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Tax Audit and Rental Income Tax Compliance among Residential Landlords in Thika Town, Kiambu County, Kenya: Moderating Role of Taxpayer Knowledge

Rael Ivayo Busiega[1*], Marion Nekesa[1], John Tarus[2]
[1]Kenya School of Revenue Administration, Nairobi, Kenya
[2]School of Business & Economics, Moi University, Eldoret, Kenya
*Corresponding Author Email: rael.ivayo@gmail.com

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Abstract

This study assessed the effect of tax audits on rental income tax compliance among residential landlords in Thika Town, Kiambu County, Kenya. It also examined the moderating effect of taxpayer knowledge on the relationship between tax audits and rental income tax compliance among residential landlords in Thika Town, Kiambu County, Kenya. The study used a descriptive design, with a target population of 1,280 landlords, including residential and commercial property owners. The study selected a sample of 305 respondents using stratified random sampling. Data were collected using structured questionnaires. The analysis included descriptive statistics, correlation, and regression. The results show that tax audits positively and significantly influence rental income tax compliance ($\beta = .155$, $t = 3.284$, $p = .001$). The interaction between tax audits and taxpayers' knowledge had a standardized β coefficient of 0.254 ($p = 0.02411$). This significant interaction suggests that taxpayers' knowledge moderates the effect of tax audits on rental income compliance. The study concludes that tax audits are a vital instrument for ensuring landlord compliance. The study recommends that the Kenya Revenue Authority increase the frequency and transparency of audits in Thika Town to strengthen awareness and deter noncompliance. The Kenya Revenue Authority should integrate digital property data and predictive analytics into its audit systems to ensure fairness and cover all rental property owners.

Keywords: *Taxpayer knowledge, tax audit, rental income tax compliance, Residential Landlords*

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1. Introduction

Residential rental income tax is a basic source of national income, providing a major source of government revenue to finance expenditure. It provides a steady stream of funds for development projects in most countries across the world, such as the provision of social amenities like good roads, constant power supply, and constant water supply, which all enhance the growth of businesses and, by extension, the economy at large (Ojochogwu & Ojeka, 2012). As Sapiei, Kasipillai, and Eze (2014) state, residential rental income tax compliance refers to the extent and process of submitting tax returns for the actual and appropriate taxes determined

by law. Timely registration, return submission, and payment of residential rental income tax are widely used indicators for measuring compliance with residential rental income tax.

The rental income tax rate of 10% on gross rent took effect on 1st January 2016 and applies to rental income received from the calendar month of January 2016. Eligible persons are required to file their tax return via i-tax System (KRA, 2015). The 10% tax rate on gross rental income is payable by a resident person, whether an 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 rental income does not exceed KShs.10 million per annum (The Finance Act, 2015). The change is part of the KRA's efforts to encourage property owners to be tax compliant. The tax is simple to compute because it is based on a percentage of gross rentals and is lower than the standard rate of 30% to reflect that landlords do not receive a deduction for expenses incurred to generate the income (KPMG, 2015).

The current tax rate for rental income taxes effective May 2024 is 7.5% which is a final tax for annual rental income of Kes.288,000 and up to Kes. 15 million. Note that this only applies to residential properties. Commercial properties, non-resident landlords, and landlords with rental income (over Kes. 15 million) are subject to different taxes. The 7.5% rate is down from 10% on rental income tax in January 2024. However, note that this only applies to landlords who earn less than Kes 15 million annually.

Residential income tax applies to every resident person who earns or obtains income from the use and occupation of residential accommodation in Kenya. From the year 1st January 2016, residents earning income from landlords were allowed a simplified tax. The Finance Act 2020 increased the annual gross rental income limit from KES 10 million to KES 15 million. The landlords falling under this category are liable to pay residents' rental income tax on the gross rental income at the rate of 10%, whereby no expenses are allowed in the computation of tax. The other laws include the Finance Act 2023, which sought to lower the rental income tax rate to 7.5% effective 1st of January, 2024.

