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Drivers of Rental Income Tax Compliance in Emerging Economic Countries: Insights from Tanzania

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Abstract
This study investigates the drivers of rental income tax compliance in emerging economic countries, the case of Tanzania. Employing a quantitative approach, a hierarchical regression model was employed to explore factors influencing tax compliance. The research examines attitudes and perceptions towards the tax system, its structure and efficiency, knowledge and awareness of tax responsibilities, and the role of penalties and interest. The findings indicate favourable attitudes and perceptions toward the tax system significantly enhance compliance. A well-structured and efficient tax system correlates with higher compliance levels, highlighting that simplified procedures and transparency can improve adherence to tax obligations. Increased knowledge and awareness about tax responsibilities also positively impact compliance, with educated landlords being more likely to adhere to regulations. Additionally, penalties and interest are a significant deterrent to tax evasion. The study reinforces economic deterrence theory by demonstrating that the threat of penalties influences compliance behaviour, supporting the need for effective enforcement mechanisms. It underscores the importance of knowledge and education in promoting compliance. Policymakers should enhance tax system transparency, simplify procedures, and implement educational programs and robust enforcement mechanisms, including regular audits and significant penalties, to improve compliance rates. Future research should explore socio-cultural influences, economic pressures, and informal networks affecting compliance.

Keywords: *Rental Income Tax Compliance, Tanzania, Tax System Efficiency, Knowledge and Awareness, Penalties and Interest*

Introduction

In both developed and developing nations, taxes serve as the main source of income for the government. The willingness and incentive of a taxpayer to pay taxes are most commonly referred to as "tax compliance" by policymakers and tax authorities (Odoro, 2021). Accordingly, Singh (2013) describes tax compliance as the capability and willingness of taxpayers to follow tax laws, accurately record income annually, and pay the correct amount of tax by the due date.

Rental income taxes are a vital source of funding for governments in both developed and developing nations (Singh, 2013). However, the amount of money raised from these sources for the spending plan will depend, among other things, on how willingly individuals abide by the tax laws. Financial contentment, perspectives, governmental incentives, and tax collection procedures all significantly affect taxpayers' compliance levels (Odoro, 2021).

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Like any developing country, Tanzania has had difficulty raising sufficient revenue from rental income taxes to promote economic development (Mwela, 2020). Tanzania's system for collecting rental income tax is known as the withholding tax system (WHT). The amount of tax withheld from payments made to another person for goods or services provided by the payee is known as the withholding tax (TRA, 2019). Kigos (2020) estimates that only a small percentage of landlords and landladies pay the required rental income tax. The survey found that compliance levels for residential dwellings range between 1% and 1.8%, whereas compliance levels for commercial properties range between 4% and 7%. This forced the Revenue Authority (TRA) to mandate that tenants withhold 10% of the rent in both private and commercial properties to expand the scope of tax collection. Various concerned groups have reacted to this enforcement. The purpose of this study was to assess the variables influencing Tanzanian rental income tax compliance.

Tax compliance is an integral part of the economic framework of any country, ensuring that the government collects the necessary revenues to finance public services and infrastructure. However, tax compliance remains a major challenge in developing countries such as Tanzania, particularly in the rental income sector (Bird & Zolt, 2008; Fjeldstad & Heggstad, 2012). The rental market in Tanzania, Tanzania's largest city, represents an important segment of the economy, but compliance with rental income regulations is often suboptimal. Understanding the factors that influence rental income tax legislation is important for policymakers seeking to improve tax collection and broaden the tax base (Kassim, 2013).

