TAX KNOWLEDGE AND TAX COMPLIANCE AMONG SME OWNERS IN NAIROBI COUNTY

BY:

PETER CHERUIYOT LANGAT

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DECLARATION

The aforementioned study paper is my original work and have not submitted for credit towards a degree at a different institution; it is entirely my own work to complete.

Signature Date **21 November 2023**

Peter Cheruiyot Langat

D61/7150/2006

As the study's supervisor, I have given my consent for the current study to be forwarded for evaluation.

Signed............................ .... Date...27/11/2023...

Dr. Kennedy Okiro,

Lecturer,

Department of Finance and Accounting,

Faculty of Business and Management,

University Of Nairobi

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To those who contributed by giving ideas, assisting in the review of the draft, and offering other assistance such as proofreading, editing, and printing, may the good Lord bless you abundantly.

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DEDICATION

To my dear father at the pearly gates, you gave everything for me to get here.

This is for you.

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LIST OF SYMBOLISM AND ACRONYMS

ANOVA	Analysis of Variance
MFIs	Micro Finance Institutions
MSEAs	Micro and Small Enterprises Authority
SACCOs	Savings Credit Cooperative Organization
SAS	Self-Assessment System
SMEs	Small and medium-sized businesses
TPB	Theory of Planned Behaviour
VAT	Value Added Tax
VIF	Variance Inflation Factor

ABSTRACT

The study's goal was to ascertain how knowledge in taxes influenced compliance to taxes amongst Nairobi's SMEs. In this project, survey data was utilized to determine this relationship. The SME community in Nairobi, Kenya, was the study population. In Nairobi as a whole, there are 60506 SMEs. 382 SMEs made up the sampled population. Questionnaires were used to gather primary data. Inferential as well as descriptive statistical methods were employed to analyse the data after they were collected.The study's findings demonstrate a strong and favourable correlation between tax knowledge and tax compliance, with α=0.01>0.05. According to the regression coefficient, the model's constant value was 0.307, meaning that tax compliance would have a value of 0.307 if all other factors remained constant. The study also found that, as indicated by the beta value of 1.182, tax knowledge was a positive predictor of firm value. The beta value of 0.661 indicates that tax administration was also found to be a positive predictor of tax compliance. The beta value of 0.310 indicates that the cost of tax compliance was also found to be a positive predictor of tax compliance. Their study's conclusions showed that in Nakuru County, Kenya, tax rates and taxpayer awareness had a positive and noteworthy effect on SME paying taxes.

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CHAPTER ONE: OVERVIEW

1.1 Study Background

Businesses are required to file and remit their tax obligation as they fall due. The government emphasizes individual and business tax compliance because it stands as the primary source of internal revenue. Tax compliance is characterized as the process of complying with the rules and laws about taxes that are established by a government and tax agency (Alm, Clark, & Leibel, 2016). It entails fulfilling tax requirements like prompt filing of tax forms, correct recording of income and spending, and timely reimbursement of taxes due. Tax administration, self-assessment systems, tax knowledge, and compliance costs are among the various factors that influence compliance with tax. Tax understanding has an important effect on tax conformity in that; taxpayers who seem to become more educated about fiscal regulations are more willing to comply voluntarily. Furthermore, tax administration encourages compliance by giving taxpayers confidence that their contributions are being used fairly and efficiently (Keen & Slemrod, 2017). Self-assessment systems can also have an impact on compliance because, when taxpayers participate in the assessment process, they are more likely to comply due to a sense of belonging and accountability (Alm, Clark, & Leibel, 2016). Furthermore, self-assessment systems, where taxpayers are held accountable for the precise determination of their tax liability, can affect compliance.

Several theories have been applied in this study to explain the behavior and compliance of taxpayers. According to the theory of planned behavior, an individual's attitude to paying taxes, perception of social constraints, and perceived capacity for compliance all have an impact on compliance (Ajzen, 1991). According to the social learning theory, people should follow social norms surrounding tax compliance by paying attention to and taking note of the acts of others, especially their peers and authority figures (Bandura, 1977). According to the economic deterrence theory, while making decisions, people assess the advantages and disadvantages of breaking the law, including prospective punishments (Momoh, 2018).

Small and medium-sized businesses (SMEs) in Kenya face numerous challenges, including those connected to tax compliance. SMEs frequently lack tax knowledge, which makes it difficult for them to comprehend and meet their tax requirements (Mwangi, 2014). SMEs in Kenya frequently struggle to find and keep qualified workers. A lack of adequate education and training opportunities contributes to a workforce shortage, particularly in highly specialized fields. This lowers SMEs' rates of inventiveness, development, and compliance. Additionally, SMEs, especially those with limited resources, may be burdened by compliance expenditures. The informal sector, which operates outside of established regulations and tax systems, competes with SMEs. Informal enterprises frequently have lower expenses and avoid regulations, giving SMEs an unfair advantage (Murori, 2022). The compliance problems experienced by SMEs in Kenya are made worse by poor tax administration and restricted access to support services (Mwangi, 2014). SMEs frequently have difficulty finding accessible financing choices from traditional banking institutions.

1.1.1 Tax Knowledge

The term "tax knowledge" entails understanding how to compute taxable income, finding credits and deductions that are deductible, and adhering to filing and payment deadlines (Saad, 2014). The term "tax knowledge" describes the capability to comprehend and implement tax regulations and laws in real-world contexts (Bornman, & Ramutumbu, 2019). Understanding the potential tax ramifications of financial transactions and having the capacity to negotiate the tax planning complexity and compliance to reduce tax liabilities are also part of having an understanding of taxes (Firmansyah, & Putu, 2018).

Tax knowledge is essential for SMEs functioning in Kenya since, it enables business operators to precisely calculate their tax payments and meet their obligations on time. This aids in avoiding fines, penalties, and any potential legal problems that could result from non-compliance (Bornman, & Ramutumbu, 2019). Furthermore, tax knowledge enables the owners of SMEs to spot possible tax breaks, funds, and rewards that could lower their tax liability and increase cash flow (Firmansyah, & Putu, 2018). Additionally, it makes proper tax planning possible, enabling SMEs to maximize their financial plans and effectively allocate resources. Ultimately, having a solid understanding of taxes helps SMEs be more transparent and accountable since owners can discuss tax-related issues with tax authorities, tax consultants, and other stakeholders with confidence.

There are several subsets of tax knowledge, including tax rules and regulations, tax planning, tax deductions, tax ethics and governance, and tax compliance methods. Understanding tax rules and regulations entails being aware of the legal structure, provisions, and specific tax laws and regulations. It comprises an understanding of payroll tax regulations, sales tax or value-added tax (VAT) laws, and other associated tax practices. Tax planning refers to the knowledge and abilities needed to efficiently plan for and fulfill tax responsibilities. It entails comprehending tax planning tactics and procedures for minimizing tax responsibilities within the legal parameters. Tax deductions refer to the understanding of possible tax credits and deductions that can lower taxable income for both individuals and businesses. It entails comprehending the prerequisites, restrictions, and documentation needs for various deductions (Abdelmoula, Chouaibi, & Chouaibi, 2022).

1.1.2 Tax Compliance

According to Nyamwanza et al. (2014), compliance with tax is the observance of tax regulations and laws by taxpayers, which includes meeting reporting requirements, giving accurate information, and paying taxes on time. It includes following the instructions and recommendations provided by tax authorities, properly preparing and submitting tax returns, and keeping all required paperwork and records current (Slemrod, 2019). Tax compliance ensures that people and organizations are fulfilling their legal obligations to the tax authorities (Musimenta, 2020).

Tax compliance is a key trait for SMEs because it helps them avoid the penalties, fines, and legal repercussions that can result from failure to adhere to tax rules. By timely paying their taxes, SMEs keep good relations with tax authorities, which can facilitate operations and reduce the likelihood of audits or investigations (Nyamwanza et al., 2014). Furthermore, SMEs' reputations and trustworthiness are improved by tax compliance. It exhibits professionalism and moral behavior, which might be essential for luring clients, suppliers, and investors (Musimenta, 2020). Additionally, tax compliance allows the owners of SMEs to benefit from a variety of tax breaks and deductions that can lower their tax liability. SMEs can optimize their tax responsibilities, enhance cash flow, and allocate resources more effectively by being aware of and adhering to tax legislation.