Rental income tax compliance, defined as the extent to which landlords accurately declare and remit taxes on their rental earnings, remains a critical yet under-researched aspect of tax administration in developing economies. The rental housing sector has expanded significantly, and a number of individuals and entities are investing in rental houses (Sani & Gbadegesin, 2015). The main objective of taxation is to raise revenue to enable the government to finance development projects that improve the economy of a given country or region. Therefore, it is important for a government to put in place a mechanism to ensure that all citizens are tax compliant (Ayuba, Saad & Ariffin, 2016). Tax is the main source of revenue for developing and developed countries (Vadde, 2014). This has enabled the government to finance 52% of the budget. Bustable (1971) defined tax as a compulsory contribution of the wealth of an individual or of a legal person towards the service of the public.

In Kenya, the rental sector has expanded rapidly with increasing urbanization, yet compliance with the Monthly Rental Income (MRI) regime continues to lag behind expectations. Studies indicate that despite the Kenya Revenue Authority's simplified systems, a significant proportion of landlords either underreport or fail to file returns altogether (Kivuva, 2020). This behavior reflects enduring gaps in enforcement and awareness, suggesting that compliance outcomes depend not only on regulation but also on taxpayer behavior and perceptions. Ogeng'o et al. (2025) observe that many landlords still view tax payment as an imposed burden

rather than a civic responsibility. These findings collectively show that rental income tax compliance depends on the interplay between enforcement measures and taxpayers' education and knowledge. Among the most prominent enforcement tools are tax audits, which aim to detect underreporting and deter evasion by verifying taxpayer records.

In Kenya, audits have been associated with improved compliance when implemented consistently and transparently (Muhwa & Achoki, 2023). Audits work by increasing the perceived risk of detection and reinforcing accountability within the rental market. However, their success depends largely on how taxpayers interpret the process, whether they see it as fair oversight or an intrusive sanctioning mechanism. Kasper, Alm, and Torgler (2023) argue that taxpayer perception of audit legitimacy is central to sustaining long-term compliance. Complementary findings by Oduro (2024) further indicate that audits accompanied by educational interventions tend to generate more cooperative responses than those relying solely on deterrence. This highlights the importance of balanced enforcement, combining monitoring with clear communication to build taxpayer confidence.Another essential enforcement measure involves tax penalties and interest, which are intended to discourage noncompliance by increasing the cost of evasion.

1.1 Problem Statement

Residential income tax is a tax on behalf of every resident person who earns or obtains income from the use and occupation of residential accommodation in Kenya. From 1st January 2016, residents earning income from landlords were allowed a simplified tax. The Finance Act 2020 legislation enhanced the limit, which set the annual gross rental income at KES 10 million, to increase the limit to KES 15 million. The landlords falling under this category are liable to pay residents rental income tax on the gross rental income at the rate of 10% whereby no expenses are allowed in the computation of tax. Other laws include the Finance Act 2023, which sought to lower the rental income tax rate to 7.5% effective 1st of January, 2024. Despite the tremendous growth in the real estate sector over the past few years, tax collection from the sector has remained very low.

Rental income taxation has become a critical component of Kenya’s domestic revenue mobilization strategy, especially amid rapid urbanization and the real estate sector's expansion. KRA is unable to meet collection targets, prompting the government to borrow externally and over-rely on donor funding. For instance, the Revenue Authority did not meet its target in the 2022/2023 financial year; Kenya Revenue Authority collected 10,758.03 billion as compared to the target of 12,444.11 billion (KRA report, 2021). According to a KRA report (2024), KRA has consistently fallen short of its targets. For instance, in the 2023/2024 financial year, the authority collected KES 14.4 billion against a set target of KES 16.3 billion. Therefore, a study was needed to examine the effect of tax audits on residential rental income tax compliance among landlords in Embu Municipality, Embu County, Kenya.

1.2 Objectives of the Study

i. To assess the effect of tax audits on rental income tax compliance among residential landlords in Thika Town, Kiambu County, Kenya.

ii. To assess the moderating effect of taxpayer knowledge on the relationship between tax audits and rental income tax compliance among residential landlords in Thika Town, Kiambu County, Kenya.