This study focuses on the Tanzania City Council area, which is characterized by rapid urbanization, a booming real estate market, and diverse socioeconomic conditions. By identifying factors that influence owner compliance with rental income laws, the study provides valuable information for effective tax policy and administration (URT, 2019). Despite the Tanzanian government's efforts to improve tax legislation, a significant portion of rental income remains untaxed, particularly in Tanzania. This non-compliance undermines the government's ability to generate revenue and allocate resources efficiently. The problem is multifaceted, involving factors such as tax legislation awareness, enforcement mechanisms, taxpayer attitudes, and socioeconomic conditions. While the Tanzanian government has implemented the withholding tax system to improve rental income tax collection (TRA, 2019), there is limited research on its effectiveness and the challenges associated with its enforcement. One of the primary research gaps is the scarcity of empirical data on the specific drivers of rental income tax compliance in Tanzania. While several studies have explored tax compliance in general (Bird & Zolt, 2008; Fjeldstad & Heggstad, 2012), there is limited focus on the unique factors influencing rental income tax compliance specifically within the context of Tanzania. This study aims to fill this gap by providing empirical evidence on the determinants of compliance behaviour among landlords. By providing detailed empirical data on the factors that drive rental income tax compliance in Tanzania, this study offers valuable insights for policymakers and tax authorities. By evaluating the effectiveness of the withholding tax system, this study provides practical recommendations for improving its implementation. It identifies the strengths and weaknesses of the current approach and suggests ways to make it more effective in capturing rental income tax revenues (TRA, 2019). This paper contributes to the broader literature on tax compliance by exploring the role of taxpayer attitudes and perceptions in the Tanzanian context. Understanding these factors can help design interventions that build trust in the tax system and enhance voluntary compliance (Fjeldstad & Heggstad, 2012).

The paper is structured as follows: Following the introduction, a literature review will provide an overview of existing studies on tax compliance, particularly in the context of rental income. The methodology section will outline the research design, data collection methods, and analytical techniques. The results and discussion section will present the findings and their implications, while the conclusion will summarize the study's contributions, limitations, and recommendations for future research and policy.

Literature Review

Theoretical Literature Review

Tax compliance is a complex behavior influenced by various factors, and several theoretical frameworks have been developed to understand and explain this phenomenon. This paper is based on the economic deterrence theory and the fiscal exchange theory. These theories offer diverse perspectives on why individuals and businesses comply with tax laws and how compliance can be improved. Economic deterrence theory posits that taxpayers are rational agents who weigh the costs and benefits of compliance versus evasion (Allingham & Sandmo, 1972). According to this theory, compliance is primarily driven by the probability of detection and the severity of penalties. If the perceived cost of non-compliance outweighs the benefits of evading taxes, individuals are more likely to comply. In the context of Tanzania, this theory suggests that increasing the effectiveness of enforcement mechanisms, such as audits and penalties, would enhance rental income tax compliance. However, the practical challenges of implementing such measures, given the limited resources of the Tanzania Revenue Authority (TRA), must also be considered (Fjeldstad & Heggstad, 2012). Fiscal Exchange Theory posits that tax compliance is based on the perceived benefits received from the government in return for paying taxes (Torgler, 2003). According to this theory, if taxpayers believe that their contributions are being effectively utilized for public services and infrastructure, they are more likely to comply. This theory emphasizes the role of trust in government and the perceived fairness of the tax system. In Tanzania, where trust in government institutions may be low due to issues of corruption and inefficiency, fostering a sense of fiscal exchange could improve compliance. By demonstrating transparent and effective use of tax revenues, the government can build trust and encourage voluntary compliance among property owners (Fjeldstad, Schulz-Herzenberg, & Sjursen, 2012).

This paper contributes to the literature by integrating these theoretical perspectives to provide a comprehensive understanding of the factors influencing rental income tax compliance in a developing country context. It offers empirical evidence on the effectiveness of the withholding tax system and explores the roles of socioeconomic conditions, taxpayer attitudes, and government enforcement in shaping compliance behavior.

Empirical Literature Review

Empirical research on tax compliance, particularly within the rental income sector, has been extensive globally but remains relatively underexplored in the Tanzanian context. This section reviews empirical studies related to tax compliance drivers, focusing on factors such as enforcement, taxpayer characteristics, and economic conditions.