Tax compliance can be measured or assessed in various ways to ensure individuals and businesses are meeting their tax obligations. Some measures, categories, or forms commonly used to evaluate tax compliance are: filing compliance, payment compliance, reporting compliance, and voluntary compliance. Filing compliance focuses on whether taxpayers are filing their tax returns accurately and on time. It assesses the percentage of taxpayers who submit their required tax returns within the specified deadlines (Alm, Clark, & Leibel, 2016). Payment compliance evaluates whether taxpayers are paying the correct amount of tax owed on time. Reporting compliance assesses whether taxpayers are reporting all relevant income and information accurately on their tax returns. It examines the accuracy and completeness of the information provided including income, deductions, and credits.

1.1.3 Tax Knowledge and Tax Compliance

The compatibility of tax compliance and information on tax can either be positive or negative. Scholars such as Al-Ttaffi, Amrah, and Bin-Nashwan (2020), for instance, have stressed the value of tax education and awareness campaigns in enhancing compliance. They contend that if people are cognisant of tax laws and commitments, they are probably more willing to comply with them because they see them as the standard in society. Researchers like Naeem and Gulzar (2021) have also looked into how tax knowledge affects tax avoidance conduct. They assert that people with less tax knowledge may be more likely to participate in tax evasion because they misinterpret the laws or are unaware of the repercussions. In general, the body of research indicates that raising tax literacy through outreach efforts and initiatives can dramatically increase tax compliance rates.

Kenyan scholars like Abdul and McFie (2020) have specifically looked at the variables impacting tax compliance among Kenyan taxpayers. They discovered that compliance efforts are hampered by a lack of tax knowledge, especially among large and medium-sized companies. Taxpayers in Kenya encounter several difficulties, including poor access to pertinent information, complicated tax laws, and little understanding of their obligations. Furthermore, Masaku (2019) stressed the significance of tax education initiatives such as workshops, seminars, and online resources to help taxpayers comprehend their responsibilities and raise compliance rates.

1.1.4 Small and Medium-Sized Enterprises (SMEs)

SMEs are firms that are classified within a specific category based on the size of their overall workforce, yearly revenue, or total resources. In comparison to larger organizations, they are typically distinguished by having fewer resources and a smaller scope of operations (Haase, & Franco, 2016). SMEs in Kenya are regulated by the Micro and Small Enterprises Authority (MSEA). The Regulations grant the agency the power to design and implement strategies that would make it easier for different public and private sector ventures to be integrated and harmonized to promote, establish, and regulate micro and small businesses so that they can become important industries of the future.

SMEs perform a critical function in Kenya’s growth of economy by fostering job creation, and economic growth, and attracting foreign investors (Muriithi, 2017). SMEs provide people with a way to locate employment, develop their inventive skills, and increase the production of the country's economy (Bouazza, 2015). SMEs have a big impact on regional growth and lowering income disparities. They are more likely to be found in remote and underserved locations, boosting the local economy and giving communities chances to flourish. Small and medium-sized businesses (SMEs) help to alleviate poverty in these areas, ease the strain of urban migration, and generate reliable incomes. As these businesses expand and succeed, they provide revenue and tax revenues that go toward the government's financial resources. In addition to improving tax compliance and governance, formalizing SMEs increases government earnings and improves service delivery.

However, SMEs in Kenya encounter several difficulties and problems that may prevent them from expanding and remaining viable. Among the major problems, SMEs encounter are rising expenses and declining revenue. Some of these expenses could be a result of the rising cost of basic resources, inflation, insurance rates, and a decrease in the market for services and goods, in addition to other basic corporate expenses (Muriithi, 2017). Furthermore, for SMEs, lengthy and complicated regulatory processes can be a strain. It can be difficult to comply with numerous permits, licenses, tax rules, and bureaucracy, especially for small enterprises with few resources. This limits their potential for expansion and level of competition.

1.2 The Research Problem

When taxpayers and the revenue collection authorities execute their duties, a country can build a beneficial tax culture. Due to the importance of tax collections, tax administrators typically devote a great deal of effort to comprehend and address noncompliance. The taxpayers' obstinate nature, frustrations, and detachedness are continually caused by their ignorance of their tax responsibilities. Tax evasion is one of the problems that a nation faces that slows down its progress (Al-Ttaffi, Bin-Nashwan & Amrah, 2020). People who are more knowledgeable about taxes are more inclined to adhere to their tax commitments. Individuals who are knowledgeable about taxes can understand the tax rules and legislation that apply to their nation. Taxpayers are better able to follow the rules and specifications and prevent unintended non-compliance.

Many SMEs are unaware of their tax requirements and lack adequate tax understanding. They might not be aware of the precise taxes they must pay, the due dates for filing, or the essential paperwork for compliance. Due to this information gap, unintentional non-compliance may occur. SMEs frequently experience difficulties keeping accurate and thorough accounting records, which are essential for tax compliance (Christian, 2019). It can be difficult for SMEs to keep tabs on their earnings, expenditures, and tax responsibilities effectively due to poor accounting procedures, inadequate exposure to accounting experts, and a lack of suitable accounting tools.

Tax compliance and tax knowledge have been the subject of both global and local studies. Palil (2018) researched tax compliance and knowledge factors in Malaysia's self-assessment system. Christian (2019) studied issues affecting taxpayers' intentional compliance utilising the fiscal legislation in Tanzania. Fauziati et al. (2020) explored the influences of knowledge of tax on Indonesian tax compliance. Musimenta (2020) studied the Knowledge necessities of tax compliance in Uganda.

Local studies comprised of Memba and Oluoch (2018) who examined the implications of knowledge on taxpayer adherence between Kenyan entrepreneurs in Export-Production Regions, Aondo, (2018) researched to ascertain the impact of taxes rates and taxpayer understanding on tax compliance amongst MFIs in Nakuru County, Kenya. Aondo (2018) reviewed the results of knowledge on taxpayers' and fiscal compliance levels across Companies in the nation's County of Nakuru. Gitonga and Memba (2018) examined the factors that made public transportation savings and credit cooperatives in Kenya comply with taxes: Kiambu County case study. Chelangat (2022) examined what kept a small and middle agri-business businesses in the country's Kericho Region from paying their taxes. From the reviewed studies, this study aimed to review the effects tax expertise (knowledge) about tax observance (compliance) by answering the following question, what was the effect of knowledge and compliance of tax among SMEs in Nairobi County?

1.3 Research Objective

The research aimed to examine the impact of tax knowledge on compliance with tax among SMEs in Nairobi,

1.4 Significance of the Study

Tax authorities are unable to obtain the taxes that are required of the intended taxpayers. From the perspective of SMEs, evasion of tax is typically motivated by the belief that the cost of paying taxes is excessive. This creates several issues for taxes and raises challenging concerns about how tax administration and policies may affect the benefits and actions associated with tax compliance. Compared to large corporations, small businesses may have a higher tax compliance burden. Additionally, it is typically expensive to comply with a precise set of tax regulations and rules.

This study concentrated on tax administration effects, self-assessment systems, expenses on compliance with tax, and awareness of tax on tax obedience. This study's findings are projected to offer foundations and ideas for the creation of a paradigm. The Kenyan authorities and its revenue collection agency could use the information gained from this research to create effective tax regulations for SMEs. The study would be helpful to the business sector along with the leadership staff of the organizations in question for determinations of understanding the elements affecting compliance with tax and how to alter or deal with the conditions. Subsequently, the study would be interesting to researchers and academics who might need to increase their knowledge (understanding) of tax compliance and tax administration.

CHAPTER TWO: OVERVIEW OF THEOLOGY

2.1 Introduction

In this section, a synopsis of the literature was conducted. It entailed empirical and theoretical review, determinants of tax compliance, and conceptual structure. An empirical review will comprise global and local studies completed in relation to tax conformity and tax understanding.

2.2 Theoretical Foundation

This section explored concepts which anchor the connection that exists between dependent elements as well as independent variables. The dependent variable here is tax compliance whereas the independent variable is tax knowledge. Each theory looked at the originator, the meaning of the theory, and its significance to the research.

