

THE INTERNATIONAL JOURNAL OF HUMANITIES & SOCIAL STUDIES

An Examination of the Rate of Compliance with Property Taxation in Nyandarua County, Kenya

Gerald N. Chege

Student, Department of Social Sciences, Mount Kenya University, Kenya

Nyambura Ruth

Lecturer, Department of Social Sciences, Mount Kenya University, Kenya

Nyamwaya C. Mogote

Lecturer, Department of Social Sciences, Mount Kenya University, Kenya

Abstract:

Tax in Kenya has been considered a very complex subject since the times of colonialism. Forced payment of taxes during the colonial period made Kenyans greatly oppose colonial rule. Taxation was one of the major reasons for the struggle for independence in Kenya. In the new constitution of Kenya 2010, Kenya adopted a devolved form of government with 47 counties. Each county requires revenue. Article 209 of the constitution mandates county governments to levy taxes on property owned by Kenyans, especially land. Nyandarua County government tax system design and property owners' perception of paying property tax has proved to be difficult to collect revenue. Tax evasion is very common in Nyandarua County. Nyandarua County government endeavors to raise the levels of revenue collected, but the greatest impediment is property tax evasion. This makes the county government constantly fail to raise targeted revenue. Kenya National Bureau of Statistics (2014) ranked Nyandarua County at position 34 out of 47 counties in revenue collection efficiency in Kenya. Therefore, this study seeks to examine the compliance rate with property taxation in Nyandarua County.

The study adopted a mixed methods research design to investigate compliance with property taxation in Nyandarua County. The study used purposive and Krejcie and Morgan's (1970) Table for Determining Sample Size to sample out respondents. The researcher sampled 375 property owners, 15 revenue officers and 10 policymakers. To acquire primary data, the researcher interviewed policymakers, revenue officers and Nyandarua County's chief accountant and a focus group discussion was done with property owners. Secondary data were obtained from published books, scholarly works and papers. Data were analyzed both qualitatively and quantitatively. The researcher found out that rate of compliance is low at 28.75%.

Keywords: Property tax, compliance, level of compliance, Kenya, Nyandarua

1. Introduction

Taxation is considered the major way of collecting revenue that is meant to pay public expenditure for goods bought and all services offered by the state (Tarus, 2014). The known three main aims of taxation are to acquire money to pay for government activities, to assist in the redistribution of wealth and income and to control certain activities like the importation of some goods and certain behaviors like smoking which may hurt local authorities (Cheshire, 2002). The oldest tax information dates back to about 6,000 years B.C. and is preserved in clay tablets which are found in the early city-state of Lagash in today's Iraq, Northwest of Tigris and Euphrates. Here the king applied a tax called *Bala* which means rotation (Kobia, 2011).

Kombo (2006) posits that property taxes were also levied in ancient Egypt, Babylon, Persia and China. During this time, many people were poor and resided in hovels. Therefore, the major focus of property taxation was land and its production. The main taxpayers were farmers. If a taxpayer failed to comply, he was taken before courts and justice was applied immediately. The tax amount was just about 1 percent of the produce. Tarus (2004) argues that from about 200BC to 300AD, Romans paid property taxes on the value of land, buildings, trees, livestock, vines and other property. Moyi (2006) posits that property tax was introduced in Africa by the colonialists, but before Europeans came, other taxes existed and a good example is whereby weak chiefdoms were taxed to pay for their superior chiefs. In Ghana, property tax was called *Ntokuaaor* and was levied according to one's size of the building.

The contact between the Arabs and the indigenes at the coastline is important as far as taxation in Kenya is concerned. Most of them remained along the coastline of East Africa for business expediency, to facilitate trade between the hinterland and the Arab traders who mainly came from the Sultanate of Oman. The Sultanate applied a system of taxation that was a mixture of Islamic law and trade tax to maintain their presence at the coast. Locals were taxed using Islamic law in the form of zakat. Customs were charged on all goods taken out of the Sultanate and these included cloves, ivory and beads. It is imperative to know that the taxpayers were divided into two separate tax bases, the citizenry within

each Sultanate and the traders. People practising the Muslim faith were expected to pay voluntary taxes in a manner deemed fit and the amount they felt adequate without state interference. The Sultanate concentrated on maintaining their coffers by trading levies of capitation tax and customs. The British colonial tax policy developed during its rule in East Africa on the grounds of creating foreign markets and sources of raw materials for its industries, thus obtaining maximum gains with minimum input.