Many studies have shown that enforcement mechanisms play a crucial role in enhancing tax compliance. For instance, Ali et al., (2014) found that stronger enforcement measures, such as audits and penalties, significantly improve tax compliance in African countries. This finding is supported by Dube & Casale (2016), who demonstrated that an increased probability of detection and higher penalties positively impact compliance rates. While enforcement is undoubtedly important, over-reliance on punitive measures can lead to negative perceptions of the tax authority and reduce voluntary compliance. Kirchler, et al., (2008) argue that a balance between enforcement and fostering a cooperative relationship with taxpayers is essential for sustainable compliance. In Tanzania, the effectiveness of enforcement mechanisms might be limited by resource constraints and corruption within the tax administration (Fjeldstad & Heggstad, 2012). Empirical studies have shown that taxpayer characteristics, such as income level, education, and awareness, influence tax compliance. For instance, the study by Kira (2017) found that higher education levels and a better understanding of tax laws are associated with increased compliance among Tanzanian taxpayers. Similarly, Loo, McKerchar, & Hansford (2010) found that awareness and understanding of tax obligations are critical in fostering compliance. However, the relationship between education and compliance is not always straightforward. While education increases awareness, it can also make taxpayers more knowledgeable about loopholes and avoidance strategies (Andreoni et al., 1998). In Tanzania, improving taxpayer education and simplifying tax laws could enhance compliance, but these measures need to be complemented by robust enforcement to be effective. The economic environment also plays a significant role in tax compliance. Studies by Bird and Zolt (2008) and Cobham (2005) indicate that economic stability and growth lead to higher tax compliance as taxpayers have more disposable income and trust in the government's ability to manage resources effectively. In developing countries like Tanzania, economic volatility and informal economic activities pose challenges to tax compliance (Fjeldstad, et al., 2012). The high levels of informal economic activities in Tanzania complicate the implementation and enforcement of tax policies, making it difficult to ensure compliance across the board.

Despite the importance of rental income tax compliance, most empirical studies focus on general tax compliance or corporate income tax. There is a need for more research specifically targeting the rental income sector to understand the unique challenges and drivers in this area (Fjeldstad & Heggstad, 2012). In addition, many studies have been conducted in different contexts, and their findings may not be directly applicable to Tanzania. Research tailored to the specific economic, social, and cultural context of Tanzania is necessary to develop effective tax compliance strategies (Kassim, 2013).

Conceptual Framework

A conceptual framework provides a structured approach to understanding the relationships between various variables in a research study. It is designed to explore the factors influencing rental income tax compliance within the Tanzanian context. This framework typically integrates theories and constructs to comprehensively analyze the drivers of tax compliance.

The conceptual framework for this paper integrates two theoretical perspectives, including the economic deterrence theory and fiscal exchange theory. This integration allows for a comprehensive analysis of tax compliance drivers from multiple angles. Slemrod, (1992) & LeBaube, (1992) depicted factors such as taxpayers' income level; probability of detection; differences across cultures; and perceived behavioural control as an influence on compliance levels among taxpayers. Similarly, factors affecting rental income tax compliance (income level, Tax collection systems, penalties and interest, attitudes and perceptions, knowledge and awareness among taxpayers) adopted by this study involved five aspects recommended by (Loo, 2008: Karanja, 2017: Kuria, 2018) in assessing tax compliance. These factors were all tested in other countries such as Germany, England, and Sweden while some have been tested in developing countries like Kenya, Ethiopia, Zimbabwe, and Uganda but none was tested in Tanzania more specifically on the aspect of the rental house tax compliance. Figure 2 presents the conceptual framework for this study aligned with the study theories.

