.854 indicates that responses were moderately dispersed around the mean. Overall, the aggregate mean of 4.102 across all items confirms that, on average, respondents agreed with the statements regarding rental income tax compliance.

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Table 3: Descriptive statistics of Rental Income Tax Compliance

	n	Mean	Std. Deviation
I file accurate rental income tax returns	251	4.13	0.988
I file our tax return on time	251	4.09	0.832
I declare the correct income	251	4.08	0.837
I always report all tax liabilities following applicable tax laws	251	4.33	0.984
I pay the tax liability that arises from my rental income tax obligation without failure	251	3.88	0.854
Overall Mean		4.102	0.899

4.2 Correlations Analysis

The correlation matrix measures how predictor variables relate to the dependent variable. The Pearson correlation coefficient ranges from -1 to +1, with values closer to +1 indicating a stronger positive relationship and values closer to -1 indicating a stronger negative relationship. The correlation significance was measured at 95% confidence level(Arel-Bundock, 2022). In contrast, perceived complexity of the tax system demonstrates a significant and negative correlation with rental income tax compliance ($r = -0.629$, $p = 0.000 < 0.05$). This inverse relationship indicates that landlords who find the tax system overly difficult to navigate tend to have lower rental income tax compliance. The magnitude of this correlation, the strongest in the entire matrix, suggests that simplifying tax procedures and clarifying tax regulations could substantially improve compliance rates among landlords in Chuka Town.

Table 4: Correlation Statistics

	Rental income tax compliance	Perceived complexity of the tax system
Rental income tax compliance	1	-0.629**
Perceived complexity of the tax system	-0.629**	1
Sig.	0.000	

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

4.3 Regression Analysis

Table 5 shows that perceived complexity of the tax system had a positive correlation with rental income tax compliance of 62.9% (R = 0.629). According to the study findings, the model accounts for perceived complexity of the tax system for 39.5% (R-Square, 0. 395) of the variation in rental income tax compliance. This implies that the remaining 60.5 % of the change was caused by other factors not included in the model. The results further reveal that even after

adjustment, the model would still account for 39.1% (Adjusted R Square, 0.391) of rental income tax compliance.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.629[a]	.0.395	.391	.33521

a. Predictors: (Constant), perceived complexity of the tax system _mean

The ANOVA for direct effects in Table 6 showed a high ratio of explained to unexplained variance (F = 294.235, p-value = 0.000 < 0.05), indicating that perceived complexity of the tax system significantly affected the rental income tax compliance model.

Table 6: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	114.752	1	114.752	294.235	0.000
	Residual	97.198	249	0.390		
	Total	211.95	250			

a. Dependent Variable: on rental income tax compliance
b. Predictors: (Constant), perceived complexity of the tax system

Table 7 showed that a unit change in perceived complexity of the tax system caused a -0.300 decrease in rental income tax compliance. The study found that perceived complexity of the tax system had a negative and significant effect on rental income tax compliance β = -0.300, p-value = 0.000 < 0.05). The hypothesis was rejected.

Table 7: Regression Coefficient Analysis

Variable	Standardized β	Std. Error	t-Statistic	Unstandardized β	Prob.
Constant	2.467	0.416	5.930		0.000
Perceived complexity of the tax system	-0.300	0.058	-5.172	-0.268	0.000

4.4 Discussion

The study analyzed the effect of perceived complexity of the tax system on rental income tax compliance among landlords in Chuka Town, Kenya. The correlation matrix found a significant negative correlation between perceived complexity of the tax system and rental

income tax compliance ($r = -0.629$, $p = 0.000 < 0.05$). This suggests that simplifying tax procedures and clarifying tax regulations could substantially improve compliance rates among landlords in Chuka Town. The study showed that perceived complexity of the tax system had a negative and significant effect on rental income tax compliance ($\beta = -0.300$, $p = 0.000$). These findings highlight that when landlords perceive the tax system as overly complex, burdensome, or difficult to navigate, their compliance behavior diminishes substantially. Multiple empirical studies across jurisdictions corroborate the finding that perceived tax complexity has a significant negative effect on rental income tax compliance. Studies that concur with this finding include Saptono et al. (2024), who found that increased time required to pay taxes and higher total tax payments were associated with greater tax evasion among firms across 83 countries.

5. Conclusion

The study concludes that perceptions of complex tax procedures, unclear regulations, and cumbersome filing processes significantly deter rental income tax compliance among landlords. This conclusion adds to knowledge by providing context-specific evidence that bureaucratic and complex tax systems disproportionately discourage compliance in Kenya's informal rental market. It highlights the need for tax authorities to prioritize simplifying tax legislation and administrative processes, as reducing complexity directly increases compliance rates, thereby validating the fiscal psychology framework in a developing-country setting.

6. Recommendations

The study recommends that the government establish a dedicated rental income tax desk at KRA customer service centers, including the Chuka service point, to provide landlords with specialized assistance with registration, return filing, and payment. Step-by-step guides and simplified filing procedures on the iTax platform would further reduce the effort landlords need to comply.

Future research should examine the effect of tax structure on rental income tax compliance by investigating how elements such as tax rates, tax bands, and tax exemptions influence landlords' compliance behavior.

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