The British Crown deliberately began the application of tax law in Kenya through the Hut and Poll tax by completely ignoring tax principles. One of the reasons for the application of this tax was to pull the African population into a capitalist labour market. This tax continued to play a major role in the labour system as a means of indirect coercion and a major source of state revenue. Tax weapons had the desired effect of forcing more Africans into wage employment (Waris, 2008). Hut and poll taxes were crude wealth taxes that only served as a proxy for property rating in rural areas. For instance, the wealthier you were, the more you paid. This kind of taxation lacked well-known principles and key drivers since the motive was colonization and the ill-intended 'civilization' drives. At a glance, one may argue that the key drive was to change the African social set-up and economic models from a communal/socialist to a more capitalist economy (Mutemi, 2015). Kobia (2014) posits that the promulgation of a new constitution in Kenya in 2010 that devolved the responsibility of collecting property taxes to county governments was meant to assist them in raising their revenue to help fund their activities. Simiyu (2013) posits that property tax is a crucial own revenue source for local governments worldwide. Property taxation is used to manage land usage, urban density, expansion and other transactions. These days property taxation is more important than before because many countries are not able to raise enough revenue from other sources. Property tax is a crucial own revenue source for local governments worldwide.

Monkam (2011) posits that for a nation to generate income in a cost-effective and efficient manner through taxes, it must build a working and healthy human resource. This human resource assists in minimizing tax evasion on the part of citizens. Ngotho (2013) posits that in Kenya, revenue from taxation contributes about 80% of the government's revenue, while the remaining 20% is sourced from loans and grants. This underscores the importance of prudent tax collection measures. Ngotho (2013) further argues that governments require a lot of money, for that matter. How to get the money and from whom remains one of the greatest challenges. Governments always desire to increase their revenue, but this desire is always resisted by the public. Monkam (2011) posits that for a nation to generate income in a cost-effective and efficient manner through taxes, it must build a working and healthy human resource. This human resource assists in minimizing tax evasion on the part of citizens. The initial step in levying property taxes, according to McCluskey (2007), is identifying all properties and developing a clear list of all potential payers.

According to Mburu(2013), property taxes contribute the least amount of own source revenue to county governments compared to other revenue streams. This is because County governments have failed to come up with their own county-level rating and have continued to rely on rates that were set by the defunct local authorities or just adjust them in their budget. This is the reason why many lawsuits are brought to resist these rates. Property taxation in Kenya has remained to be a contentious subject in Kenya even before the start of devolution. Ngotho (2013) posits that the taxation system in Kenya always consists of a high number of non-compliance among small and medium taxpayers. This has made the government focus on reforms geared towards all potential taxpayers.

Mwangi (2014) posits that property tax compliance can be defined as the level to which a specific taxpayer or a group of taxpayers complies with their own tax rules or the tax rules of their state or area. Evading tax can be defined as the failure by people or property owners to comply with set taxation to tax authorities and governments in developed or developing countries. In European nations, tax evasion makes up about 8% of the Gross Domestic Product of economies in the region. In South and North America, taxation evasion makes the economies suffer about 8% of their Gross Domestic Product. Tax evasion also undermines economies, even in developed countries. Property tax compliance is crucial in tax revenue collection because, without high compliance from property owners, there will be low tax revenue collection by the revenue department. Kenyan county governments experience a percentage of non-compliance among small property owners. McCluskey (2007) adds that effective levying of property taxes requires local governments and central government to work in unity. Mwangi (2014) argues that collecting property taxes goes through various processes, some of which are at the national level and others at the local level. These processes include setting up acceptable valuation rolls, tax rates, and updated land tax registers. If county governments need increased tax revenue, it is important to enhance compliance among taxpayers even through motivating taxpayers. According to Muriithi (2003), hostility towards tax compliance dates back to the history of taxation and is regarded as a problem by everyone. According to the director of Tax World Organization (1999), during the reign of the Roman Empire around 60 A.D., Boadecia, the then Queen of Anglia, organized a resistance regarding corruption in taxation. In Great Britain, the 100-year war (1337-1438) between France and England was started in 1369 by the rebellion of the Nobbles of Aquitaine because of the oppressive taxation law being implemented by Edward, a black prince and in post-Revolution America, tax act of 1864 was opposed many times.

Nyandarua County experiences challenges in funding its budget and continues to rely mainly on the national government since its revenue collection remains low (Nyandarua County Gazette Supplement Bill, November, 2015). According to Nyandarua County Fiscal Plan (2013), the government has developed elaborate plans that will strengthen consistency in carrying out its mandate. This will ensure that there is no confusion and acts of corruption. The county government also intends to achieve this by harmonizing revenue collection methods, especially property rates. These plans include banking all revenue by taxpayers and introducing waivers on all those who qualify to motivate them to clear their rates.

Nyandarua County Fiscal Plan (2013) further highlights that there are plans to automate and computerize revenue collection activities. This intends to be achieved by improving the information management system to enable it to

perform accounting activities automatically. These activities include establishing clear data for all the taxpayers, bank reconciliation, billing, and providing residents with alternative remote paying options like M-Pesa, use of debit and credit cards and other online options. The county government will further provide avenues for customers' self-services to enable them to print their statements online. These measures are meant to improve the rate of compliance with taxation.

