EFFECT OF PSYCHOLOGICAL FACTORS AND KNOWLEDGE ON TAX COMPLIANCE OF MICRO AND SMALL ENTERPRISE OWNERS IN NAIROBI COUNTY, KENYA

BY

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DECLARATION

Declaration by Candidate

This research project is my original work and has not been presented for the award of any degree in any university.

Signed....................................... Date...

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KESRA/105/0040/2017

Declaration by the Supervisors

This research project has been submitted with our approval as University Supervisor.

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DEDICATION

I dedicate this project to my mentor and Friend, Reuben Chiira, thank you for all your support along the way.

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ABSTRACT

The concept of tax compliance has attracted the attention of quite a number of researchers in order to demystify the factors affecting it. Previous studies have linked psychological factors and Tax knowledge to tax compliance or lack of it. This study seeks to investigate the effect psychological factors and tax knowledge has on tax compliance particularly among Micro and Small enterprise owners in Nairobi County, Kenya. The small scale traders operating in the informal sector are characterized by low tax compliance level. This could be attributed to Kenya Revenue Authority inability to meet the revenue targets over the years. This study sought to investigate the effect of psychological factors on tax compliance of micro and small enterprise owners in Nairobi County, Kenya. The specific objectives were to determine the effect of taxpayer attitude, tax knowledge, and social norms on tax compliance of micro and small enterprise owners in Nairobi County, Kenya. The research was anchored on the theory of planned behavior, tax morale theory, Allingham and Sandmo theory, and Expectancy theory. The explanatory research design was utilized. The study target population was 21,100 licensed small-scale traders in Nairobi Central Business. A sample of 384 small scale traders was selected using simple random sampling technique. Primary data was collected using structured questionnaires. The collected data was analyzed quantitatively using descriptive statistics such as percentages, means and standard deviations to explain the characteristics of the study variables. Further, inferential statistics such as Pearson correlation and regression analyses were used to test the relationship between the study variables. A multiple regression model was estimated. The regression findings indicated that tax payer attitude and tax compliance were positively and significantly related ($\beta=0.41$, $p=0.000$). In addition, tax knowledge and tax compliance were positively and significantly related ($\beta=0.254$, $p=0.000$). Results further showed that social norms and tax compliance were positively and significantly related ($\beta=0.464$, $p=0.000$). The study concluded that psychological factors including tax payer attitude, tax knowledge and social norms had a positive and significant effect on tax compliance of micro and small enterprise owners in Nairobi County, Kenya. The study recommended that Kenyan government needs to ensure that the tax burden to the small scale business is not much and instead make it affordable to them. The government should ensure they train the business owners on the tax system so as they have adequate knowledge on technical matters and legal matters relating to tax administration. Business owners should mind whom they interact with since they are likely to influence them on tax compliance matters. The study makes significant contribution to field of tax administration in terms of policy, research and practice.

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OPERATIONAL DEFINITION OF TERMS

Micro and Small Enterprises – is a firm, trade, service or industry or a business activity whose annual turnover ranges between five hundred and five million shillings and employ 10 to 50 people (MSE Act, 2012). MSEs occupy a very strategic position in the development of this country. They cut across all sectors of the Kenyan economy and have been identified as major contributors to employment creation and income generation.

Psychological Factors- include processes and meanings that influence individuals such as tax morale, social norms (Damayanthi Jayawardane, 2015).

Small scale – refer to an enterprise which is characterized by the low initial investment, a small number of employees and low sales volume as compared to regular sized business.

Social Norms – Rules and standards that are understood by members of a group, and that guide and/or constrain social behavior without the force of laws (Bobek, Hageman & Kelliher, 2013). The measurements for social norms include personal, injunctive, subjective and descriptive norms.

Tax Compliance – is filing all required tax returns at the proper time and that returns accurately report tax liability in accordance with the tax law applicable at the time the return is filed (Comunale, Barragato & Buhrau, 2019). It is measured in terms of filing of returns,

prompt payment of tax, correct declaration and timely registration.

Tax Knowledge – is an understanding of the essential tax policy concepts implemented within a country (Fauziati et al., 2016). This study will examine taxpayers' views on their level of tax knowledge and perceived complexity of the tax system. It is measured in terms of general knowledge, legal knowledge and technical knowledge.

Taxpayer Attitude – refer to positive and negative evaluations that an individual holds in regard to tax compliance (Kroenung & Eckhardt, 2017). It is measured in terms of fairness, motivation and peer attitude.

ABBREVIATIONS AND ACRONYMS

BGP: Business Growth Program

GDP: Gross Domestic Product

GST: Goods and Services Tax

KRA: Kenya Revenue Authority

MSEA: Micro and Small Enterprise Authority

MSME: Micro Small and Medium Enterprises

OECD: Organisation for Economic Co-operation and Development

SMEs: Small Medium Enterprises

SPSS: Statistical Package for Social Science

VIF: Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.0 Chapter Overview

This chapter provides background information on research, problem definition, objectives, hypotheses, interests and scope of research. The purpose of this study was to examine the effect of psychological factors on tax compliance of micro and small business owners in Nairobi County, Kenya.

1.1 Background of the Study

Various tax agencies around the world, particularly in industrialized countries, have been paying close attention to taxpayers' attitudes on the taxing system. However, what has been done to investigate taxpayers' attitudes on the taxation system in developing nations is debatable (Lumumba, Wanjohi, Magutu & Mokoro, 2010). Tax compliance, according to Brown and Mazur (2003), is a multilateral metric that may be defined theoretically by looking at three various forms of compliance, such as compliance with payments, declarations, and accounts. When it comes to the definition of tax compliance, the Organization for Economic Cooperation and Development (OECD, 2001) recommends categorizing it. Administrative compliance and technological compliance are the two categories. Administrative compliance, also known as compliance notice, compliance with procedures, or compliance with regulations, relates to adherence to filing and payment laws. Technical compliance refers to meeting the technical requirements of tax laws and regulations while computing taxes or paying tax components, as well as the provisions of tax laws and regulations.

The extent to which taxpayers comply or fail to comply with their country's tax laws is referred to as tax compliance. Compliance with declarations, reports, and payments can all be indicators of voluntary tax compliance (Bello, 2014). As a result, tax compliance encompasses not only the actual amount of tax owed to the IRS, but also the initial process of submitting an SPT and reporting all taxable income and tax obligations (Bello, 2014). The level of voluntary compliance among taxpayers is linked to their level of tax avoidance and tax awareness. Tax compliance can be enhanced if the tax system is controlled rigorously, the law is enforced, and taxpayers who engage in tax evasion are punished.

Compliance with tax regulations, according to Comunale, Barragato, and Buhrau (2019), means that all needed SPTs are submitted on time, and SPTs take into account tax obligations in line with the tax rules in effect at the time of declaration composed up of The scope of tax compliance, according to Fauziati, Minovia, Muslim, and Nasrah (2016), involves reporting income and paying all taxes in conformity with applicable laws and regulations as well as court decisions. Tax compliance usually means determining the tax base correctly, calculating obligations (accuracy) correctly, submitting declarations on time and paying the amount due on time (Jayawardane & Low, 2017).

Filling out an income tax form, declaring all taxable income, and paying all taxes owed within the time limit without waiting for the authorities to take action is sometimes referred to as tax compliance (Mohamad & Ali, 2017). The taxpayer must fill out all essential information on the income tax form within the time restriction, and the form must describe the exact tax liability as required by laws, regulations, and court rulings.

Anyone who knowingly or disobeys tax laws is considered a criminal offense (Comunale, Barragato & Buhrau, 2019).

Many factors can influence taxpayers' attitudes about compliance, and this, in turn, affects their behavior. The elements that influence tax compliance and/or non-compliance behavior differ from one country to the next, as well as from one individual to the next (Kirchler, 2007). Taxpayers' impressions of the taxation system and tax authorities, partner attitudes/subjective norms, taxpayers' grasp of the taxation system/tax law, motivation, sanctions, compliance fees, and audit work are all factors to consider (Nkwe, 2013).

Alm, Sanchez, and De Juan (1995) investigated the primary determinants impacting tax compliance in two countries on a global scale (Spain and the United States). They are particularly interested in disclosure and punishment, taxation, public goods delivery, excessively low probability weights, and social norms. All of these criteria, according to the authors, are key drivers of compliance. The impact of social norms in compliance was investigated by comparing compliance tests in two countries (Spain and the United States), both of which have a substantial culture and history of compliance. This comparison revealed that compliance levels and changes in compliance in response to policy changes differ by country, giving experimental evidence that public views regarding tax compliance have a meaningful and significant impact on individual tax compliance. According to the authors, a government compliance policy based exclusively on disclosure and punishment may be a suitable starting point, but not a suitable conclusion point. Instead, a multilateral approach is required that prioritizes

law enforcement while simultaneously emphasizing the benefits of better tax compliance, judicious use of public funds, and social responsibility to pay taxes.

In Malaysia, various types of taxes are levied in the country such as: B. Income and corporate tax, real estate profit tax and goods and services tax (GST). To collect tax revenues from citizens, a fair and effective taxation system is being designed. The government is responsible for dispersing tax money through public welfare, investment, and other methods of country growth (Vikneswaran, Manual, Teng, Xin, Chan & Rashid, 2016). In truth, taxation aids in the funding of a country's public expenditure. While every citizen is legally obligated to pay taxes, the government has not ensured that all residents are satisfied with their tax obligations. This indicates that tax violations and tax evasion may continue.

According to a study undertaken by Hong Kong and Australia, Australian taxpayers are more compliant than Hong Kong taxpayers (Richardson, 2005). Bobek, Roberts, and Weeney (2007), on the other hand, employed a hypothetical tax scenario in their experimental study to compare the behavior of taxpayers in the United States, Australia, and Singapore. Singaporean taxpayers had the lowest non-compliance rate of roughly 26%, while Australian taxpayers had the highest percentage of 45 percent, according to the findings. Furthermore, full compliance is highest in Singapore (54 percent) and lowest in Australia, according to the findings (30 percent). The United States is in the middle for compliance and non-compliance.

Small enterprises in Zimbabwe, according to Mwandiambira (2017), have a rudimentary awareness of taxation but lack a deeper grasp of the difference between supposed taxes and income-based taxes. Tax rates and corruption were discovered to

be issues that needed to be addressed in order for tax knowledge to have a beneficial impact on tax compliance. We must continue to educate uninformed and inexperienced small businesses about the benefits of paying taxes to encourage proper bookkeeping through taxpayer training and social media campaigns.