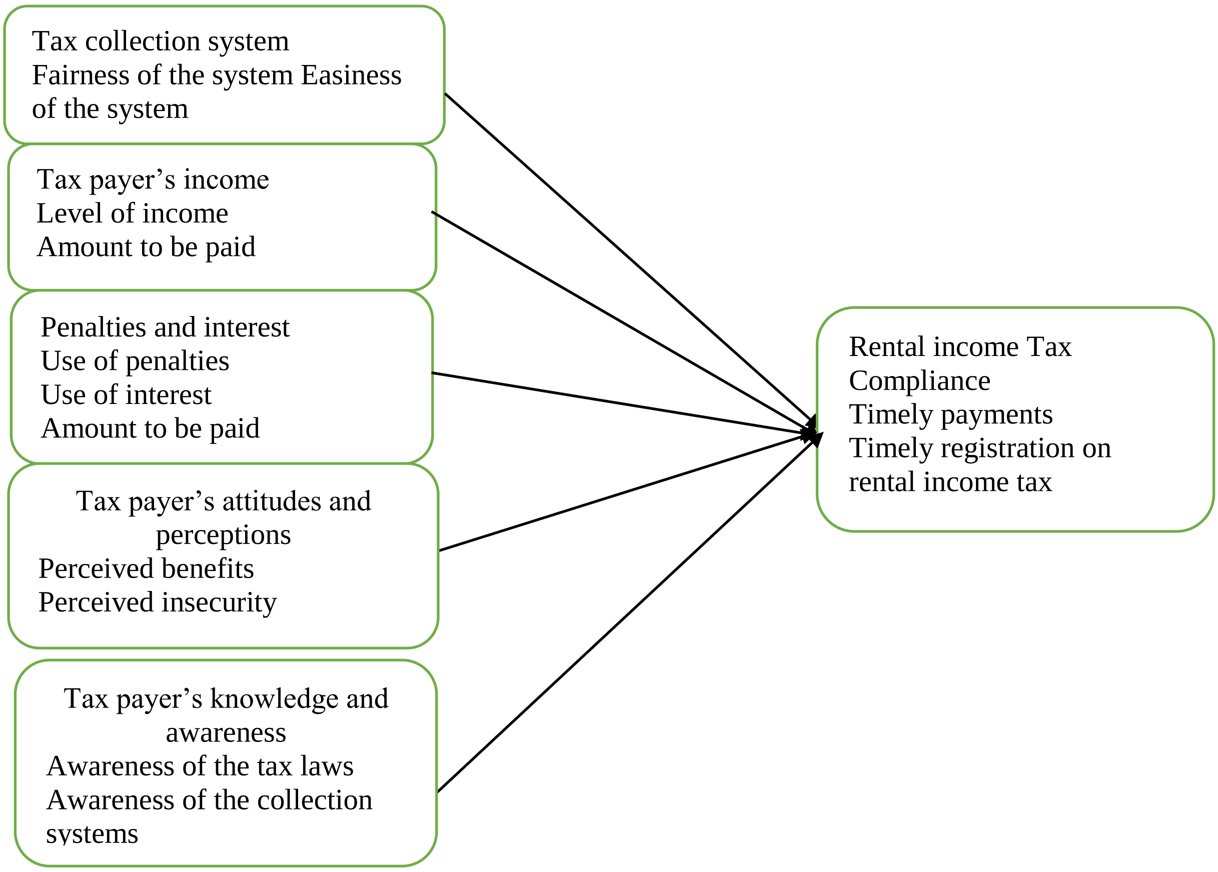

Figure 1: Conceptual model

Methodology

Design, Sample size, and Data collection

The study employs a quantitative approaches to provide a comprehensive understanding of the drivers of rental income tax compliance. This design allows for triangulation, enhancing the validity and reliability of the findings (Creswell & Plano Clark, 2011). The quantitative approach involved a survey to collect numerical data from a large sample of landlords and tenants in Tanzania.

The population for this study includes all landlords and tenants in six cities which included Arusha, Tanzania, Dodoma, Mbeya, Mwanza and Tanga. These cities were chosen due to their significant urbanization and diverse rental market, making them the representative cases for the study. Landlords and landladies in those six cities whose tax compliance was being examined by the tax revenue authority made up the study population which are 1240 people (Tanzania Revenue Authority Report, 2019). A stratified random sampling technique is used to ensure the sample is representative of different segments of the population. The sample includes 372 landlords. Stratification is based on variables such as property type (residential vs. commercial), location, and income level (Taherdoost, 2016). The sample size was chosen using Mugenda and Mugenda's (2003) 30% rule. Structured questionnaires were administered to the sampled landlords. The questionnaire includes both closed-ended and open-ended questions to capture quantitative data on compliance levels (Dillman, Smyth, & Christian, 2014). An online questionnaire was used to gather pertinent information from respondents (taxpayers) to get quantitative data**.** To analyze the survey results, it was necessary to check all questionnaires for the necessary data and code the responses to the open-ended questions that were not already pre-coded. The responses to the open-ended questions were sorted and categorized following their meanings before being coded. All of the data from the questionnaires were then entered into the computer once the classified answers had been coded. To understand the context of the meanings of the responses and their implications for the study objectives and issues, the findings of the data analysis, in the form of descriptive statistics. To determine whether there was a substantial correlation between the groups under study, statistical tests were also run (Correlation, regression) to create a structural relationship between the variables.