2. Methodology

The study adopted mixed methods research design. In mixed methods, the researcher focuses on collecting, analyzing, and mixing both quantitative and qualitative data in one study and many studies. The use of quantitative and qualitative approaches, in combination, provides a better understanding of research. As a method, it involves philosophical assumptions that guide the direction of the collection and analysis of data (Creswell & Plano Clark, 2011)

This study was undertaken in Nyandarua North sub-county of Nyandarua County. Nyandarua County is located in Mount Kenya region, about 150 kilometers from Nairobi. Nyandarua North sub-county is 350 kilometers North West of Nairobi. The population of the county at the last population census of 2019 was 638,289 persons comprising 315,022 males and 323,247 females. The number of registered property owners in Nyandarua North sub-county, according to Nyandarua County Land Registry, was 15,100. County government records seemed not clear on the exact number of ratable properties within the sub-county. However, the targeted population was both commercial and residential property owners. This target group was chosen to get data that was representative. The number of tax officials is 30 and 25 policymakers as per the county government payroll.

2.1. Sampling Procedures and Techniques

The researcher used purposive sampling to sample 15 revenue officers and 15 policymakers and the county chief accountant. Purposive sampling relies on the **judgment** of the researcher when it comes to selecting the **units**, for example, people, cases/organizations, events and pieces of data that are to be studied. The main goal of purposive sampling is to focus on particular characteristics of a population that are of interest, which will best enable you to answer your research questions. The sample being studied is not representative of the population, but for researchers pursuing **qualitative** or **mixed methods research designs**, this is not considered to be a weakness. Rather, it is a choice, the purpose of which varies depending on the **type** of purposive sampling technique that is used (Kombo, 2003). The researcher further used Krejcie and Morgan's (1970) Table for Determining Sample Size to sample property owners and arrived at a sample size of 375 respondents (210 commercial and 165 residential).

| <i>N</i> | <i>S</i> | <i>N</i> | <i>S</i> | <i>N</i> | <i>S</i> |
|----------|----------|----------|----------|----------|----------|
| 10 | 10 | 220 | 140 | 1200 | 291 |
| 15 | 14 | 230 | 144 | 1300 | 297 |
| 20 | 19 | 240 | 148 | 1400 | 302 |
| 25 | 24 | 250 | 152 | 1500 | 306 |
| 30 | 28 | 260 | 155 | 1600 | 310 |
| 35 | 32 | 270 | 159 | 1700 | 313 |
| 40 | 36 | 280 | 162 | 1800 | 317 |
| 45 | 40 | 290 | 165 | 1900 | 320 |
| 50 | 44 | 300 | 169 | 2000 | 322 |
| 55 | 48 | 320 | 175 | 2200 | 327 |
| 60 | 52 | 340 | 181 | 2400 | 331 |
| 65 | 56 | 360 | 186 | 2600 | 335 |
| 70 | 59 | 380 | 191 | 2800 | 338 |
| 75 | 63 | 400 | 196 | 3000 | 341 |
| 80 | 66 | 420 | 201 | 3500 | 346 |
| 85 | 70 | 440 | 205 | 4000 | 351 |
| 90 | 73 | 460 | 210 | 4500 | 354 |
| 95 | 76 | 480 | 214 | 5000 | 357 |
| 100 | 80 | 500 | 217 | 6000 | 361 |
| 110 | 86 | 550 | 226 | 7000 | 364 |
| 120 | 92 | 600 | 234 | 8000 | 367 |
| 130 | 97 | 650 | 242 | 9000 | 368 |
| 140 | 103 | 700 | 248 | 10000 | 370 |
| 150 | 108 | 750 | 254 | 15000 | 375 |
| 160 | 113 | 800 | 260 | 20000 | 377 |
| 170 | 118 | 850 | 265 | 30000 | 379 |
| 180 | 123 | 900 | 269 | 40000 | 380 |
| 190 | 127 | 950 | 274 | 50000 | 381 |
| 200 | 132 | 1000 | 278 | 75000 | 382 |
| 210 | 136 | 1100 | 285 | 100000 | 384 |

Note. — *N* is population size. *S* is sample size.
Source: Krejcie & Morgan, 1970

Table 1: Krejcie and Morgan's (1970) Table for Determining Sample Size

2.1.1. Sample Population

Using purposive sampling for revenue officers and policymakers and Krejcie and Morgan's (1970) Table for Determining Sample Size for property owners. The researcher came up with samples, as shown in the table below.

| Respondents | Total | Samples | Percentage |
|-----------------------------|-------|---------|------------|
| Land owners/property owners | 15100 | 375 | 2.5 |
| Revenue Officers | 30 | 15 | 50 |
| Policymakers | 25 | 15 | 60 |
| Sub-county chief accountant | 1 | 1 | 100 |

Table 2: Sample Population

In an attempt to examine the rate of compliance with property taxation in Nyandarua County, the study used interview schedules and focus group discussions. Interview schedules were prepared with questions meant to get responses from respondents in the four wards of Nyandarua North sub-county. Interview schedules and focus group discussions particularly had questions based on compliance. Their use proved advantageous since the researcher got adequate respondents. It was noted to be convenient to the respondents due to the sensitivity of the issues being investigated. Focus group discussion enabled gathering information about property owners' views on property taxation and compliance levels. A focus group discussion guide was used to lead the discussions. Participants in the focus group discussion talked about property taxation compliance. The participants also gave recommendations that can be used to enhance the levels of compliance with property taxation. Participants' views were recorded using a tape recorder.