2. Literature Review

2.1 Theoretical Review

Deterrence Theory originated with Gary Becker (1968) in his seminal article, Crime and Punishment: An Economic Approach. Becker's model proposed that individuals are rational decision-makers who weigh the potential benefits of unlawful behavior against the expected costs of punishment if caught. Later, Allingham and Sandmo (1972) extended Becker's logic to taxation, proposing that taxpayers decide whether to comply based on the probability of detection and the severity of sanctions. In essence, compliance increases when taxpayers perceive a higher likelihood of being audited and penalized for evasion. This theory laid the foundation for modern tax enforcement models, emphasizing that credible threats of detection and punishment can shape compliance behavior (Alm & Torgler, 2021).

In tax administration, the theory provides an economic rationale for strengthening audit mechanisms to deter tax evasion through fear of detection and financial loss. The key tenets of Deterrence Theory center on the certainty, severity, and swiftness of punishment. The "certainty" component refers to the perceived probability of being detected, while "severity" denotes the magnitude of sanctions imposed upon detection (Kleven et al., 2022). The "swiftness" element emphasizes how quickly enforcement follows noncompliance, reinforcing the link between violation and consequence. In the tax domain, audits embody certainty in practice. When taxpayers believe audits are frequent, systematic, and unpredictable, their perceived risk increases, making evasion less attractive (Mas'ud et al., 2021). Therefore, consistent, well-communicated audit systems serve as both preventive and corrective measures against underreporting and non-filing. Together, these tenets explain how credible audit programs enhance compliance through rational deterrence.

The relevance of Deterrence Theory to tax audits lies in its ability to explain compliance as a function of perceived enforcement strength. The Kenya Revenue Authority's adoption of digital audit tools, such as iTax and the Electronic Rental Income Tax System (eRITS), aligns closely with the theory's predictions by increasing the probability of detection and reducing administrative discretion (Wanjiru & Mwangi, 2024). The deterrent effect extends beyond those directly audited; it creates a spillover impact where awareness of enforcement among peers influences wider behavioral change (Alm & Torgler, 2021).

Thus, Deterrence Theory offers an analytical framework for understanding how tax audits can influence both individual and collective compliance behavior among landlords in Kenya's rental sector. Applying Deterrence Theory is justified because tax audits are the primary enforcement mechanism through which the Kenya Revenue Authority monitors landlord compliance.

The theory provides a structured basis for explaining how perceived audit probability and credibility influence taxpayers' decisions to declare rental income accurately. By applying this framework, the study can evaluate whether KRA's audit initiatives in Thika Town create sufficient deterrent effects to improve compliance or whether additional behavioral interventions are necessary. Moreover, incorporating deterrence into the analysis allows the study to quantify how much landlords' compliance behavior is shaped by fear of detection versus voluntary moral obligation. In doing so, the study contributes to both policy and theory by highlighting how deterrence mechanisms, when balanced with fairness and education, can enhance sustainable tax compliance among rental income earners in Kenya.

2.2 Empirical Review

DeBacker, Heim, and Tran (2015) noted that tax audits could be a vital driver of tax compliance. Firms facing tax audits typically register higher tax payments; it is believed that undisclosed income will be detected during the audits. However, the research by DeBacker et al. (2015) found that tax payments are lower immediately following an audit; this is based on the personal assumption that another tax audit is unlikely to take effect in the near future. This reflects the assumption that cultural norms and enforcement policies influence illicit corporate activities. Additionally, Slemrod (2019) assessed random audits in the United Kingdom. The study found a significant and persistent impact of audits on reported tax liability, reaching a remarkable 26 percent increase four years after the audit.