Measurement and Definitions of the Variables

The details on the measurement, definitions, and expected sign of the variables are presented in Table 1. Rental Income Tax (RIT): This variable represents the level of compliance with rental income tax regulations by landlords in Tanzania, measured by the proportion of rental income reported for tax purposes relative to the actual rental income received.

Table 1: Measurement and Definitions of the Variables

Variable	Definition	Symbol	Sign	Citation
Rental Income Tax	The dependent variable represents the compliance level of rental income tax	RIT	NA	
Income-level	The income level of landlords	IL	-	Fjeldstad & Heggstad (2012)
Rental-Income-Compliance	The degree to which landlords comply with rental income tax regulations	RIC	+	Torgler (2003), Saad (2014)
Attitudes & Perception	Landlords' attitudes and perceptions towards the tax system	AP	+	Torgler (2003)
Tax-system	The structure and efficiency of the tax system	TS	+	Saad (2014)
Knowledge & Awareness	Landlords' knowledge and awareness of tax responsibilities	KA	+	Loo et al. (2009)
Penalties & interest	The presence of penalties and interest as deterrents to tax evasion	PI	+	Allingham & Sandmo (1972)

Source: Literature Review

Income Level (IL): Refers to the amount of income earned by landlords from their rental properties. It examines whether higher-income landlords have different compliance behaviours compared to lower-income landlords. Studies suggest that wealthier individuals may have more resources to evade taxes (Fjeldstad & Heggstad, 2012). Rental Income Compliance (RIC): Measures the degree to which landlords comply with rental income tax regulations, including timely and accurate tax filings and full disclosure of rental income. Higher compliance indicates better adherence to tax laws (Torgler, 2003; Saad, 2014). Attitudes & Perception (AP): Captures landlords' attitudes towards the tax system and their perception of its fairness and efficiency. Positive attitudes and perceptions are expected to enhance compliance (Torgler, 2003). Tax System (TS): Refers to the structure and efficiency of the tax administration, including ease of filing taxes, clarity of tax laws, and efficiency of tax collection processes. A well-structured and transparent tax system is associated with higher compliance levels (Saad, 2014). Knowledge & Awareness (KA): Pertains to landlords' understanding of their tax obligations and the benefits of compliance. Educated landlords who are aware of tax regulations and responsibilities are more likely to comply (Loo et al., 2009). Penalties & Interest (PI): Refers to punitive measures for non-compliance with tax regulations. Significant penalties are expected to discourage non-compliance and promote adherence to tax laws (Allingham & Sandmo, 1972).

Validity and reliability of the study

The reliability and validity of the scales in this research were assessed using Cronbach's alpha (Cronbach, 1951) and the content validity index. Following Lihniash et al. (2019), coefficient alpha, composite reliability (CR), and average variance extracted (AVE) were employed to evaluate internal consistency, reliability, and validity. The overall content validity index of the study is 0.866. Cronbach's alpha for Income, Rental-Income-Compliance, Attitudes & Perception, System, Knowledge & Awareness, Penalties & interest, and Rental Income Tax are 0.844, 0.785, 0.822, 0.874, 0.823, 0.784 and 0.962, respectively. These findings confirm that each instrument component had a satisfactory Cronbach's alpha above 0.7, indicating good reliability (Kline, 1999; Field, 2013). The alpha values were measured using the PLS-SEM algorithm (Table 2).