2.2. Data Analysis

The analysis of data for this qualitative research involved harmonizing data from documents with oral ones to make internal and external criticism. Finally, all information collected became a perfect basis for researcher analysis and final interpretation. Data analysis for this study began in the field when the researcher recorded and transcribed it to make sense of it. Data obtained from the interview was coded to ensure adequacy and theme consistency. Afterwards, it was put into categories in relation to research questions. Descriptive data were sorted according to coding categories. Coding reduces data by sorting it into categories. The researcher first reads and reviews documents highlighting strong quotations and marking respondents' statements. Chronological and thematic approaches were also used in analyzing data for this study. This involved checking data in accordance with what was said. The researcher read and reread the transcripts marking out important points and ideas and checking connections and emerging patterns. When the researcher sorted out the data content into several categories, the contents were used to represent a bigger picture of this study. Information from documents was crucial to this study. Information obtained from the documents and archives was analyzed, texts were read and reread to gather a sense of the contents and they were later put into categories. Gathered data from interviews and written documents were interpreted and finally analyzed. Finally, analyzed data were presented using narratives and tables to give the figures on compliance.

3. Results and Discussions

Tax compliance and non-compliance are measured by looking at the gap between targeted property tax revenue and the collected property tax revenue. Compliance can also be assessed by looking at existing tax liabilities. In Kenya, taxpayers' exhibit varying levels of tax compliance (Mwangi, 2014). Low property tax compliance is serious on the grounds that it may have played a part in Nyandarua County revenue deficits. The extent of the impact of lack of knowledge on property tax obligations by property owners may be the root cause of all these challenges (Obeng-Odoom, 2010).

Nyandarua County experiences very many challenges in funding its budget and continues to rely mainly on the national government since its revenue is low. Lack of proper sensitization on tax policies and failure to involve the taxpayers while formulating tax policies is a big impediment to compliance. Lack of improvements in infrastructure and poor state of services affects tax compliance all over the county (Nyandarua County Gazette Supplement Bill, November, 2015).

Nyandarua County has missed its revenue collection target by over 50 percent. About three months before the closure of the last financial year, the county had anticipated collecting Sh371 million but had only attained Sh179.8 million, about 48 percent of the target (KNA/NCC/13/0006/2016-2017).

A respondent (Watene, O.I, Kiriita Ward, 6/11/2018) explained:

"I do not think a time will ever come and I pay this money. I inherited this piece of land from my father, who had also inherited it from my grandfather and they had not made any payments to the county government, so I know the debt is very high. I am going to just continue not paying or the county government will cancel all the debts and tell us to start afresh; then, that way, I think I can pay."

A respondent (F. Mugure, O.I, Shamata Ward, 8/11/2018) explained:

"I do not know exactly when I should pay and exactly where I should pay. The county government should send us letters and give us clear information on when and where to make our payments. I do not know anything about these taxes sincerely. I wait until the county government tells me my land number, how much I should pay, when I should pay and to whom I should pay."

The expected collection accounts for 6.1 percent of the total county budget estimates, which was Sh.6.5 billion for the 2017/2018 financial year. A report from the county treasury shows the devolved unit collected Sh97.6 million during the peak season between January and the end of March 2018 compared to Sh82.2 million received between July and December 2017 (KNA/NCC/13/0006/2016-2017).

In the last six months of the 2018/2019 financial year, the major source of revenue for the county was from the equitable share, which accounted for 85.2%. Own source revenue contributed only 6.4% of the total revenue, while conditional grants accounted for 8.4% of the total revenue (KNA/NCC/13/0006/2016-2017).

The County's fiscal policies have been aiming at improving revenue efforts and controlling huge expenditures. This will be achieved through efforts aimed at enhancing resource mobilization and improving efficiency in government expenditure (KNA/NCC/13/0006/2016-2017).

| Month | Equitable Share | Own Source Revenue | Conditional Grants | Total |
|-----------|-----------------|--------------------|--------------------|---------------|
| JULY | 0 | 14,944,203 | 0 | 14,944,203 |
| AUGUST | 0 | 11,991,960 | 0 | 11,991,960 |
| SEPTEMBER | 334,012,000 | 11,267,157 | 85,585,196.00 | 430,864,353 |
| OCTOBER | 334,012,000 | 17,862,105 | 0 | 351,874,105 |
| NOVEMBER | 0 | 13,232,031 | 0 | 13,232,031 |
| DECEMBER | 429,444,000 | 12,917,112 | 22,435,427.00 | 464,796,539 |
| TOTAL | 1,097,468,000 | 82,214,568 | 108,020,623 | 1,287,703,191 |