Tax audits increase tax compliance by deterring taxpayer noncompliance. Some studies, however, claimed that tax audits have a positive impact on tax evasion (Ayers, Seidman, & Towery, 2019). This is based on his 49 validation of secondary data obtained from the Internal Revenue Service to understand the impact of tax compliance based on audit certainty. Similarly, Juan et al. (2016), analyzing Mexican country-level data from audits conducted during 2003–2014, found that tax non-compliance decreases before a certain auditing level is reached and increases beyond that level. This backfiring effect has important implications for designing and implementing tax enforcement measures. The core implication is that more auditing may not necessarily be better and that more tax enforcement measures are supplementary.

One of the best ways to prevent tax evasion is through tax audits. Two factors that might affect the severity of a tax audit are how many people are chosen for the audit and how thorough the examination is (Alexander & Balavac-Orlic, 2022). The first factor may be quickly calculated by dividing the total number of taxpayers by the number of taxpayers who have been audited. However, because little information is available on the tax audit process, the second component is difficult to quantify. For practical comparison, researchers often measure it using the first component to reflect the level of tax auditing (Koh & Lee, 2015). Administrative expenses arise from tax audits. Higher tax audit intensity is needed to reduce other administrative duties, such as tax collection and taxpayer service, because of fixed administrative costs.

In contrast, other experiments report that imprecise information increases tax compliance (Muehlbacher, Mittone, Kastlunger, & Kirchler, 2012). Thus, the objective audit probability matters less than the subjectively perceived probability and its interpretation. A review on tax compliance and audit probabilities by Andreoni, Erard, and Feinstein (2018) showed that objective audit probabilities have little effect on compliance and concluded that subjectively perceived probabilities might be 50 mediated via psychological variables. Prior audits, from direct experience, have a weak impact on tax compliance.

An explanation is that previous audits may not turn out as badly as taxpayers initially feared. The subjective probability of tax audits reflects the power of authorities; however, people interpret the same level differently depending on their trust in the authorities. In this context, an individual's risk aversion matters primarily under low trust; with high trust in the authorities, it becomes irrelevant because the tendency to calculate probabilities and payoffs is replaced by following fiscal norms (Kirchler, Hoelzl, & Wahl, 2008). The economic model assumes that taxpayers try to maximize the outcome of the compliance decision by weighing the gain of successful evasion against the risk of detection and punishment. The expected value of non-

compliance depends on audit probabilities and fines. Therefore, a higher probability of detection will always lead to higher declared income. (Kirchler et al., 2008) assumed that the notification letter induced high income, which led taxpayers to seek the help of professional tax advisors to minimize their tax liability.

Tax audits thus increase tax compliance because audits deter taxpayers from non-compliance. Some studies, however, claim that tax audits positively affect tax evasion (Ayers, 2019). According to Cheng & Co (2014), a tax investigation is a more serious exercise than a tax audit, with heavier penalties and financial implications. A tax investigation is an examination by the tax authorities of the taxpayers' business, documents & records to verify and assess that the correct amount of taxable income has been reported and the right amount of tax has been paid by the taxpayers per the tax laws and regulations. The main difference between a tax audit and a tax investigation is that a tax investigation will only be carried out based on having clear and definite evidence that the taxpayer has deliberately tried to avoid paying tax or has committed an act of willful evasion under the provisions of the relevant tax laws (Cheng & Co, 2014).

Another study by Alm, Bloomquist, and McKee (2017) investigated the application of experimental methods to examine the individual compliance responses to a ―certain‖ probability of audit. The authors concluded that when someone is aware of an audit, their compliance rate increases, and when they are unaware of an audit, it decreases. Early audits on taxpayers, "tax life," positively influence compliance, even if the efficacy of sanctions and audits cannot be fully proven. Samuel and Tyokoso (2014) empirically investigated taxation and revenue generation in Nigeria and found that both tax avoidance and tax evasion significantly affect revenue generation. Stanley (2014) conducted another related study in Nigeria to examine the relationship between the institutionalization of accounting systems in small and medium-sized businesses and the effects of effective tax administration on tax compliance.