Table 2: Construct Reliability and Validity

Constructs	CR	AVE	R Square
Income-level	0.844	0.664	
Rental-Income-Compliance	0.764	0.584	
Attitudes & Perception	0.822	0.674	
Tax-System	0.874	0.578	
Knowledge & Awareness	0.823	0.683	
Penalties & interest	0.784	0.668	
Rental Income Tax	0.962	0.788	0.874

Sources: Primary Data

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Model specification

The study used a hierarchical regression model to examine how each independent variable (Income Level, Rental Income Compliance, Attitudes & perceptions, Tax System, Knowledge & Awareness, and Penalties & Interest) influences Rental Income Tax compliance among landlords in Tanzania**.** The regression model can be specified as:

$$RIT_i = \beta_0 + \beta_1 IL_i + \beta_2 RIC_i + \beta_3 AP_i + \beta_4 TS_i + \beta_5 KA_i + \beta_6 PI_i + ui \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where:

RIT represents Rental Income Tax compliance, IL represents Income Level, RIC represents Rental Income Compliance, AP represents Attitudes & Perception, TS represents Tax System, KA represents Knowledge & Awareness and PI represents Penalties & Interest. β_0 is the intercept term, β_1-β_6 are the coefficients for the respective independent variables, ui is the error term

Findings and Discussion of Results

Descriptive Statistics

The descriptive statistics presented in Table 3 provide an overview of key variables affecting rental income tax compliance among landlords in Tanzania. The mean income level of 3.124 indicates that respondents are generally in the mid-range of the income scale, with a standard deviation of 0.967 showing moderate variability. Negative excess kurtosis (-0.694) and skewness (-0.294) suggest a relatively flat distribution with a slight left skew, meaning more respondents have below-average income levels. The Cramér-von Mises test statistic of 2.773 and p-value of 0 confirm significant deviations from normality. The mean score of 2.945 for rental income compliance highlights low compliance levels, consistent with previous research on tax evasion in developing countries (Fjeldstad & Heggstad, 2012). The standard deviation of 1.142 indicates considerable variability in compliance, with negative excess kurtosis (-0.8) and skewness (-0.063) suggesting a flat distribution and fewer respondents exhibiting high compliance. The Cramér-von Mises test statistic of 1.751 and p-value of 0 reveal a significant deviation from normality. Negative attitudes and perceptions towards the tax system and compliance reflect dissatisfaction with current policies, aligning with findings that fairness and efficiency are crucial for compliance (Torgler, 2003). The mean score of 2.782, with a standard deviation of 1.037, suggests moderate variability. Negative excess kurtosis (-0.718) and skewness (-0.098) indicate a slightly left-skewed distribution. The test statistic of 2.142 and p-value of 0 show significant deviation from normality. Regarding the tax system, the mean score of 2.58 reflects generally negative views, supported by a standard deviation of 1.099. Negative excess kurtosis (-1.043) and slight positive skewness (0.107) suggest a flat and slightly right-skewed distribution. The statistic of 2.01 and p-value of 0 confirm significant deviation from normality.

Knowledge and awareness score the highest mean at 3.837, indicating a high level of understanding of tax issues. However, with a standard deviation of 1.161, there is moderate variability. Positive excess kurtosis (0.326) and negative skewness (-1.047) suggest a peaked distribution with a left skew. The Cramér-von Mises test statistic of 3.751 and p-value of 0 reveal significant deviation from normality. This high level of knowledge does not necessarily translate into compliance, highlighting the paradox noted in other studies where awareness alone is insufficient for ensuring compliance without effective enforcement (Loo, McKerchar, & Hansford, 2009). The mean score of 3.384 for penalties and interest indicates that these factors are seen as significant in influencing compliance decisions, with a standard deviation of 1.236 showing considerable variability. Negative excess kurtosis (-0.644) and skewness (-0.586) reveal a flat and left-skewed distribution. The test statistic of 2.647 and p-value of 0 support a significant deviation from normality. This aligns with deterrence theory, which posits that the threat of punishment can encourage tax compliance (Allingham & Sandmo, 1972).

Table 3: Descriptive Statistics

Indicators	Mean	Std Dev.	kurtosis	Skewness	T value*	P value**
Income-level	3.124	0.967	-0.694	-0.294	2.773	0.000
Rental-Income-Compliance	2.945	1.142	-0.800	-0.063	1.751	0.000
Attitudes & Perception	2.782	1.037	-0.718	-0.098	2.142	0.000
Tax-system	2.580	1.099	-1.043	0.107	2.010	0.000
Knowledge & Awareness	3.837	1.161	0.326	-1.047	3.751	0.000
Penalties & interest	3.384	1.236	-0.644	-0.586	2.647	0.000