Table 3: Nyandarua County 2018/2019 Six Months Revenue

Source: Nyandarua County Treasury

According to the above table, the county government's main source of revenue is from the National government's equitable share and not from its own source revenue. This, therefore, indicates that the county government's own source revenue is unpredictable and cannot be wholly relied on to generate revenue to run the programs of the County Government.

| Revenue Source | Amount in Kshs. | Targeted Amount in Kshs. |
|------------------------------|-----------------|--------------------------|
| Single Business Permit | 7,574,585 | 10,000,000 |
| SBP Penalties | 654,518 | 1,000,000 |
| Sales And Application | 336,300 | 400,000 |
| Plot Rates | 1,595,746 | 15,000,000 |
| Impounded Fees | 516,350 | 600,000 |
| Land Rates | 841,471 | 15,000,000 |
| Cattle Dips | 80,950 | 85,000 |
| Open Air Market Fees | 5,042,313 | 6,000,000 |
| Market Stall Rent | 590,340 | 600,000 |
| Ground Rent | 75,420 | 250,000 |
| Produce Cess Royalties | 18,968,672 | 20,000 |
| Slaughter Fees | 600,555 | 1000,000 |
| Bus And Matatu Fees | 4,017,000 | 5,500,000 |
| Reg. And Renewal of Groups | 251,800 | 255,000 |
| Hire of Machines | 780,335 | 800,000 |
| House Office Rent | 302,720 | 400,000 |
| Sub Division of Land | 240,040 | 260,000 |
| Building Plan Inspection Fee | 283,100 | 285,000 |
| Site Indication | 700 | 1,500 |
| Change of User | 480,400 | 550,000 |
| Change of Business | 1000 | 5,000 |
| Land Reg. Fees | 151,235 | 250,000 |
| Public Health Fees | 1,440,380 | 1,450,000 |
| Dev. (Ppa Forms) | 222,400 | 224,000 |
| Approval Of Building Plans | 1,237,290 | 2,000,000 |
| Conservancy | 4,300 | 4,500 |
| Storage Fees | 3640 | 4,000 |
| Exhauster Services | 808,500 | 1000,000 |
| Transfer Fees | 939,160 | 1,000,000 |
| Motorbike Fees | 3,054,645 | 4,000,000 |
| Clearance Certificate | 827,900 | 900,000 |
| Weights And Measures | 128,130 | 250,000 |
| Water Fees | 120,457 | 145,000 |
| Hire of Halls | 96,600 | 97,000 |
| Sign Boards | 14,600 | 25,000 |
| Meat Inspection | 2,297,915 | 3,000,000 |

| Revenue Source | Amount In Kshs. | Targeted Amount In Kshs |
|---------------------------|-------------------|-------------------------|
| Grave Fees | 10,900 | - |
| Veterinary Department | 1,398,432 | 1,500,000 |
| Vaccination | 11,600 | 12,000 |
| J.M. Hospital | 17,452,610 | - |
| Engineer Hospital | 3,301,029 | - |
| Liquor License | 1,515,600 | 2,000,000 |
| Promotion | 90,100 | 100,000 |
| Lease Extension | 34,500 | 35,000 |
| Movement Permit | 16,350 | - |
| Medical Certificate | 198,500 | 200,000 |
| Search Fee | 0 | - |
| Certificate of Compliance | 13,000 | 15,000 |
| Cooperative Audit Fees | 15,435 | 15,000 |
| Residential Houses | 47,500 | 55,000 |
| Advertisement | 43,000 | 45,000 |
| Total | 82,214,568 | 185,500,000 |

Table 4: Nyandarua County Six Months Own Source Revenue against Targeted Amount, 2017

Source: Nyandarua County Treasury

The County generated 22.1% of its annual own source revenue target of Kshs. 371 million in the first 6-month period, which also translates to 44.2% of targeted income for the period of the first six months. Produce Cess Royalties were the best-performing revenue stream in the period. The stream generated 23.1 % (Kshs. 18,968,673) of the County's own source revenue. This was closely followed by J.M. Hospital at 21.2% (Kshs.17, 452,616) and Single Business Permits (SBP) at 9.2% (Kshs.7, 574,585) (KNA/NCC/13/0006/2016-2017).

Property taxes, which comprise Land Rates and Plot Rates, generated 2,437,217 against the targeted 30,000,000, which is 8.1%. Since this is a half-year period, it is very clear that the County government cannot meet its targets of revenue collection (KNA/NCC/13/0006/2016-2017).

A respondent (Murata, O.I Kiriita Ward, 6/11/2018) explained:

"Revenue from property taxes has been unpredictable in Nyandarua County for a long period of time; it is very difficult to estimate the amount of money that we can collect as a county government; therefore, do not rely so much on revenue from property owners. Urban property owners have a higher percentage of compliance compared to rural property owners and as a county government, we highly rely on urban property owners to comply with their property taxes rather than rural property owners."