2.2.1 Social Learning Theory

Bandura (1977) created the social learning hypothesis. The theory asserts that people learn through emulating the conduct, attitudes, and morals of others. People can get knowledge from other people's experiences without having their own by interacting with them in social situations and observing them. For example, if someone witnesses the adverse repercussions experienced by others who lack tax knowledge, like fines or financial challenges, then they are more inclined to understand the necessity of tax literacy and undertake efforts to improve their tax knowledge. According to Rumjaun and Narod (2020), this model defines human behavior as the result of ongoing mutual relationships among behavioral, cognitive, and environmental variables. The environment has an important task in the determination of behavior as it instructs a person’s behavior by inflicting consequences on every activity. Individuals use cognition as a point of reference while establishing behaviors because it helps them understand the effects of their actions.

The processes involved in social learning are summed up as follows: the technique of interest, whereby a person may acquire knowledge from others if they pay close attention to them; the recollection process, which is the act of recalling a procedure of a structure after the structure is not further accessible; the process of motor development, which is the procedure of translating assessment into actions; and, the process of inspiration, whereby a person utilizes constructive criticism to act per the expectations of other people (Deaton, 2015). Adaptive competence is among the fundamental concepts of social learning theory. This concept refers idea to a person's capacity to exhibit conduct through their expertise and skills. One must be aware of what to do and how to accomplish it to behave well.

According to the social learning hypothesis, people are more inclined to replicate actions they see if they think there will be advantages or incentives for doing so. When it comes to tax knowledge, people may copy other people's tax strategies if they see successful outcomes like getting refunds on taxes, averting fines, or optimizing tax benefits. On the other hand, if people see adverse outcomes, like audits or fines, they could be hesitant to replicate those actions. People can gain insight from the first-hand accounts of others who have dealt with tax-related difficulties or succeeded in handling their tax responsibilities in the context of taxation. People can learn from the effects of particular tax actions and change their taxation-related knowledge and behaviors as a result. The social learning hypothesis puts serious emphasis on the value of conversation and interaction with others in the course of studying (Kurniawan, 2020).

2.2.2 Planned Behaviour Theory (TPB)

Ajzen (1991) created the TPB. The TPB is a renowned mental framework which examines people's views, personal standards, and impressions of control over behavior to clarify human conduct. The concept contends that the social behaviors of individuals are influenced by certain circumstances, have specific causes, and develop systematically. However, the capacity to engage in a given conduct is contingent upon the person's motivation for engaging in that activity.

A particular taxpayer would intend to conform with tax laws as soon as they are favorably evaluated; alternatively, they would react to reduce or circumvent paying taxes. This attitude could be affected by several variables, including how fair the tax structure is perceived to be (Taing, & Chang, 2021). If they obtain public benefits in exchange for their taxes, taxpayers might believe the tax system is legitimate. This suggests an upbeat view on tax compliance. On the other hand, they are prone to be less compliant if they suspect the tax system is treating them unfairly. Motives to comply with tax laws are explained by subjective norms. As a result, a positive association between these 2 factors can be anticipated, with individuals acting in a certain way if they think their meaningful others wish them to. Taxpayers appear to have a high sense of behavioral control and are more inclined to adhere to their tax duties if they anticipate that they possess the necessary information, competencies, or abilities to effectively file their tax returns (Nurwanah et al., 2018). When a person believes that they are not having trouble withholding certain amounts from their tax return due to their expertise and finances, they likewise appear to exhibit significant control over a person’s non-compliance behavior.

The planned behavior theory states that people's motives and actions toward tax compliance are influenced by their views, personal standards, and perceived control over their behavior. People are more inclined to adhere to tax laws and meet their tax duties if they are aware of how important taxes are, perceive societal rules supporting compliance, and have confidence in their capacity to do so. As a result, this theory was utilized to explain the variable compliance of tax.

2.2.3 Economic Deterrence Theory

The deterrence hypothesis evolved from the ideas of three philosophers: Bentham (1789), Hobbes (1651), and Beccaria (1872). The hypothesis states that people are unlikely to participate in unlawful activities when they believe the punishments for doing so would be costly. It is possible to implement the principle using both persuasive and punitive methods (Momoh, 2018). Contrary to the punitive approach that emphasizes increasing the likelihood of discovery, increasing the rate of taxation, and enacting tighter and more severe penalties to penalize non-compliance the persuasive approach to tax compliance adopts an entirely distinct approach. The persuasive strategy sought to encourage compliance by providing information, interacting, and cultivating an atmosphere of collaboration and mutual comprehension between taxpayers and tax authorities rather than solely focusing on fear and penalty.

In the bid to find a regulatory tool that may be supplemented or replaced via a call to the citizenry of tax ethics, the theory of deterrence is predicated on addressing the difficulties of tax compliance. According to deterrence theories, compliance trends rely purely on the capacity to make payments strategy as often predicted. By drawing attention to the dangers and repercussions of such actions, incidents where people or companies have been fined for tax evasion or noncompliance have a deterrent impact (Omondi & Theuri, 2019). People's opinions about the charges and advantages of tax compliance can be influenced by their level of tax expertise. People are more knowledgeable about the possible expense of tax avoidance, such as monetary penalties, audits, and legal repercussions, when they have a solid knowledge of the tax laws, constraints, and repercussions for non-compliance (Alm, 2019).

The economic deterrent concept is among the crucial key hypothetical subfields that affect tax compliance. In the framework of economic deterrence theory and tax compliance, tax knowledge is essential. It influences how people view both the expenses and the benefits of tax compliance, aids in their understanding of the dangers posed by tax avoidance, and makes it possible for them to put good compliance practices into action. People who are knowledgeable about taxes are inclined to make judgments that are in line with the concept of the economic deterrence hypothesis and increase the chance of tax compliance by being knowledgeable of prospective results of non-compliance. Deterrence theory, which emphasizes the significance of risk perceptions, fines, and regulation in influencing taxpayer actions, is thus relevant to this study. Tax authorities can create measures that work to discourage noncompliance, encourage individuals to comply, and guarantee a just and efficient tax system by taking into account the deterrence theory's fundamental concepts

2.3 Determinants of Tax Compliance

The section below discussed in detail how awareness of tax, tax administration, and compliance of tax cost determine tax compliance.

2.3.1 Tax Knowledge

Tax knowledge alludes to a person's familiarity with tax standards, restrictions, and responsibilities (Bornman, & Ramutumbu 2019). It included both practical information (an understanding of tax laws and regulations) and conceptual information (an understanding of the core concepts and ideas). Understanding tax laws, compliance methods, possible expenses, and filing regulations are all essential components of successful tax knowledge (Susyanti, & Iskandar, 2019). It has been discovered that education level and widespread understanding of tax duties have an advantageous effect on tax knowledge (Wassermann, & Bornman, 2020). Highly informed individuals who have exposure to tax-related sources of information tend to be knowledgeable about taxes.

Individuals' compliance actions concerning tax responsibilities are significantly influenced by their level of tax awareness. Lawmakers, tax officials, and those who want to encourage independent compliance must comprehend the connection between tax knowledge and tax compliance. Understanding tax laws also entails being mindful of filing and payment dates. Timely compliance is ensured by knowing when tax returns are due and when payments must be paid (Susyanti, & Iskandar, 2019). Deadlines that are missed may result in fines, interest charges, and other repercussions. Tax knowledge enables taxpayers to keep track of crucial deadlines and take the necessary steps to fulfill their responsibilities on time. Taxpayers who are knowledgeable about the law can also determine when they need expert tax guidance or assistance (Bornman, & Ramutumbu 2019).

2.3.2 Tax Administration

The term "tax administration" pertains to the gathering, evaluation, and implementation of taxes in an organized and productive manner by a governing body or a recognized agency (Wanjiru et al. 2018). It entails the creation of tax legislation and guidelines, the determination of rates of taxation and deductions, the administration of taxpayer accounts and data, and the delivery of amenities and assistance to taxpayers. The equal and impartial payment of taxes, deemed necessary for financing public services and governmental initiatives, depends on competent tax administration.

Since low-income nations contend with rampant tax evasion, misconduct, and a lack of administrative ability, compliance is a crucial area of concern. Clear, simple, and easy-to-understand tax rules, laws, and processes are guaranteed by an efficient tax administration. Taxpayers are prone to voluntary compliance when they're fully aware of their privileges and duties. Unambiguous tax regulations lessen uncertainty and the possibility of unintended failure to comply. It is simpler for individuals to perform their tax duties when there are user-friendly electronic filing systems, user-friendly online platforms, and convenient payment options (Keen & Slemrod, 2017). Tax administrations can help individuals comprehend their tax responsibilities by providing advice, support, and instructional materials. Instructional materials may be distributed more effectively by examining information and detecting areas of greatest risk, such as sectors or taxpayer categories with a greater possibility of noncompliance. Tax evasion is discouraged through prompt and efficient legal proceedings, as well as by justifiable fines for non-compliance. The warning that non-compliance will not be allowed is sent loud and clear by tax administrations that regularly and impartially implement tax rules.