One of the internal reasons affecting Kenya's capacity to grow direct tax collection and hence fund its ongoing and development expenditure is low tax compliance (Kipkoech & Joel, 2016). The author investigates the elements that affect tax compliance in different limited liability firms. Tax audits had the biggest direct impact on tax compliance, followed by tax rates, fines, and sanctions, according to the researchers. Actual income and tax incentives have the smallest direct impact on tax compliance. The authors conclude that lowering tax rates, imposing fines and penalties, providing tax incentives, and taking into account the taxpayer's actual income, improves compliance with tax laws.

Numerous studies have linked psychological factors and Tax knowledge to the behaviour of tax compliance. Jayawardane (2015) discusses social norms, public spending, perceptions of fairness about the taxation system, and moral taxes as some of the critical psychological factors that might influence people's behavior in relation to tax compliance. Onu Oats, Kirchler and Hartmann (2019) highlight tax ethics, social norms, fairness, knowledge and beliefs about the tax system as the main determinants of tax compliance behavior. The effect of taxpayer attitudes, societal norms, and knowledge on tax compliance for micro and small businesses in Kenya is the topic of this study.

The attitude of the taxpayer shows a person's positive and negative assessment of the object (Kroenung & Eckhardt, 2017). Attitudes are intended to motivate people to act in a certain way. As a result, taxpayers who have a good attitude toward tax evasion are likely to be less resourceful than those who have a negative attitude. Both the power and trust elements require a positive attitude. On the one hand, a positive attitude fosters trust in authorities, which leads to increased voluntary tax compliance. Jayawardane and Low (2016) point out that taxpayers in Sri Lanka perceive the country's tax rates as high and the system unfair. Abdul-Razak and Adafula (2013) demonstrated this in Ghana; Taxpayers worry about the amount of tax they pay. Tax rates are considered high. Individuals are less important for the amount of taxes they pay than for the amount paid on higher incomes.

Understanding the fundamental concepts of a country's tax policy is known as tax knowledge (Fauziati et al., 2016). Compliance with the tax system is determined by understanding a country's company tax rules. Tax expertise is crucial in a voluntary tax compliance system, particularly for assessing acceptable tax obligations (New, 2016). Tax knowledge, according to Adam (2012), is a critical component of the voluntary tax compliance system, particularly when evaluating suitable tax obligations (Palil, 2015). According to a study conducted by Loo (2016), tax knowledge is the most important element in determining taxpayer behavior under the self-assessment system.

Social norms are unwritten rules and standards that group members understand and use to manage and/or control social behavior (Bobek, Hageman & Kelliher, 2013). The author distinguishes four types of influence that fall under this definition: public expectations of behavior (command norms), others' valued expectations about their

own behavior (subjective norms), their own expectations about correct behavior/ethical beliefs (personal norms), and standards imposed by observation of others' behavior (descriptive norms). As a result, social norms encompass both external social influences and an individual's internal moral convictions (Eriksson, Strimling & Coultas, 2015).

A small business, according to Kenya's Micro and Small Business Act of 2012, is defined as a firm, trade, service, industry, or organization with annual revenue of between 500 and 500 million shillings and a workforce of 10 to 50 individuals. The Micro and Small Enterprise Authority (MSEA) is a government-owned corporation created in 2012 under the Micro and Small Enterprises Act 55. In Kenya, it controls the activities of MSEs. Traders in this sector carry out activities that are not regulated by law, but follow the regulations of local authorities for ease of administration and operation. As a rule, their performance is not observed and therefore is not taken into account when calculating gross domestic product (Mohamed, 2009).

Retailers in Nairobi are evolving every day, innovative and insecure in their day-to-day business. Small and medium-sized businesses, which account for 95 percent of all businesses in most nations, make up the majority of small traders. They assist in the creation of jobs, the creation of jobs that match local requirements, and the provision of innovative support to huge corporations. Retailers have yet to achieve optimal levels of efficiency due to the challenges they confront. They lack management training, suitable capital, and financing choices, as well as quick technological challenges and new rules and regulations, as well as insufficient knowledge and skills (Kenya Agribusiness and Agroindustry Alliance, 2018).

The Kenya Manufacturers Association, through the Business Growth Program (BGP), aims to improve retailers by providing access to strategies to build market capacity for their growth and expansion, as well as advocating for a more favorable environment. Small business owners that engage in the informal sector have low tax compliance, according to a basic research of micro, small, and medium companies (SMEs) published in 2016. The proposed research would look into the impact of psychological factors on tax compliance among micro and small business owners in Nairobi, Kenya.

1.2 Statement of the Problem

According to the National Treasury, Kenya's budget is growing exponentially, requiring more tax revenue to fund it. The National Economic Survey (2016) shows that micro and small enterprises contribute about 3% of Kenya's total GDP. SMEs also contribute to job creation and provide innovative support to large enterprises. The Micro and Small Business Authority is tasked with developing and regulating micro and small enterprises to become future key industries (UU MSE, 2012), in addition to this Kenyan producer association as part of its Business Growth Program (BGP, 2017). Empower retailers by giving them access to market capacity-building methods for their expansion and growth, as well as assisting proponents of a more profitable environment.

Small enterprises in the informal sector, on the other hand, have a poor rate of compliance with tax rules. This could be attributed to KRA inability to meet the revenue targets over the years. Year 2016/2017 KRA collected Kshs. 1,277.2B against projection of Kshs.1, 338.3B. In year 2017/2018 the actual collection was Kshs.1, 341.4B against a budget of Kshs.1, 466.2B. In year 2018/2019 the actual collection was Kshs.1, 580B against a budget of Kshs.1, 605B. Further, year 2019/2020 actual

collection was Kshs.1, 453B against Kshs.1, 466B projected (Kenya Economic Survey, 2020). This is a clear indication of continued failure by KRA to meet the revenue collection targets signaling that there is a challenge of tax compliance in Kenya.

Previous studies have linked psychological factors to tax compliance or lack of it. Studies (Jayawardane & Low, 2016; Abdul–Razak & Adafula, 2013; Elly, 2017) linked taxpayer attitude to tax compliance. However, there exist contextual differences since they were conducted in other countries. It would be impractical to relate the results of this study to the local context. Studies like Fauziati et al. (2016) and Mwandiambira (2017) look into the link between tax knowledge and compliance. They discovered no link between tax knowledge and compliance with tax regulations. This contradicts Gitonga and Memba (2018) and Adhiambo's findings (2019). As a result, categorical claims can be difficult to discern from a variety of findings. By evaluating the effects of psychological factors on tax compliance of micro and small business owners in Nairobi County, Kenya, this study aimed to fill the aforementioned research gaps.

1.3 Objective of the study

The study objectives were categorized into: general and specific objectives.

1.3.1 General Objective

The general objective of this study was to investigate the effect of psychological factors on tax compliance of micro and small enterprise owners in Nairobi County, Kenya.

1.3.2 Specific Objectives

Specific objectives of the study were:

 i. To determine the effect of taxpayer attitude on tax compliance of micro and small enterprise owners in Nairobi County, Kenya.

 ii. To establish the effect of tax knowledge on tax compliance of micro and small enterprise owners in Nairobi County, Kenya.

 iii. To analyze the effect of social norms on tax compliance of micro and small enterprise owners in Nairobi County, Kenya.

1.4 Research Hypotheses

 i. **H$_0$**: There is no significant effect of taxpayer attitude on tax compliance of micro and small enterprise owners in Nairobi County, Kenya.

 ii. **H$_0$**: There is no significant effect of tax knowledge on tax compliance of micro and small enterprise owners in Nairobi County, Kenya.

 iii. **H$_0$**: There is no significant effect of social norms on tax compliance of micro and small enterprise owners in Nairobi County, Kenya.

1.5 Significance of the Study

This study is expected to be beneficial to several stakeholders including MSE owners, government and scholars. Through the study findings, the MSE owners and managers may understand the effect of psychological factors on tax compliance. The business owners and managers are therefore, able to make informed decisions in regard to tax compliance. The study findings may help the tax authority to be on the-know on the

psychological factors affecting tax compliance of MSEs, which may have a significant impact on the revenue collected. It may assist the tax authority to tackle the factors that prevent tax payers from complying and paying taxes as and when they are due. This will come a long way in bridging the gap between revenue collected and the targets. In addition, it can be useful for tax authorities and governments as this research provides advice that can help them adjust their tax policies so that they understand the needs of small businesses. For scientists and researchers, research contributes to psychological factors and tax compliance with existing literature knowledge. In addition, this research adds to the knowledge base by providing an in-depth understanding of the complexities of tax compliance.

1.6 Scope of the Study

The study covered micro and small enterprises in Nairobi County, Kenya. The study particularly sought to investigate the effect of psychological factors on tax compliance of micro and small enterprise owners in Nairobi, Kenya. The study focused on three psychological factors: taxpayer attitude, tax knowledge and social norms. The research was conducted in Nairobi County. The target population was 21,100 licensed small scale traders in Nairobi Central Business (Nairobi City County, Licensing Department, 2017). The study period was from January 2020 to June 2021.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter entailed sections on concepts of the study, theoretical review, empirical review, research gaps and conceptual framework. In particular, empirical literature helps to review other related studies and to identify what these studies did not address, hence justifying the need for the current research.

2.2 Review of Study Concepts

This section provides an overview of the research concept. He emphasized the importance and dimensions of the concept. In this study, the concepts include tax compliance and psychological factors.

2.2.1 Tax Compliance

Tax compliance is typically measured in terms of tax legislation, or the extent to which taxpayers are subject to tax rules. The tax difference, or the difference between the income actually received and the amount that would be obtained if the maximum rate of 100 percent were applied, can be used to determine the rate of non-compliance. Despite the fact that Andreoni, Erard, and Feinstein (1998) looked at the time dimension of compliance, they nevertheless emphasized tax evasion as the primary means of detecting tax gaps. The main disadvantage of this definition is that the laws governing the administration of taxes are not always applicable. While acceptable definitions are often in the form of tax differences, there are sometimes problems of practical interpretation.

Bergman (1998) posits that tax compliance is what can be attributed as taxpayer's indebtedness to the State. Nevertheless, the same interpretation is not necessarily shared by the State and taxpayers. Some factors can be attributed to the level of taxpayers' disagreement on the meaning of the tax laws. This includes their fundamental motivation to adhere to the tax code. For practical policy purposes, the definition and assessment of the tax gap are essentially simplified, as successful tax administration encourages taxpayers to engage in the tax system's operations rather than having to comply with every facet of their tax duties. Given that tax laws can be difficult and unfriendly to deal with all possible contingencies, there is a need to supplement these laws with supporting provisions (Bevacqua, 2018). In addition, the important role of administrative procedures and decisions in addition to the complaints process could be increased to comply with the rules, but there may be an experience of an inefficient tax system where taxpayers themselves do not have an adequate level of voluntary compliance.