A number of property owners do not believe that they are supposed to pay taxes for their property to the county government and many, when approached, seem unaware of their civic duty to pay property taxes. A number of property owners have huge arrears because of many years of unpaid rates, which leads to the imposition of fines. In the first six months of 2018, Property taxes which comprise Land Rates and Plot Rates, generated 2,437,217 against the targeted 30,000,000, which is 8.1%. Since this was half year period, it was very clear to us that we could not meet our annual targets of revenue collection in the streams, and this clearly shows that property tax compliance would not be achieved."

| Financial Year | Targeted Own Source Revenue (Kshs) | Actual Own Source Revenue (Kshs) | Percentage of Compliance |
|----------------|------------------------------------|----------------------------------|--------------------------|
| 2012/2013 | 330,000,000 | 198,000,000 | 60% |
| 2013/2014 | 342,000,000 | 200,000,000 | 58.4% |
| 2014/2015 | 350,000,000 | 206,000,000 | 58.8% |
| 2015/2016 | 360,000,000 | 210,000,000 | 58.3% |
| 2016/2017 | 370,000,000 | 212,000,000 | 57.29% |
| 2017/2018 | 371,000,000 | 214,000,000 | 57.6% |
| 2018/2019 | 384,000,000 | 268,000,000 | 69.7% |

Table 5: Performance of Nyandarua County Government Own Source Revenue against the Targeted Amount

Source: Nyandarua County Treasury

The percentage of compliance in seven financial years, 2012/2013 up to 2017/2018, averages 60.01% with a clear deficit of 39.98%. This implies that Nyandarua County has been operating with financial deficits. The best-performing financial year is 2018/2019, which has a compliance rate of 69.7%. In this financial year, the county government targeted to collect Kshs 384,000,000 but collected 268,000,000, while the poorest compliance financial year was 2016/2017, which had a compliance rate of 57.2%, whereby the county targeted to collect Kshs 370,000,000 but only collected Kshs 212,000,000 (KNA/NCC/13/0006/2016-2017). This analysis shows that the county government's performance of own source revenue does not meet the expected targets and has huge budgetary deficits.

| Financial Year | Targeted Amount (Kshs) | Amount Collected (Kshs) | Percentage |
|----------------|------------------------|-------------------------|------------|
| 2012/2013 | 45,000,000 | 15,456,345 | 34.3% |
| 2013/2014 | 48,000,000 | 18,345,345 | 38.2% |
| 2014/2015 | 54,000,000 | 20,342,234 | 37.6% |
| 2015/2016 | 58,000,000 | 22,345,678 | 38.5% |
| 2016/2017 | 66,000,000 | 26,323,435 | 39.8% |
| 2017/2018 | 68,000,000 | 30,345,235 | 44.6% |
| 2018/2019 | 71,000,000 | 34,122,345 | 48.05% |

Table 6: Nyandarua County Government Property Taxes against the Targeted Amount

Source: Nyandarua County Treasury

The percentage of compliance with property taxes in seven financial years was analyzed from 201/2012 up to the financial year 2018/2019. The best performing financial year was 2018/2019, which had a compliance rate of 48.05%, whereby the county government targeted to collect kshs 71,000,000 and managed to collect Kshs 34,122,345 while the poorest complied financial year was 2012/2013 with a compliance rate of 34.3% whereby the county government targeted to collect Kshs 45,000,000 and managed to collect Kshs 15,456,345. The percentage of compliance in the seven financial years 2012/2013 up to 2017/2018 averages 40.15% (KNA/NCC/13/0006/2016-2017). Again, this analysis, therefore, shows that the county government's performance of property taxes does not meet the expected targets.

Nyandarua County has steadily been improving its revenue collections by margins of five to six percent in every financial year though tax liabilities remain high. It raised Sh318 million in the 2017/2018 financial year, which was an increment from Sh297 million in the previous year. The assembly has now revised the projected own source revenue for the 2019/2020 financial year from Sh700 million to Sh575 million (Wanjohi Ward MCA Isaac Kung'u, County Assembly Hansard).

The county government should fully embrace the automation of revenue collection and introduce more revenue streams to help raise more money. The equitable share from the national government has also been reduced by Sh63 million. The county government should work towards improving the collection of taxes (Wanjohi Ward MCA Isaac Kung'u, County Assembly Hansard)

| Ward | Properties with Outstanding Rates | Total Respondents | Percentage of Properties with Outstanding Rates |
|--------------|-----------------------------------|-------------------|---|
| Kiirita | 59 | 93 | 63.4% |
| Leshau Pondo | 64 | 93 | 68.8% |
| Central | 77 | 94 | 81.9% |
| Shamata | 79 | 95 | 83.1% |
| | 279 | 375 | 74.4% |

Table 7: Respondents' Properties with Outstanding Property Rates, 2016

Source: Field Survey

The above table shows data obtained from respondents, which indicate that Kiriita and Leshau Pondo have the least number of properties with outstanding rates, followed by Central Ward and Shamata. Shamata ward has the highest percentage of defaulters at 83.1%, followed by Central at 81.9%. The default rate in rates payments is higher for commercial properties than residential ones. Commercial properties have higher values implying that rates payable are much more than the case of residential properties. The higher the rates payable, the higher the chances of default in payment.