2.3.3 Tax Compliance Costs

The costs of tax compliance are the monetary and non-monetary outlays made by individuals to fulfill their tax obligations (Mahangila, 2017). It encompasses all expenses linked to maintaining tax records, filing returns, budgeting taxes, getting expert financial guidance, reacting to tax audits or inquiries, and incurring any other fees necessary for complying with tax rules and regulations.

Taxpayers are more inclined to correctly disclose their earnings and expenditures as well as less inclined to make unintentional errors or inaccuracies when they keep meticulous records and diligently prepare their tax forms. The confidence between taxpayers and tax authorities is increased by precise and honest reporting, which benefits compliance. Costs associated with tax compliance may include consulting with tax experts, such as accountants or tax advisors, or using their services (Savitri, 2016). These experts have knowledge of tax rules and can help taxpayers navigate them, make the most of their available expenses, and maintain compliance. Risk assessment approaches are frequently used by tax authorities to find possible taxpayers who are not compliant with audits. So, reducing audit risk and fostering compliance are two benefits of effectively handling tax compliance costs. Taxpayers reduce their risk of facing fines by investing in their capacity to precisely and promptly fulfill their duties by paying tax compliance costs.

2.4 Empirical Review

Palil (2018) performed an examination that looked at how facilitating elements interact in the creation of an appropriate Self-assessment system (SAS), concentrating especially on the purpose of tax knowledge in Malaysia. ANOVA and t-tests were used for data analysis. Although participants' levels of tax knowledge differ greatly, the outcomes denoted that knowledge of tax has a substantial implication on compliance with tax. The findings furthermore, show that the likelihood of an audit, estimates of government expenditure, fines, individual financial limits, and the consequences of comparable parties have each affected tax compliance.

Fauziati et al. (2020) explored Indonesia’s impact of knowledge of tax on tax compliance. The examination was carried out using a survey methodology. The main source of information was utilized, and 300 copies of a survey that participants completed themselves were disseminated. There were 237 completed and returned questionnaires. The connection linking tax compliance and tax knowledge was estimated by straightforward linear regression models. To determine whether the research factors were significant, a t-test was applied. Tax knowledge was shown to have minimal implications on compliance with tax.

The research carried out by Musimenta, (2020) explored the passive impacts of compliance costs while examining the connection involving Uganda’s intricate nature of tax system, knowledge specifications, and tax compliance in Uganda. Participants in the cross-sectional and correlational study were VAT-certified withholding agents. The findings of this research imply that knowledge specifications have no drastic impact on compliance costs. The findings presented that people had enough tax knowledge to be able to pay their taxes, but it does not preclude the possibility that they continued to pay for the associated costs.

Christian (2019) performed a research investigation to evaluate elements impacting taxpayers' choosing to comply with the Tanzanian tax system. The research investigation had three distinct goals: to evaluate the impact of present-day tax regulations, the impact of compliance expenses, and to ascertain how people's perceptions toward taxes affect their choice to comply with the tax structure. According to the research, the vast majority of those who participated firmly concurred that unjust tax assessments and severe tax penalties are the main causes of taxpayers' failure to pay their fair share of taxes. Another important element for voluntary tax compliance is communication between taxpayers and government personnel. The survey went on to indicate that some taxpayers do not adhere to the tax system for a variety of reasons. However, the primary present cause is the inability to pay taxes.

Memba and Oluoch (2018) examined some knowledge implications of tax on compliance amongst Kenyan entrepreneurs in Export Processing Zones. The methodology used in this research was the cross-sectional survey. The research found that a sizable proportion of companies prioritize staff education aimed at enhancing their tax knowledge and comprehension, which facilitates compliance with tax. According to the study findings, taxpayers' understanding and compliance with tax regulations were positively correlated with tax knowledge.

Aondo, (2018) carried out studies to ascertain the impact of taxpayer knowledge and tax rates on tax compliance among Nakuru County SMEs in Kenya. The methodology used in the present investigation was descriptive. The correlation linking the dependent and the independent factors was also examined using statistical inference. According to regression analysis, taxpayer awareness and rates of taxation had beneficial and substantial implications on SME tax compliance in the County of Nakuru, Kenya. This demonstrates that higher tax rates and more taxpayer knowledge improved tax compliance.

Gitonga and Memba (2018) performed an investigation to identify the factors that public transportation savings and credit cooperative societies in Kenya consider when determining their tax compliance. 40 public transportation Saccos in the county of Kiambu served as the population of the study. The research employed a descriptive investigation method. Descriptive statistics were utilized, to sum up the data that had been obtained. The results showed a significantly substantial association between tax compliance rates with Kenya’s public transportation SACCOs and deterrence of tax penalties, compliance with tax expenses, and knowledge of tax. The research determined that tax deterrence penalties, tax compliance expenses, and tax awareness in Kenya affected the tax compliance levels of public transportation SACCOs.

Chelangat (2022), conducted studies to show how tax awareness, tax law regulation, and tax compliance expenses affect agribusiness SMEs' ability to comply with tax laws in Kericho County. A descriptive survey was selected as the research method. The research's 433 proprietors of agribusiness SMEs were its target group and 208 people were included in the group being studied. The information was displayed using descriptive and inferential statistics. The outcomes showed a substantial association involving compliance with tax and knowledge of tax, tax rules regulation, and compliance expenses, with multiple coefficients of correlation of R=0.910 confirming this. Additionally, the outcomes demonstrated that tax law implementation has beneficial consequences on compliance with tax.

2.5 Conceptual Framework

A diagrammatic illustration of the association between two or more variables is known as a conceptual framework or structure. These are the independent and dependent variables. In this event, tax compliance was the dependent variable, while tax knowledge was the independent variable. Moderating variables were tax administration and tax compliance costs.