In addition, voluntary and mandatory compliance is a major issue. Voluntary compliance presupposes the taxpayer's willingness to comply without warning, investigation, disruptive investigation or imposition of legal or official sanctions. More appropriately, voluntary compliance could, therefore, include the extent by which tax law and administration comply with without any application or form of being compelled (Gokalp, Lee & Peng, 2017). Tax compliance in terms of tax avoidance and tax avoidance is another element of this perspective. Tax avoidance refers to lawful acts used to lower tax liability, whereas tax evasion is a kind of non-compliance that is prohibited.

2.2.2 Psychological Factors

Attitudes, according to Kroenung and Eckhardt (2017), express individuals' positive and negative judgments of objects. Attitudes are intended to motivate people to act in a certain way. As a result, taxpayers who have a good attitude toward tax evasion are likely to be less resourceful than those who have a negative attitude. Both the power and trust elements require a positive attitude. On the one hand, a positive attitude fosters trust in authorities, which leads to increased voluntary tax compliance.

Knowledge of taxation in general refers to an awareness of the fundamental concepts of a country's tax policy (Fauziati et al., 2016). Entrepreneurs' understanding of a country's tax regulations influences compliance with the tax system. Tax knowledge is an important component of the voluntary tax compliance system for various organizations, especially when determining the proper tax due (New, 2016). Small business operators must have the necessary knowledge to comply with tax laws. Small business owners must have tax-specific knowledge in order to comply and boost their desire to pay (Kamleitner et al., 2012).

According to Kirchler (2014), the level of education is primarily associated to tax compliance. Taxpayer education is one of the most essential strategies to raise public awareness about taxes (Muchani, 2010). Lumumba (2010) discovered that SMEs did not pay their tax arrears because they did not comprehend the tax law's requirements. Poor tax knowledge can contribute to skepticism and unfavorable tax attitudes, whereas good tax knowledge is linked to favorable tax attitudes (Niemirowski et al., 2012). Tax literacy, according to Palil (2011), is strongly tied to taxpayers' ability to understand and comply with tax rules and regulations.

Social norms, according to Bobek, Hageman, and Kelliher (2013), are rules and standards that group members understand and that control and/or control social behavior without the power of legislation. They defined four types of influence: broad social standards of behavior (command norms), others' valued expectations of their own behavior (subjective norms), own expectations of correct behavior/ethical views (personal norms), and development through observation of others' behavior (descriptive norms). As a result, they consider not just external social pressures but also individual moral (or ethical) convictions when defining social norms (Eriksson, Strimling & Coultas, 2015). Alm (2012) points out that social norms have a significant influence in determining whether or not to comply with tax regulations, and that compliance with social norms declines to nearly nil when norms are non-compliant. These findings show that, if social norms are the most important factor influencing present levels of taxpayer compliance, maintaining and improving these norms is critical for a steady stream of tax income (Jimenez & Iyer, 2016).

2.3 Theoretical Review

A theory has been formulated that explains, predicts, and makes a phenomenon understandable. This research is supported by the Theory of Planned Behavior, Theory of Tax Morality, Theory of Allingham and Sandmo, and Theory of Expectancy.

2.3.1 The Theory of Planned Behavior

This theory was first introduced by Icek Ajzen and Fischbein (1980). This theory deals with human behavior, which affects how he reacts and reacts to certain situations. This theory suggests that individual behavior in a society is influenced by several social factors that arise from certain causes and develop in a planned manner. According to

this theory, three elements influence the likelihood of engaging in a given activity: attitude toward the conduct, subjective norms, and perceived behavioral control.

Acceptance of a behavior or its transformation into another behavior is determined by the individual's intention for that conduct (Chen & Tung, 2014). The author describes the intention as a factor that shows the degree of individual effort to perform a certain behavior. Intentions are described by attitudes toward behavior, individual norms, and control over perceived behavior. Attitudes regarding the chance that the act will have the predicted effect, as well as subjective assessments of the risks and advantages of the outcome, influence intentions.

Without motivation, one is unlikely to follow the recommended behavior. There are four other factors that directly influence behavior (Koklic & Vida, 2014). Three of the four are very crucial in assessing whether behavioral intentions can lead to behavioral results. To begin with, even if a person has a strong behavioral intention, he or she will require skills and knowledge in order to carry out the activity. Second, there should be few, if any, environmental constraints that make behavioral indicators difficult or impossible to measure. Third, the individual's actions must be taken into consideration. Finally, repeated behavioral performance might become routine, making these intentions less important in determining a person's behavioral outcomes (Paul, Modi & Patel, 2016).

The theory of planned behavior is relevant to this study as it is primarily concerned with the ethics of a tax payer. Most tax payers may have the tendency to believe that compliance is a duty and need not be enforced. Such tax payers will therefore comply voluntarily without having to be pushed or audited. Oyugi (2008) and Katharina, Eva,

and Erich (2015) used the theory of planned behavior in their research to describe their concepts. The hypothesis of planned behavior is supported in this study by psychological elements such as attitudes, norms, and awareness of taxpayers' taxation.

2.3.2 The Tax Morale Theory

Torgler created the moral theory of taxation in 2003. Individual elements that inspire a person to meet his or her tax duties are referred to as tax morale. Tax morale seeks to explain how and why taxpayer morals affect their tax behavior as a determinant of tax behavior. Many studies suggest that tax morale can lead to tax evasion (Mocetti, 2011).

If the society in which they live or work does not tolerate tax avoidance, taxpayers will be willing to do so. If their friends, relatives, and acquaintances comply with their tax duties, taxpayers are more likely to do so as well (Mwangi, 2014). Taxpayers will also avoid paying taxes if they believe others will get away with it. To put it another way, if a society tolerates tax evasion, that culture will encourage it. Religious views have a role in tax evasion since research suggests that taxpayers with strong religious affiliations or beliefs are more inclined to pay taxes, even if they perceive the rate is high (McGee, 2015).

If taxpayers perceive the quality and quantity of public services and goods are inadequate, they may feel ethically justified in avoiding taxes. It also happened the other way around. The level of confusion is minimal in an economy where the provision of public goods and services is excellent. Taxpayers will be willing to comply with their tax duties if they believe their government is fair, democratic, and participative, as well as if they believe they have a significant role in it (Alasfour, Samy & Bampton, 2016). As a result, the taxpayer's attitude is a significant predictor of tax evasion.

The theory of tax ethics is relevant to this study because it explains the reasons why taxpayers may or may not fail to pay taxes. This hypothesis, in particular, eliminates drivers of tax compliance such as taxpayer attitudes, tax knowledge, and social norms. Therefore, the theory forms the concept of psychological factors in this study.

2.3.3 The Allingham and Sandmo Theory

Allingham and Sandmo (1972) proposed this idea, arguing that the government deters tax evasion through punishments and audits. If taxpayers believe the costs of tax evasion are too low, they will prefer to break the law and avoid paying their taxes because they feel they will not be identified or audited.

Taxpayers will also avoid taxes if they feel that the costs of compliance are high (Alm, 2012). Taxation systems and procedures that are complicated likely to encourage tax evasion. Taxpayers who believe the tax rate is excessive and illegal will avoid paying taxes. There is a negative association between tax evasion, likelihood of disclosure, degree of fines, and high transaction costs associated with tax legislation, according to Koumbiadis, Okpara, Pandit, and Ritsatos (2014). Income tax evasion happens when a rational and moral taxpayer optimizes predicted gains that are completely dependent on income, as Beckmann and Gattke (2014) explain. If the agent is caught, he or she will have to pay a fine based on the amount of disguised revenue.

The principle is relevant to this study because it explains the notion of attitudes and perceptions in paying taxes. According to theory, taxpayers will avoid taxes if they believe compliance costs are high, and vice versa. This study views the attitude of taxpayers as a behavioral concept that is likely to determine tax compliance. In theory, taxpayers who think the tax system is unfair tend to avoid taxes. On the other hand,

those who perceive fairness in the tax process are likely to comply. The theory thus underpins the taxpayer attitude variable in this research.

2.3.4 Expectancy theory

The theory was developed by Vroom in 1964 and is based on the expectations that lead to the workplace and the context in which those expectations are met. Vroom argues that understanding the relationship between effort and reward is important for employee motivation. This means that management must demonstrate to employees that efforts are recognized and rewarded both financially and non-financially (Marchington & Wikinson, 2000). Employees calculate whether there is a relationship between their efforts and results. They also calculated the probability that the rated price resulted from high performance.

The importance of this theory is that it acts as a management fund to create a behavioral reward system that can improve performance. When people feel that they can receive valuable rewards from the organization, they tend to put in more effort at work. Therefore, according to Marchington and Wikinson (2000), employee efforts must be recognized and rewarded both financially and non-financially.

In the context of the current study, MSE owners/managers will be motivated to comply with tax requirements if they perceive benefits to be favorable. On the other hand, MSE owners/managers will be hesitant to comply with tax requirements including filing of returns, prompt payment of tax, correct declaration and timely registration if they perceive the action to be unfavorable. As a result, the expectation theory explains why MSE owners and managers may comply or fail to comply with tax regulations. Therefore, the expectancy theory advances the tax compliance variable in this study.

2.4 Empirical Review

This section provides an overview of past studies of research variables to identify existing research gaps.

2.4.1 Taxpayers Attitude and Tax Compliance

Jayawardane and Low (2016) investigated the impact of attitudes on individual taxpayers' decisions to comply with tax rules in Sri Lanka. Individual taxpayers in the city of Colombo are the focus of this research. The findings reveal that the tax rate is excessively high and that the system is unjust. Further tax audits are insufficient, the probability of detection is low, and the government spending tax system is complex, all of which influence the decision to comply with tax rules.

Individual taxpayer views on tax compliance decisions in Ghana were investigated by Abdul-Razak and Adafula (2013). The results of the questionnaire among Tamale's small and very small business owners were estimated. The researchers employed both descriptive and inferred statistics. People are particularly concerned about the amount of taxes they pay, according to the findings. Ghana's tax rates are widely regarded as high. Furthermore, the tax burden borne has an impact on people's attitudes and perceptions of the tax system, as well as their compliance decisions. Individuals are less significant than higher-income taxpayers when it comes to the amount of taxes they pay. In addition, the level of government accountability and transparency did not have a material impact on the attitude of taxpayers. The benefits of providing public goods and services, especially physical infrastructure, are widely regarded. Furthermore, the findings of the study suggest that the general population does not have a comprehensive

understanding of the tax code. It was discovered that knowledge and tax compliance decisions had a statistically significant beneficial link.