| Ward | Properties with Outstanding Rates | Total Respondents | Percentage of Properties with Outstanding Rates |
|--------------|-----------------------------------|-------------------|---|
| Kiirita | 57 | 93 | 61.2% |
| Leshau Pondo | 61 | 93 | 65.5% |
| Central | 75 | 94 | 79.7% |
| Shamata | 77 | 95 | 81.05% |

Table 8: Respondents' Properties with Outstanding Property Rates, 2017

Source: Field Survey

The above data are obtained from respondents, which indicate that Kiriita and Leshau Pondo have the least number of respondent properties with outstanding rates, followed by Central ward and Shamata. Shamata ward has the highest number of defaulters at 81.05%, followed by Central Ward at 79.71%. The default rate in rates payments is higher for commercial properties than residential ones. Commercial properties have higher values implying that rates payable are much more than the case of residential properties.

| Ward | Properties with Outstanding Rates | Total Respondents | Percentage of Properties with Outstanding Rates |
|--------------|-----------------------------------|-------------------|---|
| Kiriita | 55 | 93 | 59.13% |
| Leshau Pondo | 59 | 93 | 63.4% |
| Central | 69 | 94 | 73.4% |
| Shamata | 71 | 95 | 74.7% |
| Total | 254 | 375 | 67.7 % |

Table 9: Respondent's Properties with Outstanding Property Rates, 2018

Source: Field Survey

The above table shows the data obtained from respondents, which indicate that Kiriita and Leshau Pondo have the least number of respondent properties with outstanding rates, followed by Central ward and Shamata Ward. Shamata Ward has the highest number of defaulters at 74.7%, followed by Central Ward at 73.4%. Again, the rate of default in rates payments is higher for commercial properties than residential ones. Commercial properties have higher values implying that rates payable are much more than the case of residential plots.

| Ward | Properties with Zero Arrears | Total Respondents | Percentage |
|--------------|------------------------------|-------------------|------------|
| Kiriita | 38 | 93 | 40.8 % |
| Leshau Pondo | 34 | 93 | 36.5% |
| Central | 25 | 94 | 26.5% |
| Shamata | 24 | 95 | 25.2% |
| Total | 121 | 375 | 32.26% |

Table 10: Respondent's Properties without Property Rates Arrears 2018 (Zero Arrears)

Source: Field Survey (2017)

The above table shows the data obtained from respondents, which indicates that Kiriita and Leshau Pondo have the highest number of respondent's properties with no outstanding rates (zero rate balance), followed by Central ward and Shamata. Shamata ward has the lowest number of property tax compliers.

A respondent (Mwiyoi, O.I, Central Ward 7/11/2018) noted:

"In Nyandarua County, the annual rates liability amount from 2012/2013 up to 201/2019 has been increasing over the years from a low of Kshs 350,000,000 in 2012/2013 to a high of Kshs 501,000,000 in 2018/2019. These figures are disheartening since the county government has been putting up major policies to enhance compliance, yet these policies are bearing minimal fruits."

| Year | Annual Rates Liability (Kshs) |
|-----------|-------------------------------|
| 2012/2013 | 350,000,000 |
| 2013/2014 | 365,000,000 |
| 2014/2015 | 422,000,000 |
| 2015/2016 | 435,000,000 |
| 2016/2017 | 445,000,000 |
| 2017/2018 | 498,000,000 |
| 2018/2019 | 501,000,000 |

Table 11: Property Tax Liabilities

Source: County Treasury (KNA/NCC/13/0006/2016/2017)

The above table indicates the annual rates liability amount in Nyandarua County from 2012/2013 up to 201/2019 have been increasing over the years from a low of Kshs 350,000,000 in 2012/2013 to a high of Kshs 501,000,000 in 2018/2019. Though property rate collections per annum have been increasing over the period under review from Kshs 15,456,345 in 2012/2013 to Kshs 34,122,345 in 2018/2019, annual property rate liabilities have been increasing. The results indicate that the annual rates liability has been growing faster than the amount collected per annum (KNA/NCC/15/0006/2010).

Compliance with property rate payments in Nyandarua County has been reducing over the last couple of years. Property rates arrears have steadily been growing over the years and this increase in arrears was huge from 2012/2013 to 2013/2014 (KNA/NCC/15/0006/2010), (KNA/NCC/12/0006/2011) and (KNA/NCC/10/0006/2009). The rise in property tax arrears can be attributed to devolution, which came into effect in 2013. Devolution led to increased transfer of funds from National government to the county government, resulting in the drop in enforcement of property rates.

This agrees with findings from land rates collection enforcement officers (debt collection unit), who estimate that if the compliance rate is below 40%, it is rated as poor.

A respondent (Matu, O.I, Shamata 8/11/2018) noted:

"Property owners have highly adopted the idea of paying their taxes using banks and bringing their bank deposit slips to the county government offices. This policy has become the most popular to the majority of property owners all over Nyandarua County."