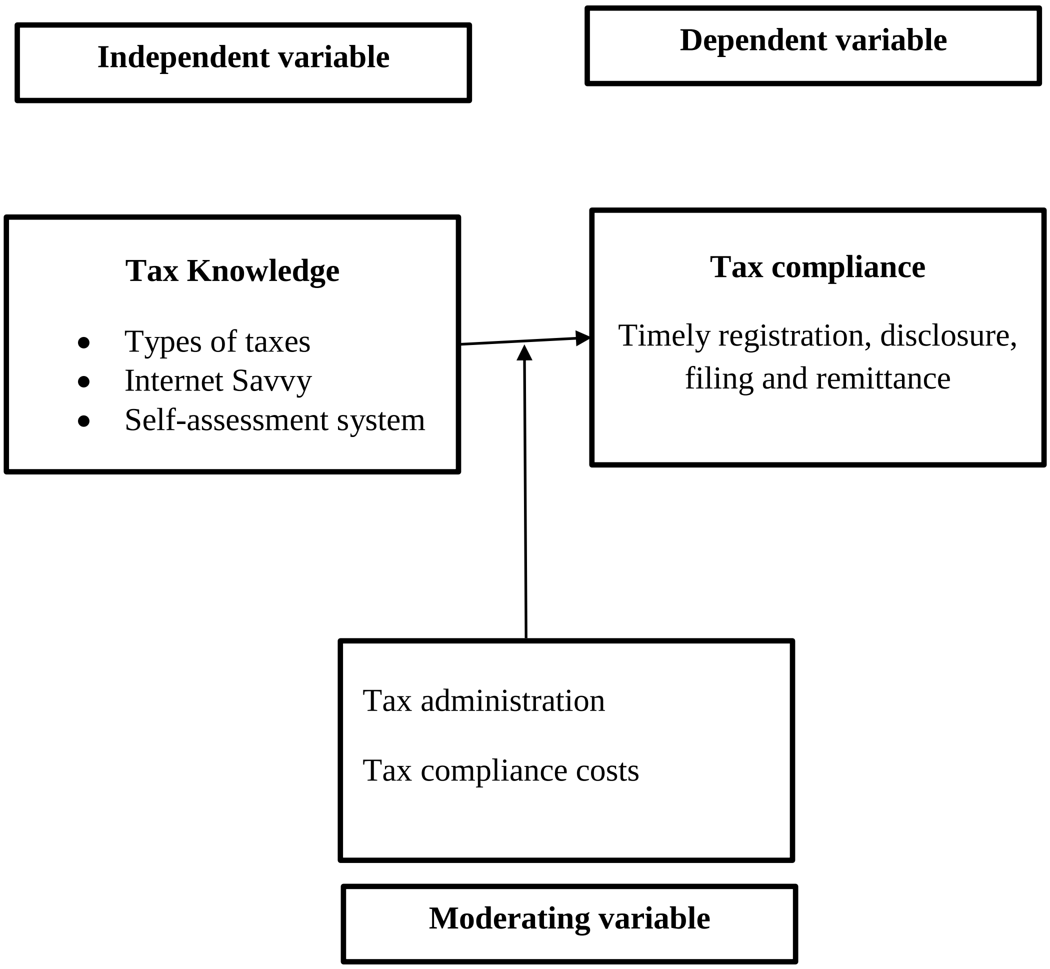

Figure 2.1: **Conceptual framework**

CHAPTER THREE: STUDY METHODOLOGY

3.1 Introduction

The technique explained in this section is used for this study. It included the intended demographic, design and methods of the sampling, tools for collecting data, and the data analysis.

3.2 Research Design

Research design means that the overall blueprint and structure of a study, describing procedures and methods are utilized for data collection and analysis (Acharya et al. 2013). It provides a systematic approach to address research questions or hypotheses. In this study, a survey research strategy was used. Survey research strategy was appropriate because it is a common and efficient method for obtaining data from a significant population or sample. It entails the distribution of questionnaires to compile data on people's actions, attitudes, opinions, or traits (Flynn, Pagell, & Fugate, 2018).

Several considerations influenced the choice of this study design; the surveys enable the effective gathering of a significant amount of information from a diverse population. Furthermore, they provide organized, standardized questions that guarantee data-collecting consistency. Additionally, the confidentiality and privacy afforded by the survey research design encourage participants to offer truthful and objective feedback. Likewise, survey data can be statistically evaluated, enabling the discovery of correlations or links between variables.

3.3 Target Population

Entire assemblage of people as well as cases that served as the basis for the sample study and the general population on which the researcher based his study after data analysis is referred to as the intended population. As per Creswell (2013), a study populace is a grouping of people /or objects that the researcher has selected and that are relevant to the study's topic. The SME community in Nairobi, Kenya, was the study population. According to the Company's Registrar (2022), Nairobi as a county is home to 60506 SMEs.

3.4 Sample

In the determination of the sample, the researcher employed Krejcie and Morgan's (1970) sample size table. From the determining sample size table, the sample size was 382.

Table 3.1: Sample Size

Sub County	Target Population	Proportion (%)	Sample Size
Kasarani	5956	**9.8**	**9.8% *382 = 38**
Kamukunji	10554	**17.4**	**17.4%*382 = 67**
Makadara	7564	**12.5**	**=48**
Embakasi	7784	**12.9**	**49**
Njiru	5614	**9.3**	**35**
Dagoreti	7610	**12.6**	**48**
Langáta	8026	**13.3**	**51**
Westlands	7398	**12.2**	**47**
Total	**60506**	**100**	**382**

3.5 Data Collection

Primary facts and information was assembled using research questionnaires. These questionnaires were issued by mail, where participants received survey questions answered them, and returned them by email. The study also conducted face-to-face interviews where the interviewer presented the questions to participants and recorded their responses

3.6 Diagnostic Tests

The diagnostic tests used in the statistical analysis were tests of normality, multi-collinearity, and autocorrelation.

3.6.1 Test of Normality

Exam of normality is accustomed to assess whether a dataset follows a normal distribution. Tests used to check for consistency/normality were the Kolmogorov-Smirnov tests and the Shapiro-Wilk test. These tests examined whether the data significantly deviated from normal distribution.

3.6.2 Multicollinearity

Multi-collinearity was used to test whether a regression model's predictor variables are highly linked to one another. This might cause an issue in interpreting individual predictors and reduced predictive accuracy. To detect multi-collinearity, Variance Inflation factor (VIF) was employed in the investigation which measured the degree to which multi-collinearity increases the variance of the estimated regression coefficient.

3.6.3 Autocorrelation

Autocorrelation similarly referred to as serial correlation, is the term used to describe the correlation between the values of a variable at different time points observations. In statistical analysis, it presupposes that the errors or residuals of a regression model are not correlated. Autocorrelation might result in inefficient or biased parameter estimates and affect the validity of statistical inference. To test for autocorrelation, the study used the Durbin-Watson test to examine if there is a first-order autocorrelation in the residuals of a regression model.

3.7 Data Evaluation

Content that was gathered was examined with the use of inferential and elaborative/descriptive analysis. Elaborative/descriptive data figures was used to describe and summarize the main features or characteristics of a data set. They gave a conclusion of content gathered, including measurements of uncertainty measurements (standard deviation and range) and central tendency (mean, median, and mode). Descriptive statistics helped in understanding the distribution, patterns, and basic properties of the data. Inferential statistics on the other hand will help in drawing conclusions and making inferences based on sample data about a population. The use of inferential statistics makes it easier to apply a sample's findings to a larger population from which the sample was drawn.

3.7.1 Regression Model

The multiple regression model is as follows:

$$Y= \beta_0 + \beta_1X_1 + \beta_2X_2 +\beta_3X_3 + \varepsilon$$

In which case: β_0 was the regression intercept; B1-β3 are the regression coefficients;

The following variables were assessed using a five-point Likert scale.

Y will be the dependent variable (tax compliance)

X_1 = Tax information;

X_2 = Tax organisation;

X_3 = Tax adherence cost;

ε = Error term

3.7.2 Test of Significance

The study was tested through Analysis of variance (ANOVA) and regression coefficient table. ANOVA measures the differences between the predictor and the dependent variable. The test F presented by ANOVA, measures how significant the regression framework is in general. The model is considered statistically significant when $\alpha<0.05$. While when $\alpha>0.05$ the model is considered statistically insignificant. Individual significance is measured via t-tests. Variables that score $\alpha<0.05$ will be considered statistically significant.

In contrast, the model summary table was utilized to display the correlation and determination coefficients. The kind and strength of the connection between tax compliance, the variable that is the dependent one, and tax knowledge, the predictor variable, are shown by the correlation coefficient. On the other hand, the coefficient of determination provides information on the proportion of the factor that is independent that may be linked to the variable in question.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The aim of this research was to assess how tax expertise affects adherence to taxes amongst Nairobi's small and medium-sized enterprises. The study examined in-depth the expenses related to paying taxes (compliance), tax administration, and tax knowledge and how these factors impact tax compliance. This chapter discusses regression analysis, demographic data, diagnostic test results, and a presentation of the data with an emphasis on data interpretation, analysis, and presentation.

4.2 Response Rate

The researcher administered 382 questionnaires to the sample of interest. Out of the 382 questionnaires, 336 were dully filled and returned. As stated by Mugenda & Mugenda (2008), "a study with a 70% completion rate need to be regarded as exceptional for statistical analysis and speculation." Following are the research's findings.

Table 4.1: Response Rate

Questionnaires	Frequency	Percentage
Returned	336	87.958115
Not Returned	46	12.041885
Total	382	100

Source: (Primary Data, 2023)

From Table 4.1 it is clear the study's percentage of respondents was 87.95%. Thus, this demonstrated that the analysis's data collection was of high quality for analysis, interpretation, and inference.

4.3 Diagnostic Evaluation

Diagnostics tests were run on the data to help evaluate data quality, find abnormalities, and verify assumptions. These tests were used to ascertain that the dataset was fit for analysis and thus the conclusions drawn from the dataset were valid. A number of evaluations were carried out, including multiple-collinearity, normality, and autocorrelation.

4.3.1 The Normality Assessment

To determine if the statistics was normally distributed, Kolmogorov-Smirnov tests and Shapiro-Wilk test were performed. The Kolmogorov-Smirnov test relates the cumulative distribution of the information to a theoretical normal distribution, measuring the largest vertical distance between them. The Shapiro-Wilk test looks at the variances of the data points. The tests look at the P values to determine whether the data is normal; if the p value is more than 0.05, the data are considered to be normal. It is assumed that the data significantly deviates from a normal distribution if it is less than 0.05. The study's results are shown in the table below.