Kuria (2016) investigated Kenyan taxpayer perceptions and tax compliance. The survey focused on Kenya's top 100 mid-sized businesses. The goal of this research is to figure out what factors influence taxpayers' attitudes and compliance. Because the data was only gathered once and was indicative of the respondents' responses at the time, this study used a cross-sectional approach. The results showed that "taxpayers' perception of the tax burden is an important predictor of taxpayer attitudes. It was found that the attitude of the taxpayer has a significant effect on tax compliance. It was discovered that taxpayers' opinions were unaffected by their impressions of government reporting and their comprehension of tax legislation.

Elly (2017) aimed to profile the attributes that define tax compliance for SMEs in Tanzania. Data was collected using a survey technique with a total of 158 SMEs. Factor reduction and descriptive statistics for frequency and percentage were used to analyze the data. The results show that SMEs' tax compliance issues include the feeling that entrepreneurs pay fair taxes if the taxpayer knows the reason for paying the tax, the simplicity of the tax law, the nature of the reporting requirements and tax rates, or the amount of tax accrued. When factors influencing SMEs' attitude towards tax were classified, three groups were formed. Economic factors, which include audit frequencies, compliance and non-compliance, meaning the same thing in terms of financial costs, penalties for non-compliance/severity of fine, financial implications, complexity of tax system, likelihood of being caught and levels of tax rates. There were two psychological variables: equality and fairness, and tax exemptions. The final

category included societal issues such as other tax payers' rates of evasion, the impact of tax compliance, and government-provided public benefits.

Lumumba, Wanjohi, and Magutu (2010) used the example of SME revenue from enterprises in Kirinyaga District to conduct a survey on taxpayer compliance attitudes and behavior in Kenya. The findings reveal that in Kenya, there is a clear link between taxpayer sentiments and compliance with tax regulations. A correlation of 0.846 backs up this claim. This indicates that in Kenya, tax compliance is driven by taxpayer views.

In Yogyakarta, Wijaya (2019) investigated taxpayers' attitudes on the removal of tax sanctions and their awareness of taxpayer compliance taxes. This is a quantitative study. In this study, the population is a single taxpayer. There were around 350,935 individual taxpayers as of the end of 2015. The results of the poll demonstrate a positive correlation between taxpayer sentiments and compliance. However, when it comes to tax compliance, the examination of the tax write-off variable reveals that there is no correlation between the removal of tax penalties and tax compliance. An examination of the impact of tax awareness on taxpayer compliance reveals a favorable relationship between tax awareness and compliance.

In Boyolali, Wicaksono and Lestari (2017) investigate the impact of taxpayer awareness, knowledge, and attitudes toward taxpayers. In this investigation, a convenience sample was used. There is a mix of primary and secondary data used. For regression analysis, this study employs a variety of methods. Taxpayer knowledge has a considerable impact on taxpayer compliance, according to the findings. The fact that a tax exists has no bearing on whether or not a taxpayer will pay it. The taxpayer's mindset has a tremendous impact on the taxpayer.

The study by Handayani and Damayanti (2018) is a meta-analysis of 31 studies on tax compliance in Indonesia published between 2010 and 2015. The impact of tax service quality, tax knowledge, taxpayer awareness, tax socialization, tax sanctions, and attitudes on taxpayer compliance in Indonesia is investigated in this study. The goal of this study is to back up previous findings that the dependent variable has an impact on tax compliance in Indonesia. The study's findings show that in Indonesia, all variables, including tax service quality, tax knowledge, taxpayer awareness, tax socialization, tax sanctions, and taxpayer attitudes, all have a beneficial impact on taxpayer compliance.

Nkwe (2013) investigated taxpayer attitudes and behavior toward the taxation system in order to identify factors that influence taxpayer attitudes, determine the relationship between attitudes and tax compliance behavior, and recommend tax compliance paths. Improve the attitudes and behaviors of Botswana's small and medium-sized businesses. This is a study that gathers information from 200 small and medium-sized business taxpayers. After the data is obtained, descriptive statistics are used to examine it before it is summarized and presented using statistical techniques. The results of the study lead to the conclusion that the attitude of the taxpayer has an effect on compliance behavior.

2.4.2 Tax Knowledge and Tax Compliance

In Indonesia, Fauziati, Minovia, Muslim, and Nasrah (2016) investigated the impact of tax knowledge on tax compliance. The investigation followed a research design. Information is gathered through questionnaires. The findings revealed that tax compliance was unaffected by knowledge. Mwandiambira (2017) investigates whether a lack of tax understanding relates to Zimbabwe's high prevalence of tax evasion among SMEs. The study takes a quantitative method. The findings demonstrate that, while

SMEs in Zimbabwe have a fundamental awareness of taxation, they are unaware of the distinction between assumed tax and income tax. This, however, has little effect on their non-compliance conduct. Tax rates and corruption were discovered to be issues that needed to be addressed in order for tax knowledge to have a beneficial impact on tax compliance. Bird (2014) indicates that SMEs' tax compliance is unaffected by tax literacy, which includes general, legal, and technical understanding. The findings reveal that tax savvy taxpayers aren't always tax compliant.

Newman, Mwandambira, Charity, and Ongayi (2018) looked into the impact of tax knowledge on small and medium business compliance in developing nations. This study looks at the literature to see if SMEs in the developing country analyzed are tax literate, as well as to see what factors might influence their tax literacy. Other factors were identified that could influence the mismatch between SMEs and the methods tax authorities could use to raise awareness and comply with SME requirements. According to this report, SMEs in some developing nations do not follow tax regulations. They have just rudimentary knowledge of taxation and do not comprehend tax concerns. It also demonstrates that raising tax awareness alone, without taking into account high tax rates and corruption, will not improve SMEs' tax compliance.

Adhiambo (2019) investigated the elements that determine tax compliance at Nakuru merchants. Tax knowledge and education, compliance costs, perceptions of tax avoidance, and Internet technology are all aspects to consider. A descriptive research design is used in this study. The findings show that tax awareness and education have a positive and significant impact on tax compliance, that the cost of compliance has a significant impact on tax compliance, that tax avoidance perception has a negligible

impact on tax compliance, and that technology, particularly online filing, has a significant impact on tax compliance. The findings of the study differ from those of Fauziati et al. (2016) and Mwandiambira (2017). Both research come to the same conclusion: tax literacy has little impact on tax compliance. Tax literacy, on the other hand, has a considerable impact on tax compliance, according to Adhiambo's research.

Gitonga and Memba (2018) investigate the factors that influence tax compliance in Kenyan public transportation savings and credit unions. A descriptive research design was used in this study. A total of 40 officer managers were surveyed. The link between the drivers of tax compliance and tax compliance was investigated using a binary logit regression model. The findings reveal that tax deterrent sanctions, tax compliance costs, and tax knowledge all have a statistically significant association with SACCO tax compliance in Kenya for public transportation. This study's findings are comparable to those of Adhiambo's (2019) study, which discovered that tax knowledge has a significant impact on tax compliance. This, however, contradicts Fauziati et al. (2016) and Mwandiambira's findings (2017). Previous study on the association between tax knowledge and compliance has produced mixed results. This supports the reason for carrying out the planned research to investigate the influence of tax knowledge on tax compliance.

Keraro (2017) examines the factors that determine tax compliance, with a special focus on small business activity in Nakuru. Small enterprises are the fastest expanding segment of the Kenyan economy, however non-compliance with the national tax system and district government tax systems continues to plague this sector. Specific guiding objectives must be identified, such as the impact of tax education and knowledge, the

costs of legal compliance, the possibility of tax evasion claims, and the impact of tax penalties and fines imposed by tax authorities on compliance with tax laws. The study employs a research design technique to attain this purpose. To represent the population, a sample size of 212 SMEs was chosen. A self-structured structured questionnaire is used to collect data. The findings revealed that SMEs' perceptions about the probability of tax evasion had no statistically significant impact on their tax compliance. Perceptions of the probability of tax evasion and tax compliance have a statistically negligible negative association. In SMEs, tax knowledge and education have no statistically significant impact on tax compliance, although there is a statistically insignificant negative link between tax knowledge and compliance. The Revenue Commissioner of Kenya should ensure that revenue streams are tracked through majority involvement by financial institutions and boost their manpower to ensure that all reported revenues by SME operators are monitored and traceable.

Rahayu, Setiawan, and Troena (2017) investigated whether a taxpayer's knowledge and awareness of tax regulations connected to taxpayer compliance can mediate. This study takes a quantitative method, with taxpayers as respondents. The findings of the study show that knowledge and understanding of tax legislation, as well as taxpayer awareness, all contribute to taxpayer compliance. Knowledge and comprehension of tax regulations in the community does not have a substantial impact on taxpayer compliance, even if it is gained indirectly through taxpayer awareness. Due to various demographics, the public has not fully mastered tax administration utilizing information technology and has not fully comprehended the value of paying taxes for the nation's prosperity, according to the survey. This study adds to our knowledge and

understanding of the impact of taxpayer compliance knowledge, understanding, and awareness.

In the city of Bandung, Kamil (2015) investigated the impact of taxpayer awareness, knowledge, tax sanctions, and tax authority on taxpayer compliance. Multiple linear regression analysis was employed as the method. Data is collected on a sample basis by sending out questionnaires to taxpayers. Taxpayer knowledge has a favorable and significant impact on individual taxpayer compliance, according to the findings. Taxpayer compliance has a negative and strong link with knowledge. Individual taxpayer compliance has a favorable and significant association with tax sanctions. It was discovered that the more successful the use of tax penalties, the higher the level of compliance with tax legislation. The association between fiscal services and each taxpayer's compliance is good and important. This demonstrates that the higher the level of tax compliance in the service sector, the better the tax authority.

The Inasius study (2019) looked at the factors that affect small and medium-sized businesses' compliance with income tax reporting requirements in Indonesia. Using multiple regression, six tax compliance indicators were investigated. Data was gathered from 328 respondents in a Jakarta survey who are small business taxes. Data was collected using a researcher's research methodology. According to the findings, the advisory group, audit probability, tax knowledge, and views of justice and fairness all had a substantial impact on tax compliance. The target group, in particular, has the biggest influence on the conduct of SMEs that do not comply with tax regulations. These findings may help policymakers establish future tax strategies that emphasize compliance.

In Georgia's tourism industry, Helhel and Varshalomidze (2015) investigated the elements that influence taxpayer attitudes and concerns on tax compliance. The factors were separated into internal and external categories based on previous research. Individuals, rather than businesses, have been the focus of recent tax compliance studies. In this post, we use data from Georgia's tourism industry's small and medium-sized firms (SMEs). A five-point Likert scale was used to create the questionnaire, which was followed by a personal interview. In this investigation, the Cronbach's alpha coefficient, which is commonly used to assess internal consistency, was determined to be 0.837. Internal factors predict tax compliance far more efficiently than external variables, according to the findings. Their perspectives on the current situation were not as dissimilar as they may have been. Taxpayer behavior is influenced by the ability to pay taxes, pay taxes correctly, raise tax morale and knowledge, and reevaluate preventive policies (such as exemptions, exams, sanctions, and fines). It was also found that there were no statistically significant differences in respondents' perceptions and attitudes towards taxation based on age and business location, but there were some differences based on ownership and subsector.