4. Conclusions and Recommendations

The above findings clearly indicate that the actual revenue collected from property taxes, also called property rates in Nyandarua County, has always been behind the targets. The findings reveal that Nyandarua County government does not rely on revenue from property taxes. This is simply because enforcement tools relying on providing discounts and waivers on property rates interest, publishing names of defaulters, sanctions and penalties seem very ineffective. Therefore, the researcher opted to carry out this study to analyze factors that influence property tax compliance among residents of Nyandarua County and recommend measures to be put in place.

The study findings show that a majority of respondents believe that the failure of their regular payments resulted from not being involved in formulating policies that touch on their payment before legislation. This implies that they find themselves victims of circumstances of any unanticipated policies that touch on their payments. Moreover, a majority of the respondents feel that they have been left out and the tax imposed by the county government did not favor them according to their income. In addition, it emerged that the tax being levied on commercial plots is high. Penalties on property arrears seemed to be the most unpopular compliance policy started by the county government. The results on periodic waiver of fines and penalties encourage compliance and that punitive fines and penalties discourage non-compliance with property taxation. The lack of political will to effectively sensitize property owners on their obligation was also noted to be a hindrance to effective compliance.

The findings also revealed that property tax non-compliance had a poor impact on county governments' own source revenue and their payment would provide some significant revenue for service delivery and infrastructural growth. It further revealed that revenue from property taxes has been slightly increasing, but residents' compliance levels remain very low. It was further noted that property taxes liabilities have been increasing every year.

The findings also revealed that the causes of low compliance with property taxes in Nyandarua County are the poor services and poor state of general infrastructure in the County, mostly in the urban areas of the County. Property tax non-compliance is also escalated by feelings that properties are not supposed to be taxed. Lack of effective public participation, lack of tax knowledge, low political will and poor policies have also come into play in escalating the non-compliance rate. The findings also revealed that property owners were dissatisfied with calculations being based on the value of the property rather than basing them on the size and location of the property.

The relationship between a taxpayer and revenue authority influences the willingness of taxpayers to be compliant and property owners perceive payment of property taxes as not important to economic growth. Tax officers contributed to huge property tax liabilities since they seemed unmotivated and, therefore, uncooperative.

This study recommends a need to allocate funds to create awareness of the importance of effective compliance. This will enable the property owners to raise the standards of awareness and compliance. Property owners should be effectively sensitized on the need to pay property taxes. Tax officials should also create a friendly working relationship with taxpayers to enhance compliance levels. There is also a need for infrastructure project implementers to establish valuable projects that would benefit the residents. This would raise a positive attitude towards effective compliance.

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Appendix

- Primary Sources
- Oral Sources: List of Informants

| NAME | INTERVIEW DATE | AGE | PLACE OF INTERVIEW |
|-------------------|----------------|-----|--------------------|
| PETER MAINGI | 6/11/2018 | 45 | KIRIITA |
| SIMON GICHUKI | 6/11/2018 | 67 | KIRIITA |
| MICHAEL MAINA | 6/11/2018 | 87 | KIRIITA |
| DAVID KIUGU | 6/11/2018 | 45 | LESHAU PONDO |
| JOHN KUNGU | 6/11/2018 | 65 | SHAMATA |
| PETER KAMANDE | 6/11/2018 | 45 | KIRIITA |
| STEPHEN MUYA | 6/11/2018 | 67 | CENTRAL |
| KEITH NGINYI | 6/11/2018 | 54 | CENTRAL |
| PETER MWIYOI | 7/11/2018 | 65 | LESHAU PONDO |
| DAVID MBUGUA | 7/11/2018 | 45 | CENTRAL |
| LAMECK RADIDO | 7/11/2018 | 34 | KIRIITA |
| JOHN KAMONDO | 9/11/2018 | 65 | SHAMATA |
| PETER NJENGA | 9/11/2018 | 45 | KIRIITA |
| JOHN KARUGA | 9/11/2018 | 76 | CENTRAL |
| DAVID MAINA | 9/11/2018 | 52 | KIRIITA |
| ROSE WANJA WAMBUI | 10/11/2018 | 76 | LESHAU PONDO |
| IVY WAIRIMU | 6/11/2018 | 45 | SHAMATA |
| JOY WAMBUI | 6/11/2018 | 76 | KIRIITA |
| ABIGAEL MUGURE | 6/11/2018 | 75 | CENTRAL |
| ROSE WAKONYO | 7/11/2018 | 54 | CENTRAL |
| STEPHEN WATENE | 9/11/2018 | 56 | CENTRAL |
| FAITH MUGURE | 6/11/2018 | 75 | CENTRAL |
| ISAAC KUNGU | 6/11/2018 | 65 | SHAMATA |
| PETER MWIYOI | 7/11/2018 | 65 | LESHAU PONDO |
| TABITHA MATU | 11/11/2018 | | OLKALOU |