3. Methodology

The research employed a descriptive research design, and the target population comprised 1,280 landlords, including residential and commercial property owners. A sample of 305 respondents was selected using stratified random sampling. Data were collected using structured questionnaires. The questionnaires were reviewed to ensure they were complete and to maintain the respondent count. The data were summarized using frequencies and percentages, and the results were presented in tables as summary statistics. Descriptive statistics (means, frequency distributions, standard deviations, and percentages) summarized the analyzed data, and inferential statistics were used for correlation and regression analyses.

4. Results and Discussion

4.1 Descriptive Statistics

This section presents descriptive statistics for the study variables.

4.1.1 Tax Audits

Table 1 shows that respondents generally agreed that tax audits play a central role in influencing rental income tax compliance among landlords in Thika Town. Descriptive statistics are specialized methods used to estimate, characterize, and summarize collected research data, ensuring the information is conveyed clearly, informatively, and efficiently.

Table 1: Tax Audits

Statements	N	Mean	Std. Deviation
KRA regularly audits landlords in Thika Town.	204	3.9412	.63282
Frequent audits encourage landlords to file returns on time.	204	4.0882	.69627
The likelihood of being detected for non-compliance influences my decision to comply with rental tax laws.	204	4.0392	.72834
Follow-up actions after audits help correct errors in previous tax declarations.	204	4.0588	.69230
KRA provides clear feedback after completing a rental tax audit.	204	3.8284	.82747
I believe consistent audit practices improve landlords' honesty in reporting rental income.	204	4.0784	.46949
Overall		**4.0057**	0.6744
Valid N (listwise)	204		

The mean scores for all items ranged from 3.83 to 4.09, indicating strong agreement among the sampled landlords. The statement "The frequency of audits encourages landlords to file returns on time" had the highest mean (4.0882; SD = .69627), suggesting that regular, consistent KRA audits strongly motivate compliance. This finding suggests that audit presence acts as a psychological deterrent; landlords who know they may be reviewed are more cautious about complying with rental tax requirements. Such behavior aligns with deterrence theory, which posits that perceived detection risk increases voluntary compliance.

The statement "The likelihood of being detected for non-compliance influences my decision to comply with rental tax laws" also attracted a high mean of 4.0392 (SD = .72834). This underscores that compliance decisions among landlords are not purely voluntary but largely influenced by the fear of detection and the consequent penalties associated with non-compliance. The relatively moderate standard deviation indicates consensus among respondents, suggesting this perception is widely shared across property categories. This pattern reinforces the notion that enforcement measures that elevate detection risk, such as random audits or data-driven compliance checks, can significantly enhance compliance behavior, especially in informal rental markets where under-declaration of income is common.

Further, the results show that follow-up actions after audits are considered valuable, with a mean of 4.0588 (SD = .69230). This suggests that landlords view post-audit feedback and corrective measures as constructive rather than punitive. This implies that enforcement should not be limited to deterrence but should also integrate corrective education. The slightly lower mean of 3.8284 (SD = .82747) for the statement "KRA provides clear feedback after completing a rental tax audit" reveals a minor gap in communication and post-audit

transparency. Although landlords appreciate the audit process, the higher variation suggests that not all respondents experience the same level of clarity and feedback after audits. This points to an operational weakness that, if unaddressed, could reduce audit effectiveness, as transparency builds trust and voluntary cooperation.

Interestingly, the item "I believe consistent audit practices improve landlords' honesty in reporting rental income" recorded a high mean of 4.0784 (SD = .46949), reinforcing that predictable and standardized audits foster ethical reporting habits over time.

The lower standard deviation indicates strong consensus that honesty in tax declarations increases when audits are perceived as fair, consistent, and evidence-based. This suggests that KRA's audit strategy in Thika Town is not only effective in enforcement but also in cultivating a long-term compliance culture among property owners.

4.1.2 Taxpayers knowledge

The findings in Table 2 indicate that taxpayer sensitization plays a vital role in influencing rental income tax compliance among landlords in Thika Town.