Adimassu and Jerene (2016) examined the factors that influence the voluntary behavior of taxpayers in the self-assessment system (SAS). The authors used a cross-sectional research methodology for the study design. The target group of this research is the category A taxpayers in Ethiopia. A total of 377 people were included in the sample. A taxpayer from each of the cities was chosen at random. Data was gathered from both primary and secondary sources. The results of this investigation were analyzed and presented using a Pearson correlation matrix and a logistic regression model. The results of this study indicate that knowledge of taxation, simplicity of filing and tax

administration, perceptions of fairness and fairness, perceptions of government spending, the possibility of audits and the influence of the recommended circle of people are the determining factors that influence the voluntary behavior of taxpayers to comply.

From the perspectives of planned behavior theory and stakeholder theory, Nurwanah, Sutrisno, Rosidi, and Roekhudin (2018) investigated the determinants of tax compliance. This study looked at a group of Corporate Taxpayers who were registered with the Directorate General of Taxes for the South Sulawesi Region. The sample size for this test is determined via proportionate random sampling. Partial Least Squares was used to do the analysis (PLS). The study's findings show that taxpayer conduct has a favorable and significant impact on taxpayer compliance. The creation of tax behavior in terms of compliance might motivate taxpayers to engage in positive activity and thus contribute to society's well-being. Subjective norms influence tax compliance intentions in a positive and significant way. Because the focus of this study is on corporate taxpayers, the researcher incorporates social awareness based on stakeholder theory. Corporate taxpayers are described as a societal unit in this study.

Abd Hamida et al. (2020) investigated the factors that influence GrabCar drivers' tax compliance in Malaysia. To acquire relevant data for this study, which was done on Grab drivers who supplied the service at least once in Malaysia, a quantitative research methodology was employed. The findings of this study show that tax knowledge and attitudes have an impact on driver compliance with tax laws. The results could be a signal for the tax authorities to implement a tax education program to raise awareness of robber drivers in Malaysia.

Olaoye, Ayeni-Agbaje, and Alaran-Ajewole (2017) investigated the impact of tax information, administration, and knowledge on taxpayer compliance in Nigeria using a research design. The usual least squares method was used to evaluate the data from the questionnaire. The findings revealed that tax information and understanding had a good impact on tax compliance, whereas tax administration had a minor impact. Taxation information and understanding, rather than tax administration, have a higher tendency to encourage compliance with tax regulations, according to this study. The government, through its institutions, should directly educate potential taxpayers about tax rules and regulations through symposiums and free seminars, according to this study.

Hassan, Nawawi and Puteh Salin (2016) examined whether tax education programs affect taxpayer compliance. Samples were selected randomly from a population of 60 responses. It is found that taxpayers use tax education information wisely. While there is still room for improvement, encouraging more people to know and learn about taxes is still a good practice. This also demonstrates that taxpayers have a favorable opinion of tax education programs. This study reveals that taxpayers' positive perceptions of programmed tax education need to be enhanced in order for taxpayers to be more exposed to tax education programs in the future.

Savitri (2016) looked at how service quality mediation affected the link between taxpayer knowledge, tax socialization, tax penalties, and taxpayer compliance. At the Pekanbaru Samsat office, a survey of 100 motorized vehicle taxpayers was undertaken. The information was gathered through the use of a questionnaire. Multiple linear regression was used to analyze the data. The findings revealed that service quality played a significant role in moderating the link between taxpayer awareness, tax

penalties, and taxpayer compliance. However, in the relationship between tax socialization and taxpayer compliance, service quality does not operate as a mediator.

Yee, Moorthy, and Soon (2017) investigated the relationship between "taxpayers' attitudes towards tax morality according to the Malaysian self-assessment system" and "taxpayers' perceptions about tax evasion," as well as the relationship between tax justice, tax knowledge, level of implementation, and social exchange. A questionnaire was used to collect and analyze data from 400 taxpayers. According to the findings, tax literacy is the most essential component of the taxation system that influences taxpayers' attitudes on tax morale. Furthermore, taxpayers' attitudes regarding tax ethics play a role in their perceptions of tax avoidance in Malaysia.

In the city of Banda Aceh, Asrinanda (2018) investigated the impact of tax knowledge, self-assessment, and tax awareness on taxpayer compliance. The sampling process was a basic random sample. Tax compliance is influenced by tax knowledge, self-assessment systems, and tax awareness. Tax compliance is influenced by the diversity of tax knowledge, the self-assessment system, and tax awareness. The government must communicate the importance of tax development in order to raise tax awareness and public knowledge about paying taxes by enhancing taxpayer compliance.

Saad (2014) investigated taxpayers' perceptions of their tax knowledge and the perceived complexity of the tax system. The examination also looked into the primary causes of non-compliance. Thirty people were interviewed over the phone, and the data was evaluated using thematic analysis. The findings suggest that people lack knowledge and view the tax system to be confusing. Tax literacy and tax complexity are thought to be variables that contribute to taxpayer noncompliance.

2.4.3 Social Norms and Tax Compliance

The influence of social norms in tax behavior was investigated by Bobek, Hageman, and Kelliher (2013). The question of social norms was subjected to a factor analysis, which resulted in the identification of four distinct constructions of social norms. The findings of the road analysis show that individuals' standards of behavior/ethical beliefs (personal norms) and the expectations of those closest to them (subjective norms) have a direct impact on tax compliance decisions, whereas the general public's expectations (mandatory norms) and factual facts about other people's behavior (descriptive standards) have an indirect impact. This demonstrates that social norms have a significant direct and indirect impact on tax compliance.

In Turkey, the study by vikevik and Yeniçeri (2013) looked at the relationship between social norms and tax compliance, as well as whether the effectiveness of tax administration moderates this relationship. The participants in this study were taxpayers who reported their earnings to the IRS. Data was collected using questionnaires and interview procedures. The findings indicated that tax administration efficiency has a large and positive moderating effect on the connection between social norms and tax compliance.

Mutatembwa (2013) investigated how societal norms and the taxation system influence tax compliance among Tanzania's small and medium-sized taxpayers. Data on traders, wholesalers, producers, and service providers were acquired from a representative sample of 108 small and medium-sized taxpayers in Tanga city. It was discovered that there was a positive relationship between the components of social norms and tax compliance selected system and taxation system compliance and finally social norms

and taxation systems through descriptive analysis and correlations for the components of social norms and tax compliance, taxation systems and tax compliance, and finally social norms and taxation systems. The study shows that social norms, taxes, and tax compliance have a strong and beneficial link.

In Malaysia, Arunasalam (2019) investigated the association between a person's personality and tax compliance. To determine how an individual's personality influences the decision to adapt, researchers used personality characteristics from the Big Five personality traits. This study was carried out as part of a qualitative study by the researcher. A set of interview questions were used to categorize taxpayers based on their personality and level of compliance. When a group of people considers tax compliance unimportant because they are unaware of their tax obligations, this study indicates that there is a link between personality and compliance.

Shaharuddin, Tajuddin, and Palil (2018) investigated the impact of social norms on sole proprietorship tax compliance. The research looked at data from 90 stores in the Klang Valley. Subjective norms had little effect on taxpayer compliance, according to the findings. However, the findings revealed that descriptive norms can explain a person's propensity to obey. This means that monitoring what others do in specific scenarios has the potential to have a major impact on tax compliance decisions. As a result, tax authorities should consider incorporating descriptive information about the laws to assist taxpayers in making key decisions in order to increase compliance among sole proprietorships.

The impact of descriptive norms, violation norms, subjective norms, and personal norms on tax compliance was investigated by Putri (2021). Individual taxpayers in

Sukoharjo Regency were studied for this study. The methodologies used in this investigation are quantitative. This study employed a single taxpayer as a sample. A basic random sample was employed to acquire data for this investigation. The findings revealed that both descriptive and subjective standards had a favorable impact on taxpayer compliance.

Sukono and Djamaluddin (2018) investigated the direct and indirect impacts of social norms on property tax compliance. Primary and secondary data were employed in this study. Structural equation modeling was used to analyze the data (SEM). The findings of this study show that "taxpayer prohibition norms" have an impact on subjective norms, that subjective norms of taxpayers have an impact on personal norms, and that personal norms have an impact on taxpayer compliance. Personal norms mediate the relationship between social and tax compliance norms, whereas mandatory and subjective norms have no direct impact on compliance with tax duties.

The effect of societal norms on taxpayer attitudes toward voluntary tax compliance was investigated by Raihana Mohdali and Lockman (2015). The study's findings show that personal norms and subjective standards have a major impact on taxpayers' desire to follow tax rules and regulations. Tax authorities are asked to understand the attitude of taxpayers in developing appropriate strategies to ensure a positive tax attitude anchored in Malaysia to easily improve voluntary tax compliance in Malaysia.

In Uganda, Nabaweesi (2017) looked at the link between societal norms, taxpayer morale, and tax compliance in small enterprises. A cross-sectional research design, as well as an explanatory research design and an analytical research design, were employed to achieve the following aims. Small companies in the Kampala area make

up the study's population. A straightforward and focused selection approach was employed to pick the sample for this study. Data was collected using a self-administered questionnaire. Social norms, taxpayer morale, and tax compliance were all found to be significantly associated in this study. As a result, small firms will have a high degree of tax compliance if they implement a deliberate strategy to boost this soft factor.

AL-Rashdan (2020) investigated the elements that influence high-income taxpayers' tax compliance behavior in Jordan. The study's participants are Jordanian high-income taxpayers who work as doctors, engineers, and lawyers. In this investigation, a stratified random sample was used. The survey yielded a total of 485 complete and valid replies. Attitudes and subjective standards were found to be significant predictors of behavioral intentions. Behavioral intentions influence tax compliance behavior in a good way.

2.5 Research Gaps

A review of the empirical literature reveals that many studies have been conducted on the relationship between non-economic factors and tax compliance, both locally and internationally. Nevertheless, a number of research gaps are evident in the existing studies prompting the need to carry out the proposed research.

The studies conducted on the relationship between Taxpayer attitude and tax compliance reveal several research gaps. Studies such as Jayawardane and Low (2016), Abdul–Razak, Adafula (2013) and Elly (2017) indicate contextual gaps since they were conducted in other countries. The economic environment of these countries is different from that of Kenya given that some of them are more mature and developed economies compared to Kenya. Therefore, it would be impractical to relate findings from these countries to the local context. Further, studies such as Lumumba, Wanjohi and Magutu

(2010) and Kuria (2016) focused on taxpayers' attitudes and tax compliance in Kenya. However, these studies looked at only one non-economic factor, that is, taxpayers' attitude, whereas the current study will focus on three non-economic factors. The studies also did not focus on micro and small enterprises in Nairobi County, which is the unit of analysis for this study.