Table 4.2: Kolmogorov-Smirnov tests and Shapiro-Wilk test

Tests of Normality						
	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Tax knowledge	0.368	336	0.219	0.442	336	0.073
Tax Administration	0.532	336	0.458	0.956	336	0.061
Tax Compliance cost	0.924	336	0.559	0.893	336	0.082

a. Lilliefors Significance Correction

Source: (Primary Data, 2023)

The Kolmogorov-Smirnov tests and Shapiro-Wilk tests outcomes demonstrate that all p values are higher than 0.05. This shows that the study data for tax knowledge, tax administration, and tax compliance costs followed a normal distribution.

4.3.2 Multi- Collinearity

The extent of interconnectivity between variances is examined by the multicollinearity test. The study utilized VIF to assess multi-collinearity in the dataset. The VIF can accept values between 1 and 10. Any number outside of these bounds indicates that the variables are highly interrelated, which could be difficult to deal with. The table underneath shows the test findings in detail.

Table 4.3 Variance Inflation Factor

Collinearity Statistics		
	Tolerance	**VIF**
Tax knowledge	0.795	1.258
Tax Administration	0.789	1.267
Tax Compliance cost	0.991	1.009

Source: (Primary Data, 2023)

From the VIF table it was shown that tax knowledge had a VIF value of 1.258, tax administration had a VIF value of 1.267, and tax compliance cost had a VIF factor of 1.009. This suggests that the study's independent variables didn't have a multicollinearity issue.

4.3.3 Autocorrelation

To determine whether values of the same variables across various observations in the data are correlated, autocorrelation is used. The test aids in highlighting any associations that might exist between variables. The Durbin-Watson statistic was employed in the research to examine the autocorrelation of the variables. Dublin

Watson statistic values of less than 4, were taken to mean that there is no autocorrelation, while a Durbin-Watson statistic test score of 4 or more suggests a negative autocorrelation. The table below summarizes the study's findings.

Table 4.4 Autocorrelation

Autocorrelation	
Durbin-Watson	1.249

Source: (Primary Data, 2023)

From table 4.4, the Durbin-Watson statistic was established to be 1.249. Thus, it implied that there was no autocorrelation between the variables under examination, as indicated by the test statistic value which was less than 4.

4.4 Demographic Statistics

Goal of research was identifying the universal characteristics of the research subjects. In order on doing this, the study collected prior knowledge from those who took part, which included their age, gender, and the length of time that each of their SMEs had been in business. The study's conclusions are given in this section.

4.4.1 Gender

The study wanted to establish the gender composition of the participants. The figure below shows the findings of the study.

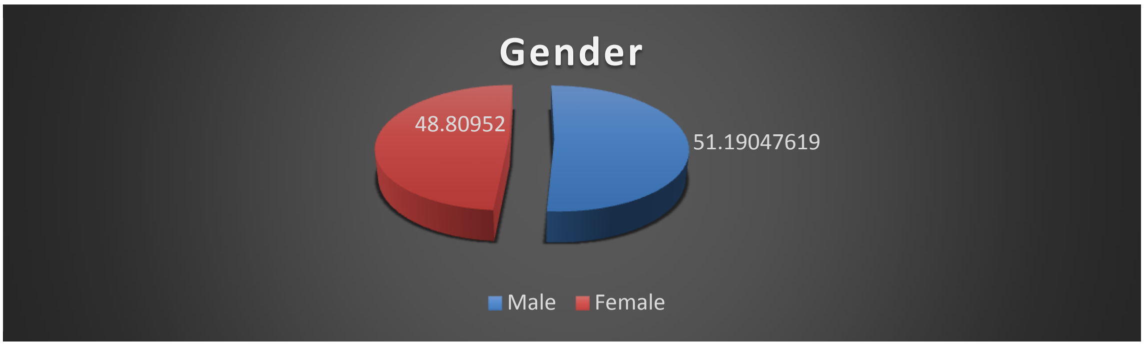

Figure 4.1: Gender

Source: (Primary Data, 2023)

The research found that a most of the study participants were male accounting for 51.19% while females accounted for 48.81%. These findings showed that the study achieved an almost equal number of male and female respondents. Thus the findings presented in the study are shared almost equally across both genders.

4.4.2 Age of the Participants

Additionally, the study sought to ascertain the age of the individual respondents in that study. In Fig. 4.2 the results of the study.

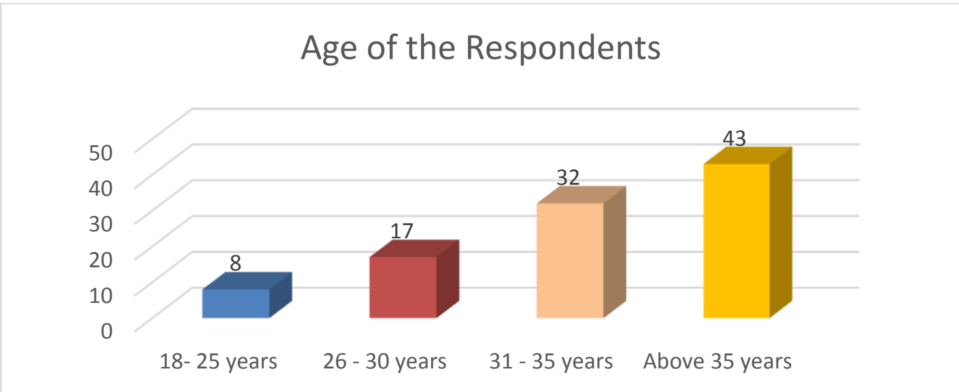

Figure 4.2: Age of the Respondents

Source: (Primary Data, 2023)

According to the report, the most of respondents were older, i.e above 35 years accounting for 43% of the study participants. 32% of the particpants were aged between 31-35 years, 17% of the respondents were aged between 26 and 30 years and 8% of the respondents were aged between 18-25 years of age. It was concluded that most of the study participants were above 30 years of age.

4.4.3 Age of Business

The study also wanted to know for how long the various SMEs had been operational in Nairobi. Figure 4.3 presents the results of the study.

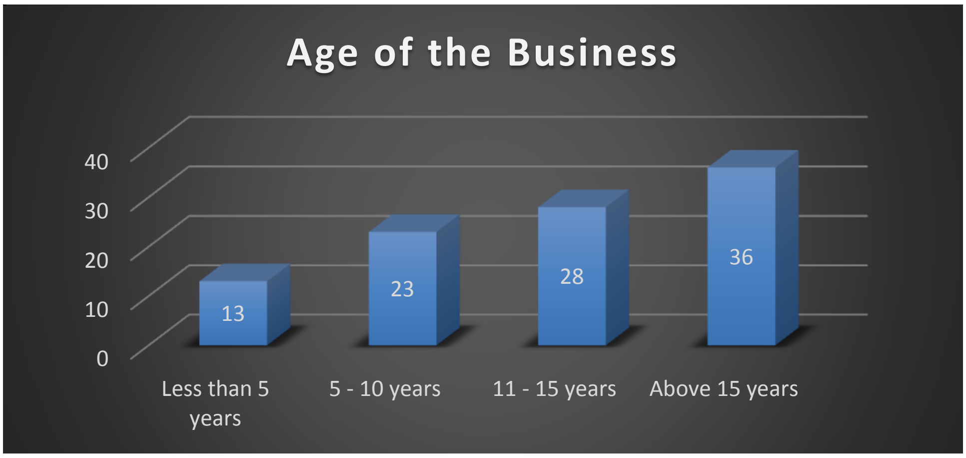

Figure 4.3 Age of the Business

Source: (Primary Data, 2023)

From the study results it was revealed that a majority of the businesses 36% had been operational for a period above 15 years. 28% of the SMEs had been operational for a period between 11 and 15 years, 23 % of the SMEs had been operating for a period between 5 and 10 years while 13% of the businesses were operational for less than 5 years. This was an indication that most of the SMEs had been operational for a period long enough to enable them to understand tax knowledge affected tax compliance thus, making them suitable to further the study findings.