Table 2: Taxpayers' knowledge

Statements	N	Mean	Std. Deviation
Taxpayers are aware of the rental due date	204	4.0637	.57094
Taxpayers are aware of penalties applicable on non-compliance with residential income tax obligations	204	4.0098	.70179
Taxpayers understand the provisions of the Residential Income Tax Act.	204	4.0196	.58689
Taxpayers follow the Residential Income Tax Act and procedures so as to comply with requirements	204	3.8676	.77975
Taxpayers understand the rental income tax threshold and dates for filing a return	204	3.8529	.70741
Taxpayers know how to calculate and file a self-assessment residential rental income tax return.	204	4.0000	.52523
Overall		**3.9689**	0.6453
Valid N (listwise)	204		

The mean scores, ranging between 3.85 and .70741, show that most respondents agreed that Taxpayers understand the rental income tax threshold and filing dates. Taxpayers are aware of rental due date" recorded the highest mean of 4.0637 (SD = .57094). This reflects the success of targeted education initiatives such as public sensitization drives and compliance seminars, which have become integral to KRA's compliance strategy. Taxpayers are aware of penalties for noncompliance with residential income tax obligations, recording the highest mean (4.0098, SD = .70179).

Taxpayers understand the provisions of the Residential Income Tax Act. (Mean = 4.0196, SD =.58689) Taxpayers follow the Residential Income Tax Act and procedures to comply with requirements, with the highest mean of 3.8676 (SD = 77975).

However, the variation in responses suggests that access to information may not be uniformly distributed across all landlords, especially smaller or less tech-savvy property owners. Taxpayers know how to calculate and file a self- assessment residential rental income tax return. recorded the highest mean of 4.0000 (SD = .52523).

The statement "Training sessions or public forums have improved my understanding of rental tax compliance" (Mean = 4.0196, SD = .58689) further emphasizes that educational initiatives tangibly improve landlords' understanding of their tax responsibilities. Nevertheless, while most respondents acknowledged the value of these forums, qualitative insights from other sections of the study suggest that attendance is often higher among landlords already predisposed to compliance. This selective participation may limit the broader impact of sensitization initiatives. Hence, KRA must intentionally design programs that attract non-compliant or first-time landlords, since these groups typically have larger knowledge gaps and greater resistance to compliance.

Interestingly, the mean score for "The information provided by KRA is timely and easy to understand" (Mean = 3.8676, SD = .77975) and "I clearly understand the procedures for declaring and paying rental income tax" (Mean = 3.8529, SD = .70741) were relatively lower, indicating that while KRA's information is available, it may not always be communicated in user-friendly formats. Some landlords might still find online processes such as iTax registration or declaration procedures cumbersome, suggesting that clarity and simplicity remain areas for improvement.

The high standard deviations suggest varied experiences: those familiar with digital systems report ease of compliance, while others face barriers due to limited digital literacy or inadequate taxpayer support.

4.1.3 Rental Income Tax Compliance

Table 3 summarizes respondents' views on their compliance practices, highlighting patterns in filing behavior, declaration accuracy, record management, and consistency in tax payments.

Table 3: Rental Income Tax Compliance

Statements	N	Mean	Std. Deviation
I always file my rental income tax returns within the required timelines.	204	3.9412	.69938
I accurately declare all my rental income to KRA.	204	4.0588	.67792
I ensure all details are correct when completing rental income tax forms.	204	4.0294	.59482
I consistently pay my rental income tax on time every year.	204	3.9706	.72201
My tax records are up to date, and KRA can verify them at any time.	204	4.0637	.41028
I intend to continue complying fully with all rental income tax regulations.	204	3.9314	.82760
Overall		**3.9992** 0.6553	0.6553
Valid N (listwise)	204		

Table 3 shows that rental income tax compliance among landlords in Thika Town is generally high, with mean scores ranging from 3.93 to 4.06. The statement "My tax records are up to date and can be verified by KRA at any time" had the highest mean of 4.0637 (SD = .41028), suggesting that most landlords keep updated, verifiable tax records. This points to a growing culture of record-keeping and transparency among landlords, which is critical for fostering long-term compliance. The low standard deviation further indicates strong consensus among respondents, implying that maintaining verifiable records is a widely practiced behavior.