In addition, previous research on tax knowledge and tax compliance shows research gaps in the form of inclusive or mixed findings. The study by Fauziati et al. (2016) and Mwandiambira (2017) did not find a significant relationship between tax knowledge and tax compliance. On the other hand, Gitonga and Memba (2018) and Adhiambo (2019) found that tax knowledge has a significant effect on tax compliance. It is therefore difficult to be conclusive given the divergence nature of the findings. As such, there is need to carry out the proposed study.

In addition, previous studies on the social norms and tax compliance indicate research gaps. Arunasalam (2019) study was conducted in Malaysia, Mutatembwa (2013) in Tanzania, and Çevik and Yeniçeri (2013) research was in Turkey. As such, there exist contextual differences between these studies and the proposed study. Further, Bobek, Hageman and Kelliher (2013) present a methodological gap since it adopted factor analysis technique. The proposed study will use regression analysis.

2.6 Conceptual Framework

A conceptual framework is a diagrammatic structure that portrays the link between variables in a study. Psychological factors are hypothesized to have a connection with tax compliance. These factors – taxpayer attitude, tax knowledge and social norms comprise the predictor constructs, while tax compliance is the predicted construct.

Independent Variables   **Dependent Variable**

```
┌─────────────────────────────┐
│ Taxpayer Attitude           │
│     • Fairness              │
│     • Motivation            │
│     • Peer attitude         │
│                             │
└─────────────────────────────┘

┌─────────────────────────────┐              ┌──────────────────────────────┐
│ Tax Knowledge               │              │ Tax Compliance of MSE        │
│     • General knowledge     │              │                              │
│     • Legal knowledge       │              │     • Filing of returns      │
│     • Technical knowledge   │              │     • Prompt payment of      │
│                             │              │       tax                    │
│                             │              │     • Correct declaration    │
└─────────────────────────────┘              │     • Timely registration    │
                                             │                              │
┌─────────────────────────────┐              └──────────────────────────────┘
│ Social Norms                │
│     • Personal norms        │
│     • Subjective norms      │
│     • Injunctive norms      │
│                             │
│                             │
└─────────────────────────────┘
```
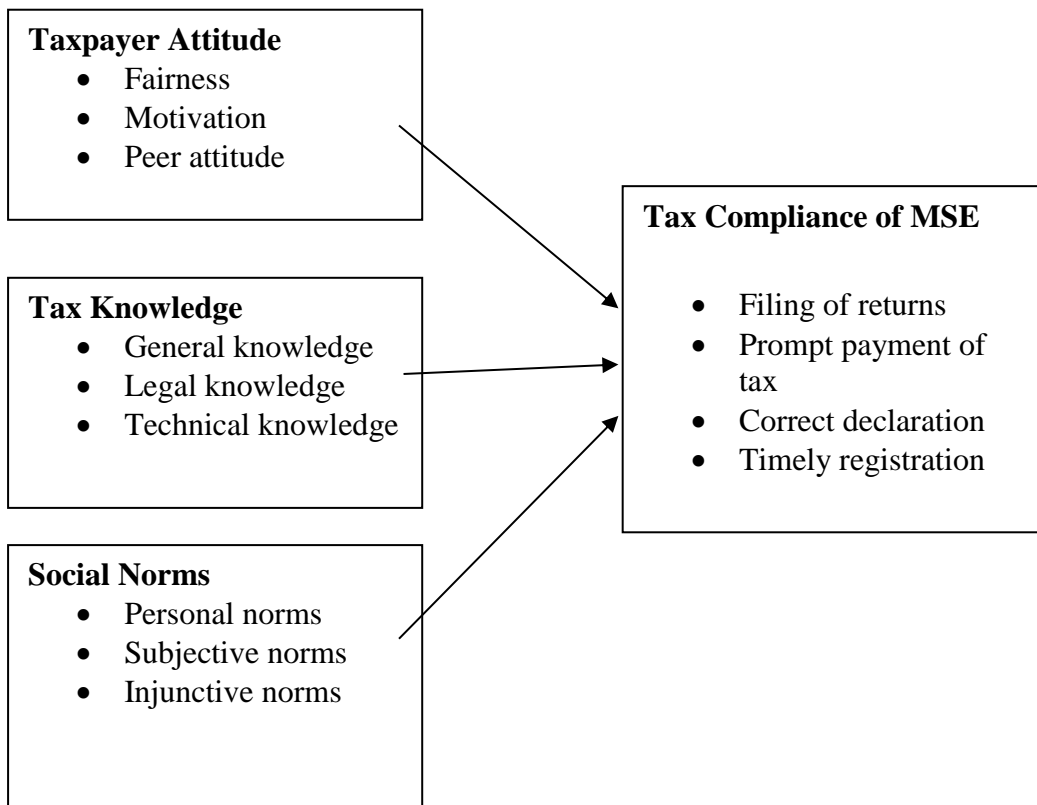
Figure 2.1: Conceptual Framework

Source: (Author, 2020)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The methods employed in this investigation are presented in this chapter. Research design, demographic, sample size and methodology, data collection tools and methodologies, reliability and validity, data analysis and presentation, and ethical considerations are all covered.

3.2 Research Design

The researcher plans for the procedures and tools used to collect and evaluate information to answer research questions; the researcher plans for the methods and tools used to collect and evaluate information to answer research questions (Mugenda & Mugenda, 2003). This study uses an explanatory research design. Design helps researchers build causal relationships between the variables studied (Gray, 2013). This study aims to determine the causal relationship between the independent variable (psychological factors) and the dependent variable (tax compliance).

3.3 Study Area

The location of this study was the Nairobi Central Business. The location was selected because it has a large population of small scale traders who are expected to be tax compliant. However, as revealed in the problem statement, there is growing concern over lack of tax compliance by small scale traders.

3.4 Target Population

A target population is a collection of people or items with comparable characteristics that the investigator prefers (Mugenda & Mugenda 2003). The target population, also

known as the theoretical population, has a variety of features. The target population of this study comprised of 21,100 licensed small scale traders in Nairobi Central Business (Nairobi City County, Licensing Department, 2017). The unit of observation was owners/managers of the enterprises. The choice of owners/managers as target respondents was justified because they are the tax payers.

3.5 Sample and Sampling Technique

A sample, according to Kendra (2019), is a subset of a population that is used to represent the full group. It is difficult to poll every member of a certain group when doing research because the number of persons under study is too large. A sample, according to Kothari (2004), is a collection of units picked from the universe to represent it. The Fisher et al., (2003) formula was used to calculate the sample size because the target population was greater than 10,000. The Fisher formula is as follows:

$$n = \frac{z^2 p(1-p)}{d^2}$$

Where;

n= sample size

z= the standard normal deviate value for the level of confidence, for instance 95% level of confidence =1.96.

d= margin of error or level of precision at 0.05 for CI at 95%

p= proportion to be estimated, Israel (2009) recommends that if one doesn't know the value of p then you should assume p=0.5

Therefore, sample size is arrived at as follows:

$$= \frac{(1.96^2)(0.5)(1 - 0.5)}{(0.05)^2}$$

$$n = 384$$

As a result, the study's sample size was 384 MSE. The sample size was chosen from the population using a simple random sampling technique. Because the target demographic was homogeneous, the methodology was preferred because every firm had an equal chance of getting chosen.

3.6 Data Collection Instrument

Questionnaires were utilized to obtain primary data for this study. A questionnaire, according to Orodho (2004), is an instrument for gathering data that allows for a measurement for or against a certain position. The use of questionnaires is justified because they are simple to comprehend and take less time to complete. Closed questions were included in the surveys, which were organized using a five-point Likert scale. In addition, the questionnaire was split into two sections. Part one of the survey asked questions on the respondents' demographics. The research variables were the subject of the second part of the questionnaire.

3.7 Data Collection Procedure

The researcher received university clearance to collect data for the study and was aided by research assistants who had been trained in the data gathering method. To ensure accurate response, the respondents were led through the questions and given contrasting options. To boost the response rate, the drop and pick later strategy was used.

3.8 Pilot Study

A pilot study, also known as a feasibility study, is a tiny experiment used to test logistics and gather data in advance of a bigger study in order to improve the quality and efficiency of the latter. A pilot research can uncover flaws in the proposed process or experiment's design, allowing them to be rectified before time and money are spent on the main study. Its goal is to establish the validity and reliability of research instruments (Cooper & Schindler, 2018). In this study, 10% of the sample size (38 questionnaires) was issued to owners/managers of MSE operating in the neighboring Kiambu County. Accrdoing to William, Gunasekaran and Mcgaughy (2011), 5 to 10% of the population sample is adequate for pilot study. The pilot results informed changes made on the questionnaire.

3.8.1 Validity of the Research instrument

The degree to which a test measures what it claims to measure is known as validity. The questionnaire should be written in accordance with the research definition (Elstak, 2013). Both content and construct validity were examined in this study. Content validity was assured by having the research supervisor go through the questionnaire and guide on areas to improve. On the other hand, construct validity was achieved by ensuring that there are questions for every variable in the study.

3.8.2 Reliability of the Research instrument

The degree to which an instrument measures the same way each time it is used under the same conditions with the same participants is referred to as reliability (Cronbach, 1951). Cronbach's Alpha () was employed in this study. It describes how well a set of test items can be used to measure a single latent variable (Cronbach, 1951). For this

investigation, the recommended reliability cut–off value of 0.7 was adopted. For a research instrument to be dependable, its Cronbach alpha value must be at least 0.7 or greater.

3.9 Measurement of Variables

Table 3.1 summarizes the study variables and their measurements.

Table 3.1: Measurement of Variables

Variable	Type of Variable	Indicators	Source	Measurement scale
Tax Compliance	Predicted	Taxpayers Registration Correct tax declaration Payment of taxes on time.	Lumumba, Wanjohi and Magutu (2010), Kuria (2016)	Ordinal
Tax payer Attitude	Predictor	Fairness Motivation Peer Attitude	Jayawardane and Low (2016), Abdul–Razak and Adafula (2013)	Ordinal
Tax Knowledge	Predictor	General knowledge. Legal knowledge. Technical knowledge.	Bird (2014)	Ordinal
Social Norms	Predictor	Personal norms. Subjective norms. Injunctive norms.	Çevik and Yeniçeri (2013), Bobek, Hageman and Kelliher (2013)	Ordinal

3.10 Data Analysis and Presentation

With the use of Statistical Package for Social Science (SPSS version 21), the data from the questionnaires was checked for completeness, then coded, tabulated, and analyzed. To capture the properties of the study variables, descriptive statistics such as percentage, frequency, means, and standard deviation were developed. The relationship between the independent and dependent variables was also established using inferential statistics such as Pearson correlation and regression analysis. Tables and graphs were used to present the findings of the investigation. The following multiple regression model was estimated:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where,

Y– Tax compliance

X_1 – Taxpayers attitude

X_2 – Tax knowledge

X_3 –Social norms

$\beta_0, \ldots, \beta_3,$ = Beta coefficients

ϵ= Error term

3.10.1 Regression Assumptions

The following assumptions were evaluated before to running the regression analysis to guarantee that the results were correct and free of bias.