Sources: Authors 2024: Note * Cramér-von Mises test statistic: ** Cramér-von Mises p

Results of Correlation Analysis

The correlation results are presented in Table 4. The correlation between income level and rental income compliance is -0.221, suggesting a weak negative relationship. This indicates that higher income levels are associated with slightly lower compliance with rental income tax, implying that wealthier landlords might have more resources or incentives to evade taxes. Compliance with rental income tax shows moderate positive correlations with attitudes and perceptions (0.487), the tax system (0.345), knowledge and awareness (0.401), and penalties and interest (0.378). These correlations suggest that positive attitudes towards the tax system, better knowledge and awareness, and the presence of penalties and interest are associated with higher compliance levels. The attitudes and perceptions variable has a moderate positive correlation with the tax system (0.593), knowledge and awareness (0.438), and penalties and interest (0.312). This indicates that favourable attitudes towards the tax system, greater knowledge and awareness, and the perception of penalties and interest contribute to more positive attitudes towards compliance. The tax system shows moderate positive correlations with knowledge and awareness (0.472) and penalties and interest (0.398). This suggests that a well-structured tax system is associated with better knowledge and awareness of tax obligations and the perception that penalties and interest play a role in compliance decisions. Knowledge and awareness have moderate positive correlations with penalties and interest (0.422). This implies that landlords who are more knowledgeable about tax obligations also perceive penalties and interest as significant factors in their compliance decisions. The significant positive correlations highlight the importance of enforcement mechanisms in ensuring tax compliance. The results align with Torgler (2003), Fjeldstad and Heggstad (2012), and Saad (2014), emphasizing taxpayer attitudes, perceptions, and knowledge. The correlations with penalties and interest support the deterrence theory proposed by Allingham and Sandmo (1972), suggesting that the threat of punishment can motivate compliance.

Table 4: Results of Correlation Analysis

Indicators	(1)	(2)	(3)	(4)	(5)	(6)
Income-level (1)	1.000	-0.221	0.105	0.183	0.231	-0.142
Rental-Income-Compliance (2)	-0.231	1.000	0.487	0.345	0.401	0.378
Attitudes & Perception (3)	0.108	0.487	1.000	0.593	0.438	0.312
Tax system (4)	0.183	0.345	0.593	1.000	0.462	0.378
Knowledge & Awareness (5)	0.232	0.401	0.448	0.482	1.000	0.442
Penalties & interest (6)	-0.142	0.378	0.312	0.398	0.422	1.000

Source: Authors 2024

Regression Results and Discussions

Table 5 presents the regression analysis results of the study. The regression coefficients, standard errors (SE), t-values, p-values, and confidence intervals are used to interpret the influence of various indicators on rental income tax compliance.

The Durbin-Watson test value of 1.928 indicates no significant autocorrelation, suggesting that the residuals are largely independent. This enhances the credibility of the regression analysis results, affirming the validity and robustness of the model in explaining rental income tax compliance in

Tanzania. The R-square value of 0.616 and the adjusted R-square value of 0.604 indicate that approximately 61.6% of the variability in rental income tax compliance can be explained by the model. This strong explanatory power implies that targeting attitudes, perceptions, the tax system, knowledge, awareness, and penalties could effectively improve compliance rates. The high explanatory power of the model is consistent with findings from other studies. For instance, Torgler (2003) and Saad (2014) highlighted that taxpayer attitudes, perceptions, and the perceived fairness of the tax system are critical determinants of tax compliance.

The coefficient for income level is -0.063 with a p-value of 0.196, indicating that income level is not a statistically significant predictor of rental income tax compliance at the 5% significance level. This suggests that variations in income among landlords do not significantly influence their compliance with rental income tax regulations. This finding aligns with Fjeldstad and Heggstad (2012), who observed that income level alone is not a strong determinant of tax compliance.

The coefficient for attitudes and perception is 0.362, with a highly significant p-value of 0.000. This indicates a strong positive relationship between favourable attitudes toward tax compliance and actual compliance. The t-value of 6.498 further supports this significant relationship. This result corroborates the findings of Torgler (2003), who highlighted that positive taxpayer attitudes and perceptions significantly influence compliance behaviour.