However, while this finding suggests commendable levels of procedural compliance, it may also reflect a compliance pattern driven more by administrative enforcement than intrinsic motivation.

The statement "I accurately declare all my rental income to KRA" (Mean = 4.0588, SD = .67792) and "I ensure the correctness of all details when completing rental income tax forms" (Mean = 4.0294, SD = .59482) reinforce the perception that most landlords prioritize accuracy and honesty in their tax declarations. This demonstrates the success of KRA's ongoing enforcement measures, such as cross-referencing property data with digital mapping systems and integrating taxpayer profiles within iTax. However, critical analysis suggests that while landlords report accurate declarations, some compliance may be reactive rather than proactive, driven by the perceived likelihood of detection rather than voluntary willingness. Behavioral tax models emphasize that fear-based compliance tends to wane as enforcement pressure decreases, implying that long-term compliance sustainability requires stronger internalization of tax ethics rather than reliance on monitoring.

The mean score of 3.9706 (SD = .72201) for the statement "I consistently pay my rental income tax every year without delays" reveals that while most landlords meet their obligations, a minority still experience inconsistencies, possibly due to cash flow challenges or administrative delays. The moderately high standard deviation suggests variability across respondents, some are fully compliant, while others pay irregularly. This may reflect structural challenges such as delayed issuance of payment reminders or limited awareness of due dates among new taxpayers.

KRA could address this by using automated notification systems to improve the timeliness and convenience of tax remittance.

Similarly, the item "I always file my rental income tax returns within the required timelines" (Mean = 3.9412, SD = .69938) suggests that filing timeliness remains an area requiring continued administrative support. Despite the relatively high mean, the slight deviation points to occasional non-adherence, possibly due to procedural complexity, especially among landlords managing multiple properties. Simplifying the filing interface and improving customer support responsiveness could therefore improve compliance efficiency and reduce late submissions.

The statement "I intend to continue complying fully with all rental income tax regulations" (Mean = 3.9314, SD = .82760) offers insight into future compliance intentions. Although landlords generally express willingness to remain compliant, the relatively high standard deviation suggests this intention is not uniformly strong across respondents. This may indicate latent compliance fatigue or skepticism about the fairness and efficiency of tax administration.

To maintain compliance momentum, KRA must reinforce taxpayers' trust through transparent policy communication, timely issuance of receipts and refunds, and consistent engagement through education and support programs.

4.2 Correlation Analysis

Table 4 presents the correlation results between tax audits and rental income tax compliance.

Table 4: Correlation Analysis

		RITC	Tax audits
Rental income tax compliance	Pearson Correlation	1	
	Sig.		
Tax audit	Pearson Correlation	.593**	1
	Sig.	.041	

The results show that Tax Audits have a positive and moderate correlation with Rental Income Tax Compliance ($r = .593$, $p < .001$). This implies that increased audit activities by the Kenya Revenue Authority (KRA) are associated with higher compliance among landlords in Thika Town.

4.3 Regression Analysis

The regression coefficients in Table 5 present the contribution of the predictor (Tax Audits) to Rental Income Tax Compliance among landlords in Thika Town.

Table 5: Regression Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		**Unstandardized Beta**	**Std. Error**	**Standardised Beta**	**t**	**Sig.**
1	(Constant)1	3.304	0.025		4.677	<.001
	Tax Audits	.155	.047	.177	3.284	.001

a. Dependent Variable: Rental Income Tax Compliance

The results show that Tax Audits have a positive and statistically significant influence on rental income tax compliance ($\beta = .155$, $t = 3.284$, $p = .001$). This finding implies that a one-unit increase in audit effectiveness is associated with a 0.155 increase in compliance levels, holding other variables constant. This suggests that audits serve primarily as a deterrent mechanism, encouraging compliance through perceived detection risk.