Test of Normality

The Shapiro-Wilk test was employed to determine whether or not the data was normal. The test is preferred when the number of observations is fewer than 2000. The null

hypothesis states that the data has a normal distribution. Acceptance of the null hypothesis occurs when the probability value exceeds 5%, and vice versa.

Test of Linearity

Linearity will be tested using scatterplots that shows whether there is a linear relationship between two variables. It is expected that the relationship between variables should be fairly linear before the regression models are applied (Jain et al., 2017).

Test of Multicollinearity

Multicollinearity happens when the independent variables have a strong correlation, influencing the importance of the individual variables. In this study, the Variance Inflation Factor was utilized to check for multicolinearity (VIF). A VIF value larger than 10 denotes the presence of a Multicollinearity problem, while a VIF value less than 10 denotes the absence of such a problem. Furthermore, a tolerance value of more than 0.2 indicates that the independent variables are not substantially associated.

Test of Heteroscedasticity

If the error variance is not constant, the data is heteroscedastic. When you run a regression model without accounting for heteroscedasticity, you'll get skewed parameter estimates. The test of this assumption was carried out by plotting standardized residuals alongside the predicted value of Y. The results of the test were demonstrated if the assumption is met by the presence of residuals scattered randomly around the X axis line which will indicate a relative even distribution. On the other hand, the violation of this assumption was demonstrated by uneven scatter points such

as butterfly and fans shapes. These assumptions when tested have the ability of reducing the errors and increasing the reliability and validity.

3.11 Ethical Considerations

The investigator sought informed consent from the participants and ensured that everyone willingly participates. The participants were able to drop out of the study without prior warning to the researcher at any time. Respondents were not asked to type their names on the questionnaire to protect their privacy. The researcher promised the participants that the information they submitted would be used solely for academic purposes. Several security measures, such as a password-protected computer database, were used to keep the obtained data safe from unauthorized access. The researcher did not utilize deceptive persuasive techniques such as impersonating a government official, making unrealistic and inaccurate promises, allowing the impression that she had come to help, or being overly persistent.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

The data analysis, conclusions, and interpretation are all covered in this chapter. Tables and graphs are used to present the findings. The studied data was organized into topics that corresponded to the study's goals.

4.2 Response Rate

The number of questionnaires that were administered to MSEs owners/managers were 384. Response rate results were presented in Table 4.1.

Table 4.1: Response Rate

Response	Frequency	Percentage
Returned	291	75.78%
Unreturned	103	24.22%
Total	**384**	**100%**

Source: Research Data (2021)

A total of 291 percent of the forms were completed and returned correctly. As demonstrated in Table 4.1, this equated to a 75.78 percent total successful response rate. This is in line with Babbie (2004), who stated that return rates of 50% are acceptable for analysis and publication, 60% is good, and 70% is excellent. According to these claims, the study's response rate of 75.78 percent is excellent.

4.3 Pilot Results

Pilot study was done on 38 MSE in Kiambu County. All the 38 questionnaires administered were properly filled and returned. The data was then used to check for reliability of the instrument using Cronbach's alpha test.

4.3.1 Reliability Results

Reliability tests results were undertaken in order to assess the internal consistency of the variables as measured using the five Likert scale. The coefficients of reliability for each and every Likert scaled item were computed.

Table 4.2: Reliability Results

Variable	Cronbach's Alpha	Number of items	Comment
Tax payers attitude	0.704	5	Reliable
Tax knowledge	0.739	4	Reliable
Social norms	0.760	4	Reliable
Tax compliance	0.799	4	Reliable

Source: Research Data (2021)

The result in Table 4.2 indicates that all the scaled items were above value of 0.7. Hence all the variables achieved the reliability threshold of 0.7 and above and therefore were considered adequate for this study.

4.3.2 Construct Validity Results

To test for construct validity, the Kaiser-Meyer-Olkin (KMO) test for construct validity was the applied. KMO measure has a range of 0-1. The KMO test is supported by Field (2005), who stated that a KMO Value/Degree of Common Variance has several ranges of 0.90 to 1.00, 0.80 to 0.89 0.70 to 0.79, 0.60 to 0.69, 0.50 to 0.59 and 0.00 to 0.49 which are termed as marvelous, meritorious, mediocre, miserable and do not factor respectively. The KMO threshold for this study was 0.5 and above.

Table 4.3: Construct Validity

		Tax payers attitude	Tax knowledge	Social Norms	Tax compliance
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		**0.691**	**0.728**	**0.561**	**0.743**
Barletts Test of Sphericity	Approx. Chi-Square	57.448	30.752	29.625	48.249
	Df.	10	10	6	6
	Sig.	0.000	0.000	0.000	0.000

Source: Research Data (2021)

Results above showed that all the variables had a KMO above 0.5 and thus all the variables were valid. Further analysis can therefore be conducted.

4.4 Demographic Results

Respondents were asked questions regarding their demographic information such as the gender of the respondents, level of education and the age of the enterprise.
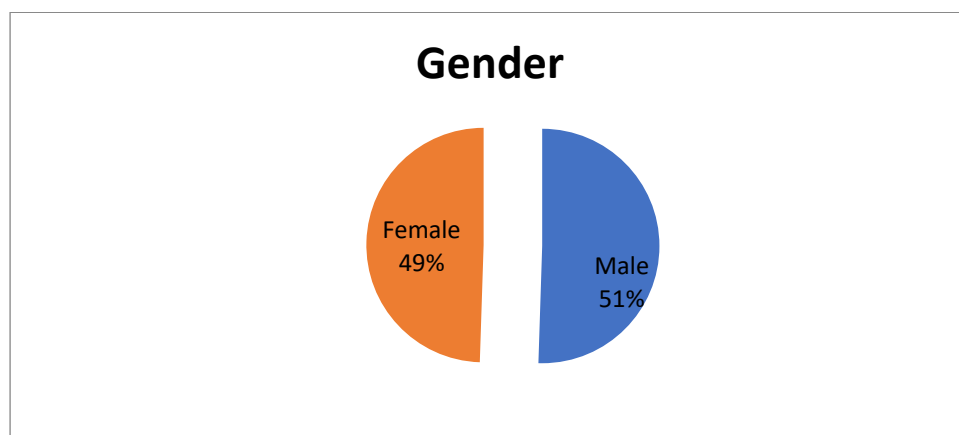
4.4.1 Gender of the Respondents

Figure 4.1: Gender of the Respondents
Source: Research Data (2021)

The data revealed that men made up 51% of the respondents, while women made up 49%. As a result, the vast majority of MSE owners in Nairobi City County are male.
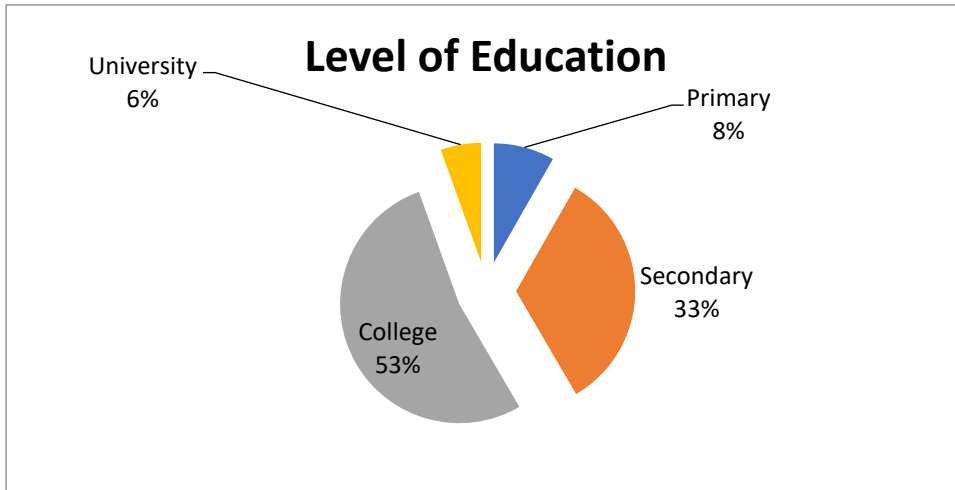
4.4.2 Level of Education

Figure 4.2: Level of Education

Source: Research Data (2021)

According to the findings, 53 percent of the respondents were college graduates, 33 percent had secondary school as their greatest level of education, 8% had primary school education, and only 6 percent had university degrees. This implied that most MSEs owners in Nairobi City County were educated and thus had the skills to run the enterprise.

4.4.3 Duration of the MSE Existence

The respondents were asked to indicate the duration the MSEs had been in existence. Results were presented in Figure 4.3.
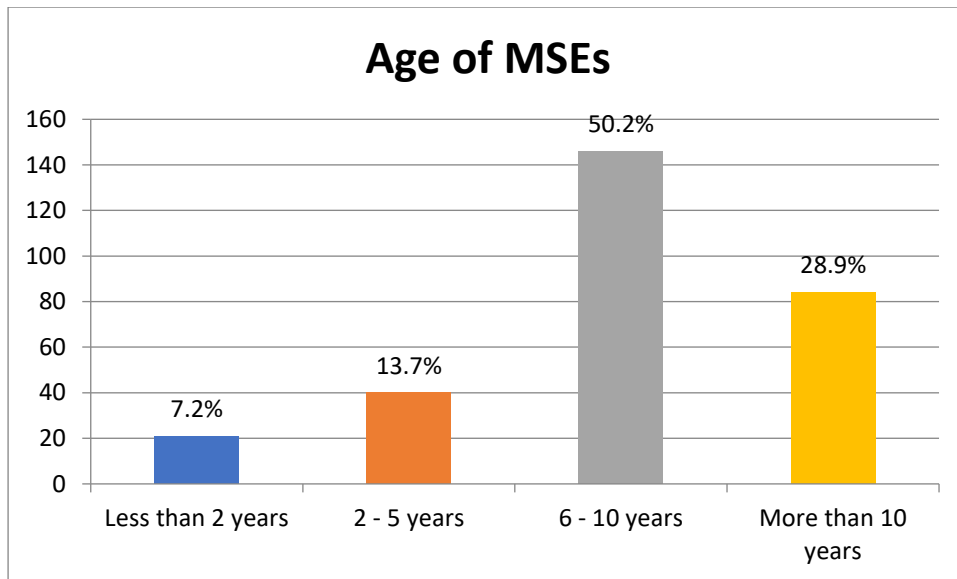
Figure 4.3: Age of the MSEs
Source: Research Data (2021)

The findings showed that 50.2% of the respondents indicated that their MSEs was between 6 and 10 years, 28.9% of the respondents indicated that their MSEs were more than 10 years, 13.7% were between 2 – 5 years while only 7.2% that were less than 2 years.