The tax system variable has a coefficient of 0.162 and a significant p-value of 0.005, suggesting that a well-structured and efficient tax system positively influences compliance. The t-value of 2.838 indicates the robustness of this relationship. This finding is consistent with Saad (2014), who emphasized the importance of a fair and transparent tax system in encouraging tax compliance.

The coefficient for knowledge and awareness is 0.212 with a significant p-value of 0.000, indicating a positive relationship between tax knowledge and compliance. The t-value of 4.245 supports this finding. This result aligns with Loo, McKerchar, and Hansford (2009), who noted that while awareness is essential, it must be complemented by effective enforcement to ensure compliance. Penalties and interest have a coefficient of 0.253 and a significant p-value of 0.000, suggesting that these factors significantly influence compliance decisions. The t-value of 4.039 supports the strength of this relationship. This finding aligns with the deterrence theory proposed by Allingham and Sandmo (1972), which posits that the threat of penalties can effectively encourage tax compliance.

Table 5: Regression Results

Indicators	Coef.	SE	T value	P value	Confidence intervals	
Income-level	-0.063	0.058	1.297	0.196	-0.188	0.039
Attitudes & Perception	0.362	0.061	6.498	0.000	0.278	0.519
Tax-system	0.162	0.059	2.838	0.005	0.052	0.285
Knowledge & Awareness	0.212	0.049	4.245	0.000	0.112	0.305
Penalties & interest	0.253	0.058	4.039	0.000	0.12	0.348
Durbin-Watson test	1.928					
R-square	0.616					
R-square adjusted	0.604					

Source: Authors 2024

Robustness Check and Heterogeneity Analysis

Robustness checks were conducted to validate the reliability of the regression results. This involved running alternative model specifications, such as excluding variables and using different estimation methods and revealed the following results Income level **is** consistent with prior research, higher-income landlords were less likely to comply with tax regulations, suggesting they might have more resources to evade taxes (Fjeldstad & Heggstad, 2012). Rental income compliance has a positive and significant effect on Rental income tax and was robust across different model specifications, highlighting the importance of timely and accurate reporting in enhancing tax compliance (Torgler, 2003). The deterrent effect of penalties was consistently significant, aligning with the economic deterrence theory (Allingham & Sandmo, 1972). The regression analysis, supported by robustness checks and heterogeneity analysis, confirmed that the variables Income Level, Rental Income Compliance, Attitudes & Perception, Tax System, Knowledge & Awareness, and Penalties & Interest play significant roles in influencing rental income tax compliance in Tanzania. The findings suggest that wealthier landlords may be less compliant, possibly due to their ability to evade taxes, while compliance is positively influenced by factors like accurate reporting, fair tax systems, and the threat of penalties.

Conclusions, Implications and Recommendations

The study investigates the drivers of rental income tax compliance in emerging countries, specifically within the Tanzania context. Employing a quantitative approach to provide a comprehensive understanding of compliance factors. The findings indicate that favorable attitudes and perceptions toward the tax system significantly enhance compliance. A well-structured and efficient tax system correlates with higher compliance levels, highlighting that simplified procedures and transparency in tax administration can improve adherence to tax obligations. Additionally, increased knowledge and awareness about tax responsibilities positively impact compliance, with educated landlords more likely to adhere to regulations. The presence of penalties and interest is a significant deterrent to tax evasion, as landlords aware of the consequences of non-compliance are more inclined to follow tax regulations. The study reinforces economic deterrence theory by demonstrating that the threat of penalties influences tax compliance behaviour, supporting the notion that enforcement mechanisms are crucial for higher compliance rates. It also contributes to the literature on the role of knowledge and awareness in compliance, confirming that informed taxpayers are more likely to comply, thereby underscoring the need for improved taxpayer education.

Practically, the study's findings suggest that policymakers should enhance the transparency and efficiency of the tax system, simplify procedures, and improve communication to reduce the administrative burden on landlords. Targeted educational programs and effective enforcement mechanisms, including regular audits and significant penalties, should be implemented to deter non-compliance. Future research could explore additional factors such as socio-cultural influences, economic pressures, and the impact of informal networks on rental income tax compliance.

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