4.4 Hierarchical Regression Analysis

The hierarchical regression model was used to determine the moderating effect of taxpayer knowledge on the relationship between tax audits and rental income tax compliance among retailers in Thika town.

Table 6: Hierarchical Regression Analysis

Model	Variables	Standardized β Coefficient	Std. Error	Unstandardized β Coefficient	t-Statistic	Prob.
1	(C)	3.304	0.025		4.677	0.0000
	Tax audit	0.177	0.043	0.155	3.284	0.0000
2	(Constant)	4.101	0.258		11.612	0.0000
	Tax knowledge	0.133	0.045	0.134	2.956	0.00287
3	Taxpayers knowledge	0.019	0.009	0.019	2.111	0.04814
	TA*TEK	0.254	0.028	0.063	9.107	0.02411

The interaction between tax audit and taxpayers' knowledge has a standardized β coefficient of 0.254 (p = 0.02411). This significant interaction suggests that taxpayers' knowledge moderates the effect of tax audits on rental income compliance.

4.5 Discussion

4.5.1 Tax Audit and Rental Income Tax Compliance

The first objective was to establish the effect of tax audits on rental income tax compliance among residential landlords in Thika town, Kenya. The results show that Tax Audits have a positive and statistically significant influence on rental income tax compliance (β = .155, t = 3.284, p = .001). This finding implies that a one-unit increase in audit effectiveness is associated with a 0.155 increase in compliance levels, holding other variables constant. The standardized beta coefficient of .177 indicates that while tax audits contribute moderately to compliance, their impact is smaller than that of penalties and deterrence and sanctions.

This suggests that audits serve primarily as a deterrent mechanism, encouraging compliance through perceived detection risk rather than voluntary adherence. However, the relatively low magnitude of this coefficient suggests that audits alone cannot sustain compliance without complementary strategies such as taxpayer education and transparent communication.

These findings align with Muturi and Kiarie (2022), who found that tax audits improved compliance among small business taxpayers in Thika. Similarly, Njeru (2023) reported that in the real estate sector, consistent sensitization coupled with predictable sanctions led to improved voluntary reporting and reduced non-filing rates. However, these results partially

differ from Sokobe (2021), who argued that reliance on punitive measures without continuous taxpayer engagement leads to short-lived compliance gains.

4.5.2 Taxpayer knowledge and the Relationship between Tax Audit and rental income Taxes Compliance

The second objective was to determine the moderating effect of taxpayer knowledge on the relationship between tax audit and rental income tax compliance among residential landlords in Thika, Nairobi, Kenya. The interaction between Tax audit and Taxpayers' education and knowledge has a standardized β coefficient of 0.256 and a p-value of 0.0241. This suggests that taxpayers' education and knowledge moderate the effect of tax audit on rental income compliance. The findings align with Oduro (2024), who found that education interventions explaining both obligations and benefits are more persuasive than those emphasizing penalties alone. Taxpayer education thus acts as a preventive mechanism, strengthening intrinsic motivation for compliance rather than relying solely on deterrence. When taxpayers perceive education as supportive and participatory, they are more likely to embrace compliance as part of responsible citizenship.

5. Conclusion

The study concludes that tax audits remain a vital instrument in ensuring compliance among landlords. Regular, transparent audits reinforce KRA's credibility and remind landlords of the authority's oversight role. Nonetheless, to be more effective, audits must be carried out systematically and supported by adequate follow-up mechanisms. Continuous monitoring helps sustain compliance while promoting a culture of accuracy and accountability in tax reporting. The study found a positive relationship between tax audits and rental income tax compliance, meaning tax evasion is positively, though significantly, influenced by tax compliance in Kenya. The study therefore concluded that tax audit practices positively but significantly affect rental income tax compliance in Kenya.

6. Recommendations

Enhance visibility of tax audits: KRA should expand the frequency and transparency of audits in Thika Town to strengthen awareness and deter noncompliance.

Institutionalize data-driven audits: KRA should integrate digital property data and predictive analytics into its audit systems to ensure fairness and coverage of all rental property owners.

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