4.5 Tax Knowledge

To assess how tax knowledge affected tax compliance, the study employed a Likert scale in which participants were asked to rate their feelings towards certain aspects associated with tax knowledge. The Likert scale was divided into a three-point average where; 1 means agree, 2 do not neither agrees nor disagree, and 3 means disagree/disapprove. The table below shows the results of the study.

Table 4.5: Tax Knowledge

Tax knowledge	Mean	Standard Deviation
I understand indirect taxes	2.43	0.71
I understand direct taxes	2.51	0.88
I understand how to fill tax online	2.29	0.86
I can calculate my tax obligation	2.81	0.55
I can file my tax obligations before the deadline	2.62	0.90
I can use the self-assessment system	2.52	0.58
I can access tax information from the Revenue Authority website	2.74	0.49
Average	2.56	0.71

Source: (Primary Data, 2023)

The study established that on on a typical basis, the participants disapproved of the notion that they were being targeted knowledgeable on issues relating to tax as indicated by the average value of 2.56 and standard deviation of 0.71. The respondents highlighted that their ability to access tax information on the KRA website was of key concern as they disagreed on their knowledge of how to do it as shown by the mean of 2.74 and standard deviation of 0.49. Further, the respondents were indifferent to their knowledge of how to fill taxes online as shown by the mean of 2,29 and standard deviation of 0.86.

4.6 Tax Administration

To determine how tax administration impacted tax compliance the study requested the respondents' perspectives on several statements related to tax administration. The respondents' opinions were scored using a Likert scale. The results of the study are shown in the table below.

Table 4.6: Tax Administration

Tax administration	Mean	Standard Deviation
There is an online tax filling system	2.47	0.40
There self-assessment system for tax	2.23	0.75
Harmonize tax procedural rules	2.57	0.67
Taxpayers right is clearly defined	2.98	0.50
The tax administration is considered responsive	2.92	0.21
There is transparency in the aims of tax administration	2.81	0.88
Expertise and knowledge among tax employees	2.74	0.30
Average	2.67	0.53

Source: (Primary Data, 2023)

It was apparent from Table 4.6, which revealed that on average participants disagreed that they were familiar with tax administration based on what the overall the average of 2.67 and standard deviation (SD) of 0.53. In particular, respondents expressed a strong disagreement with the acquaintance with the definitions of tax payers' rights as shown by the mean of 2.98 and the SD of 0.5. The participants neither agreed nor did not agree with their familiarization with the self-assessment system of tax as evidenced by the 2.23 average with the SD of 0.75.

4.7 Tax Compliance Cost

The study sought the respondents' opinions on some tax compliance cost-related statements to ascertain how tax compliance cost affected tax compliance. The opinions of the respondents were scored using a Likert scale. The study's findings are displayed in the table below.

Table 4.7: Tax Compliance Cost

Tax compliance cost	**Mean**	**Standard Deviation**
Have you incurred fines for late filing of tax	1.03	0.96
Have you incurred penalties for late filing	1.1	0.31
Have you incurred costs for interest on late filing	1.23	0.10
Have you incurred costs to access a compliance certificate	1.17	0.48
Have you incurred costs associated with calculating your tax obligation	1.41	0.79
Average	1.19	0.53

Source: (Primary Data, 2023)

Results from the study showed that on average the respondents agreed had incurred a tax compliance cost at one point in the running of the SMEs as seen by the 1.188 average and 0.528 typical SD. Respondents had a strong agreement that they had incurred fines for late filing of fiscal responsibility, as demonstrated by the average of 1.03 and SD 0.96. The participants also affirmed they're had incurred costs related to figuring out tax responsibilities, as indicated by the 1.41 mean and 0.79 SD.

4.8 Tax Compliance

To evaluate tax compliance, the study asked respondents for their opinions on a variety of tax compliance-related statements. A Likert scale worked as a rating for the respondents' viewpoints. The Likert scale was divided into three categories: Agree (1), Neither Agree Nor Disagree (2), and Disagree (3). The table below displays the study's findings.

Table 4.8: Tax Compliance

Tax compliance	Mean	Standard Deviation
I file my taxes on time	2.89	0.46
I comply with calculating tax payable	2.64	0.3
I pay my tax obligation on time	2.92	0.65
I pay my tax penalties on time	2.53	0.05
I declare accurate tax obligation	2.49	0.86
I have registered with revenue authority	1.46	0.8
Average	2.49	0.52

Source: (Primary Data, 2023)

The study uncovered that on average respondents were not tax compliant as shown by the overall mean of 2.488 and SD of 0.52. The respondents acknowledged that the area in which they were mostly not compliant was in paying their tax obligation on time as seen by the average of 2.92 and SD of 0.65. The participants also indicated they were indifferent in their registration with the revenue authority as seen by the average of 1.46 and SD of 0.8.

4.9 Regression Analysis

Regression analysis is used to evaluate the linear connection between the two variables that are dependent and independent. Regression analysis utilised in the research to see if tax compliance, tax knowledge, tax administration, and tax cost all had a linear relationship. The model summary, ANOVA, and coefficients tables typically present the regression study's findings. An overview of the whole regression model is given in the model summary table. The amount of variation in the dependent variable attributable to the independent variables is essentially what the model summary tells us. The ANOVA table decomposes the variance in the dependent variable into residual error (unexplained variance) and model-attributed components. In addition, it gives the p-value and F-statistic, which assesses the overall relevance of the econometric analysis. The algorithm is noteworthy in general when the p-value is low. For every independent variable in the regression model, the estimated coefficients are shown in the coefficients table. Each statistic indicates the effect of the relevant variable independently on the variable that is dependent, all other variables remaining fixed. The tables below display the study's findings.

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.0.906[a]	.821	.837	.8419910

a. Predictors: (Constant), Tax Knowledge, Tax Administration, Tax Compliance cost

Source: (Primary Data, 2023)

The study concluded that the coefficient of determination (r-squared) was 0.821, based on the model summary. This indicates that a model fitted with tax compliance cost, tax knowledge, and tax administration as variables account for 82.1 percent of the variation in tax compliance. This suggests that the model fit's efficiency in estimating tax compliance is 82.11 percent.

Table 4.10: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	610.456	3	203.485	219.102	.001[b]
	Residual	309.265	333	.929		
	Total	919.721	336			

a. Dependent Variable: Tax Compliance
b. Predictors: (Constant), Tax Knowledge , Tax Administration ,Tax Compliance cost
Source: (Primary Data, 2023)

From the ANOVA table, the F-Statistic was 219.102 at the 0.001 level of significance The significance threshold was lower than 0.05. This meant that the model's ability to predict tax compliance based on tax compliance cost, tax knowledge, and tax administration was statistically significant.

Table 4.11: Coefficients

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	0.307	.025		12.280	.001
	Tax knowledge	1.182	.848	1.257	1.394	.001
	Tax Administration	0.661	.360	.669	1.836	.001
	Tax Compliance cost	0.310	.412	.508	0.752	.001

a. Dependent Variable: Tax Compliance

Source: (Primary Data, 2023)

From the coefficients table it can be shown that the model fit for predicting tax compliance is;

$Y= 0.307 + 1.182X_1 + 0.661X_2 +0.310X_3$

Where

X_1 = Tax knowledge;

X_2 = Tax administration;

X_3 = Tax compliance cost;

4.6 Discussion of the Findings

The study's conclusions demonstrated that the model's constant value was 0.307. This suggested that tax compliance would have a value of 0.307 if all the other factors remained unchanged. The study also found that, as indicated by the beta value of 1.182, tax knowledge was a positive predictor of firm value. The beta value of 0.661

indicates that tax administration was also found to be a positive predictor of tax compliance. The beta value of 0.310 indicates that the cost of tax compliance was also found to be a positive predictor of tax compliance. The results of the study show that tax knowledge and tax knowledge had a significant and positive relationship, with $\alpha=0.01>0.05$. The results of this study were consistent with those of Aondo (2018), who investigated the impact of taxpayer knowledge and tax rates on tax compliance among SMEs in Kenya's Nakuru County. Their study's conclusions showed that in Nakuru County, Kenya, tax rates and taxpayer awareness had a favorable and significant impact on SME tax compliance. The results of this investigation are also consistent with those of Gitonga and Memba (2018), who investigated the elements that Kenyan credit cooperative societies and public transportation savings and credit cooperatives take into account when assessing their tax compliance. The results showed a significant correlation between tax awareness, tax compliance, and the tax compliance rates with Kenya's public transportation SACCOs.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This segment provides an overview of the research findings, conclusions, and recommendations based on the study's goal of determining how tax knowledge affects SMEs in Nairobi's tax compliance. The limitations of the research are also presented in this chapter, along with recommendations for more research.

5.2 Summary of the Results

It was evident from the study's numerous diagnostic tests that the dataset used for the analysis was neither multicollinear nor correlated. In addition, it was discovered that the research's data came from a normal distribution. Based on the demographic data, it was ascertained that the male participants accounted for 51.19 percent, while the female participants comprised 48.81 percent of the study respondents. Furthermore, it was found that the majority of respondents, or 43% of the participants, were over 35 years of age. The age ranges of the respondents were as follows: 32% were between 31 and 35, 17% were between 26 and 30, and 8% were between 18 and 25. 36 percent of the businesses had been in operation for more than 15 years, according to the study's findings. Thirteen percent of the companies had been in operation for less than five years, twenty-three percent for five to ten years, and twenty-eight percent of small and medium-sized enterprises (SMEs) for eleven to fifteen years. The survey's average mean score of 2.56 and SD of 0.71 showed that generally speaking, respondents didn't think they knew much about taxes. The majority of respondents (2.67 on the overall mean and 0.53 on the standard deviation) did not agree with the statement that they were knowledgeable about tax administration.

The study's mean of 1.188 and standard deviation indicate that, on average, respondents agreed that their SMEs had paid for tax compliance at some point

5.3 Conclusions

According to the study's findings, tax knowledge is a reliable and significant predictor of tax compliance. This shows that if people are more aware of tax laws and obligations, they are more likely to comply with tax requirements. Given that tax administration was discovered to be a positive and significant predictor of tax compliance, the study goes on to conclude that tax administration is crucial in fostering tax compliance. This highlights the need to simplify bureaucratic procedures by demonstrating the relationship between improved compliance and user-friendly and efficient tax administration systems. The study also found that one important factor influencing tax compliance behavior was the cost of complying with tax laws. This suggests that even though there is a positive correlation between tax compliance and the cost of compliance, it is still necessary to investigate ways to lower these costs without sacrificing a just tax system.

5.4 Recommendations

The report suggests that KRA increases funding for enhancing taxpayer education. Funds must be allotted by KRA to comprehensive educational programs that reach taxpayers via webinars, user-friendly web resources, and transparent dialogue. For taxpayers to voluntarily comply with the law, it is necessary to make clear to them their rights, obligations, and rewards. More information available to taxpayers increases the likelihood that they will gladly and accurately fulfill their tax obligations, reducing errors and non-compliance. KRA should simplify tax administration, according to the study's recommendations. KRA should make modernizing and streamlining tax administration processes a primary priority. This should involve streamlining customer support, creating user-friendly online platforms, and digitizing documentation. When administration is streamlined, taxpayers would find it easier to comply with their obligations because it would be less frustrating. These steps would increase KRA's efficacy by reducing administrative costs and facilitating more effective tax law enforcement. The study also suggests that policymakers take compliance costs into account. To find a balance between the financial strain that tax compliance places on SMEs and tax compliance itself, policymakers should regularly perform cost-benefit analyses. Even though compliance costs are unavoidable, lawmakers may be able to find places where unnecessary burdens can be lessened. This would require reporting to be streamlined.

5.5 Limitations of the Study

The research was constrained by non-response bias. This was demonstrated by some of the unfilled questionnaires. This bias could be explained by respondents' concerns about the implications of disclosing information about tax obligations to their businesses.

The study was also limited to the context of SMEs in Nairobi County. Thus the data collected reflected only the environment within which SMEs in Nairobi operate. Thus the results of this study can only be inferred to SMEs that operate in Nairobi.

5.6 Suggestions for Further Research

The study established that tax compliance cost, tax knowledge, and tax administration accounted for 82.1% of the variation in tax compliance Therefore, the report recommends that additional research be done to determine what other factors might affect SMEs' capacity to comply with tax laws.

The study was also carried out in Nairobi County. To prevent generalizations, it is crucial to conduct a similar study in more counties to determine whether the findings of this study may be extrapolated to those of other counties.

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APPENDICES

APPENDIX I: Sample Size Table

Table 3.1

Table for Determining Sample Size of a Known Population

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384

Note: N is Population Size; S is Sample Size *Source: Krejcie & Morgan, 1970*

APPENDIX II: Questionnaire

The purpose of the survey is to gather data regarding the impact of tax compliance and knowledge among SMEs in Nairobi County. Please respond to the questions by either writing a brief response or checking the relevant boxes. The supplied data will be handled with the utmost confidentiality; your identity will never be referenced in the study. This study is only meant to be used in academic settings.

SECTION A: BACKGROUND INFORMATION

1 **Gender**

Male [ ] Female [ ]

2 **Age of the respondents**

18- 25 years [ ] 26 - 30 years [ ]
31 - 35 years [ ] Above 35 years [ ]

3 **Age of the business**

Less than 5 years [ ] 5 - 10 years [ ]
11 - 15 years [ ] Above 15 years [ ]

SECTION B: TAX KNOWLEDGE AND TAX COMPLIANCE

Use a scale of 1-3 where; 1= Agree, 2 Neither Agree nor Disagree, 3=Disagree

Tick as appropriate.

		1	2	3
	Tax knowledge			
1	I understand indirect taxes			
2	I understand direct taxes			
3	I understand how to fill tax online			
4	I can calculate my tax obligation			
5	I can file my tax obligations before the deadline			
6	I can use the self-assessment system			
7	I can access tax information from the Revenue Authority website			
	Tax administration			
8	There is an online tax filling system			
9	There self-assessment system for tax			
10	Harmonize tax procedural rules			
11	Taxpayers' right is clearly defined			
12	The tax administration is considered responsive			
13	There is transparency in the aims of tax administration			
14	Expertise and knowledge among tax employees			

	Tax compliance cost			
15	Have you incurred fines for late filing of taxes?			
16	Have you incurred penalties for late filing			
17	Have you incurred costs for interest on late filing			
18	Have you incurred costs to access a compliance certificate?			
19	Have you incurred associated with calculating your tax obligation?			
	Tax compliance			
20	I file my taxes on time			
21	I comply with calculating tax payable			
22	I pay my tax obligation on time			
23	I pay my tax penalties on time			
24	I declare accurate tax obligation			
25	I have registered with the revenue authority			

APPENDIX III: Research License

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RESEARCH LICENSE

This is to Certify that Mr.. Peter Cheruiyot Langat of University of Nairobi, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: Tax Knowledge and Tax Compliance Among SME Owners In Nairobi for the period ending : 25/August/2024.

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APPENDIX IV: Letter of Introduction

UNIVERSITY OF NAIROBI
FACULTY OF BUSINESS AND MANAGEMENT SCIENCES
OFFICE OF THE DEAN

Telegrams: "Varsity",
Telephone: 020 491 0000
VOIP: 9007/9008
Mobile: 254-724-200311

P.O. Box 30197-00100, G.P.O.
Nairobi, Kenya
Email: fob-graduatestudents@uonbi.ac.ke
Website: business.uonbi.ac.ke

Our Ref: **d61/7150/2006** August 18, 2023

National Commission for Science, Technology and Innovation
NACOSTI Headquarters
Upper Kabete, Off Waiyaki Way
P. O. Box 30623- 00100
NAIROBI

RE: INTRODUCTION LETTER: PETER CHERUIYOT LANGAT

The above named is a registered Masters in Business Administration candidate at the University of Nairobi, Faculty of Business and Management Sciences. He is conducting research on ***"Tax Knowledge and Tax Compliance among SME Owners in Nairobi".***

The purpose of this letter is to kindly request you to assist and facilitate the student with necessary data, which forms an integral part of the Project.

The information and data required is needed for academic purposes only and will be treated in **Strict-Confidence**.

Your co-operation will be highly appreciated.

Dean's Office
University of Nairobi
Faculty of Business
and Management Science
P O Box 30197-00100, Nairobi

PROF. JAMES NJIHIA
DEAN, FACULTY OF BUSINESS AND MANAGEMENT SCIENCES

APPENDIX V: Turnitin Report

Peter Langat

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