4.5 Descriptive Statistics

The descriptive analysis for both the independent and dependent variables is presented in this section. The researchers employed a Likert scale with the following options: strongly disagree, disagree, neutral, agree, and highly agree. Percentages, mean, and standard deviations are used to present the findings.

4.5.1 Tax payers Attitude

Descriptive results for tax payers' attitude are presented in Table 4.4.

Table 4.4: Descriptive Results for Tax payers attitude

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std. Dev
I believe there is fairness in the administration of tax in Kenya.	4.80%	19.60%	12.00%	56.40%	7.20%	3.42	1.04
I value the payment of taxes to the government	5.20%	30.90%	12.00%	48.80%	3.10%	3.14	1.05
Other small scale traders also value payment of taxes.	4.80%	13.10%	12.40%	63.90%	5.80%	3.53	0.96
I am motivated to paying the required taxes on time.	5.20%	4.80%	8.60%	60.80%	20.60%	3.87	0.97
I think the tax burden to small scale businesses is too much.	6.90%	3.80%	3.10%	85.20%	1.00%	3.70	0.85
Average						**3.53**	**0.97**

Source: Research Data (2021)

The findings found that 63.6 percent of respondents agreed with the assertion that tax administration in Kenya is fair. Furthermore, the results revealed that 51.9 percent of respondents agreed with the assertion that paying taxes to the government is important to them. The findings also found that 69.7% of respondents agreed with the assertion that other small-scale traders value tax payment. Furthermore, 81.4 percent of respondents agreed with the assertion that they are motivated to pay their taxes on time. Further results showed that 82.6% they think the tax burden to small scale businesses is too much.

The average mean of the responses was 3.53 on a five-point scale, indicating that the majority of the respondents agreed with most of the claims about tax payers' attitudes. The answers, however, did not differ from the mean, as evidenced by a standard

deviation of 0.97. These findings corroborated those of Kuria (2016), who discovered that tax payer attitude is strongly linked to tax compliance.

4.5.2 Tax Knowledge

Descriptive results for tax knowledge were presented in Table 4.5.

Table 4.5: Descriptive Results for Tax Knowledge

Statement	SD	D	N	A	SA	M	Std. Dev
I find it simple and easier to understand tax system.	1.70%	1.70%	13.40%	75.90%	7.20%	3.85	0.94
I have adequate knowledge on technical matters relating to tax administration.	1.40%	8.60%	23.00%	65.30%	1.70%	3.57	0.73
I have adequate knowledge on legal matters relating to tax knowledge on technical matters relating to tax administration.	1.00%	7.60%	21.00%	56.70%	13.70%	3.75	0.82
I have general understanding of the tax systems.	0.70%	41.20%	30.60%	21.60%	5.80%	2.91	0.94
I regularly seek tax advisory from tax consultants.	12.00%	8.20%	9.60%	50.90%	19.20%	3.57	1.23
Average						3.53	0.93

Source: Research Data (2021)

The findings found that 83.1 percent of respondents agreed with the assertion that the tax system is basic and easy to comprehend. Furthermore, 67.0 percent of respondents agreed with the assertion that they had sufficient awareness of technical issues connected to tax administration. Furthermore, the findings revealed that 70.4 percent of respondents agreed with the assertion that they had enough knowledge of legal issues dealing to tax administration and technical issues relevant to tax administration. In addition, 41.9 percent of respondents disagreed with the statement that they have a

general understanding of tax systems. In addition, results showed that 70.1% of the respondents agreed with the statement that they regularly seek tax advisory from tax consultants.

The average mean of the responses was 3.53 on a five-point scale, indicating that the majority of the respondents agreed with most of the claims on tax knowledge. The answers, however, did not differ from the mean, as evidenced by a standard deviation of 0.93. These findings corroborated those of Adhiambo (2019), who found that tax awareness and education have a good and significant impact on tax compliance. These findings contradicted the conclusions of Fauziati, Minovia, Muslim, and Nasrah (2016), who said that tax knowledge is not required for tax compliance in Indonesia.

4.5.3 Social Norms

Descriptive results for social norms are presented in Table 4.6.

Table 4.6: Descriptive Results for Social Norms

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std. Dev
My personal belief is that it is important to pay taxes.	9.30%	11.00%	14.80%	53.60%	11.30%	3.47	1.12
My level of tax compliance is influenced by what people close to me suggest I should do.	8.60%	14.10%	21.00%	42.60%	13.70%	3.39	1.15
My level of tax compliance is determined by what most people suggest I should do.	10.00%	10.00%	18.90%	51.50%	9.60%	3.41	1.11
My level of tax compliance is determined by what I think other people do.	5.20%	13.70%	11.70%	41.20%	28.20%	3.74	1.16
Average						**3.50**	**1.14**

Source: Research Data (2021)

The findings found that 64.9 percent of respondents agreed with the assertion that paying taxes is important to them personally. The findings also revealed that 56.3 percent of respondents agreed with the assertion that their degree of tax compliance is influenced by what individuals close to them advise them to do. Further findings revealed that 61.1 percent agreed with the assertion that their level of tax compliance is dictated by what the majority of people recommend. Furthermore, the findings revealed that 69.4 percent of respondents agreed with the assertion that their level of tax compliance is impacted by what they believe others do.

The average mean of the responses was 3.50 on a five-point scale, indicating that the majority of the respondents agreed with most of the statements on social norms. The answers, however, differed from the mean, as evidenced by a standard deviation of 1.14. Mutatembwa (2013) found that there is a significant and positive association between societal norms, the tax system, and tax compliance based on these data.

4.5.4 Tax Compliance

Descriptive results for tax compliance are presented in Table 4.7.

Table 4.7: Descriptive Results for Tax Compliance

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std. dev
The amount of tax my business pays has increased over time	5.50%	3.40%	15.10%	63.90%	12.00%	3.74	0.91
I always make tax payments on time.	4.80%	24.40%	18.90%	46.40%	5.50%	3.23	1.03
I always engage in correct tax declaration	2.70%	28.20%	12.30%	39.20%	17.50%	3.71	1.14
My business always files tax within the stipulated time	6.20%	9.30%	19.20%	57.00%	8.20%	3.52	0.99
Average						**3.55**	**1.02**

Source: Research Data (2021)

The findings found that 75.9% of respondents agreed with the assertion that the amount of tax paid by a business has increased over time. Furthermore, 51.9 percent of respondents believed that they always pay their taxes on time, according to the statistics. Further findings revealed that 56.7 percent of respondents agreed with the statement that they always make accurate tax declarations. In addition, 65.2 percent of respondents stated that their company always files taxes on time.

The average mean of the responses was 3.55 on a five-point scale, indicating that the majority of the respondents agreed with most of the assertions about tax compliance. The responses, however, differed from the mean, as seen by a standard deviation of 1.02.

4.6 Diagnostic Tests

This section provides results of the diagnostic tests.

4.6.1 Normality Test

Normality of data was tested using the Shapiro-Wilk test. Results are shown in Table 4.8.

Table 4.8: Normality Test Results

	Shapiro-Wilk		
	Statistic	df	Sig.
Tax Compliance	0.951	291	0.114
Tax payer Attitude	0.926	291	0.102
Tax Knowledge	0.93	291	0.106
Social norms	0.971	291	0.056

Source: Research Data (2021)

Given the p values greater than 5%, the null hypothesis of normal distribution was accepted based on the facts above. This indicated that the data variables were regularly

distributed. The condition for data to be regularly distributed, according to Saunders et al. (2012), is that the probability value must be greater than 0.05.

4.6.2 Multicolinearity Test

Multicollinearity was assessed in this study using the VIF. Results were presented in Table 4.9.

Table 4.9: Multicollinearity Results

| | Collinearity Statistics | |
	Tolerance	VIF
(Constant)		
Tax payer Attitude	0.725	1.38
Tax Knowledge	0.763	1.31
Social norms	0.575	1.74

Source: Research Data (2021)

VIF values greater than ten, according to Field (2009), indicate the presence of Multicollinearity. Table 4.9 shows the variance inflation factors, which were less than 10, indicating that there is no multicollinearity.

4.6.3 Linearity Test
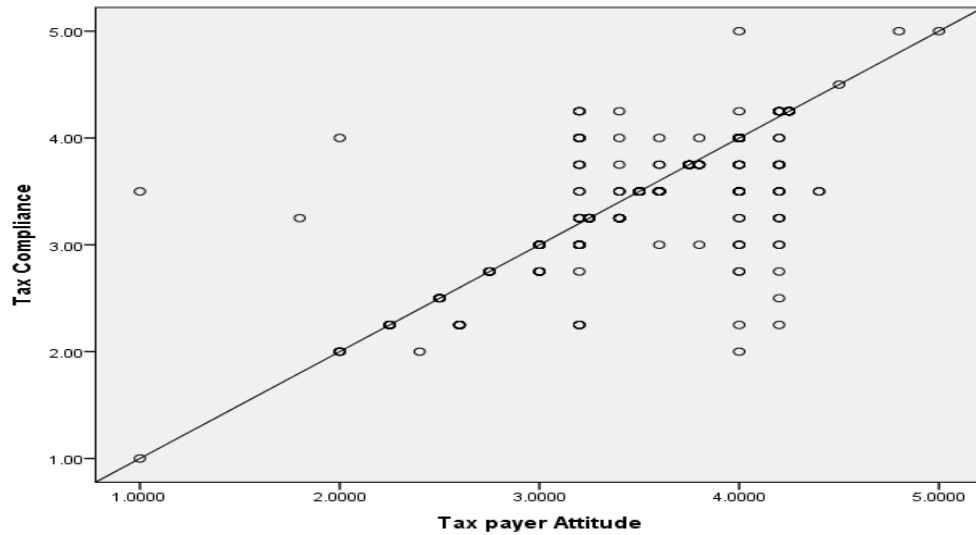
Scatter plots were used to show linearity.

Figure 4.4: Tax payer attitude and tax compliance

Source: Research Data (2021)

From the results above, there was a positive linear relationship between tax payer attitude and tax compliance.
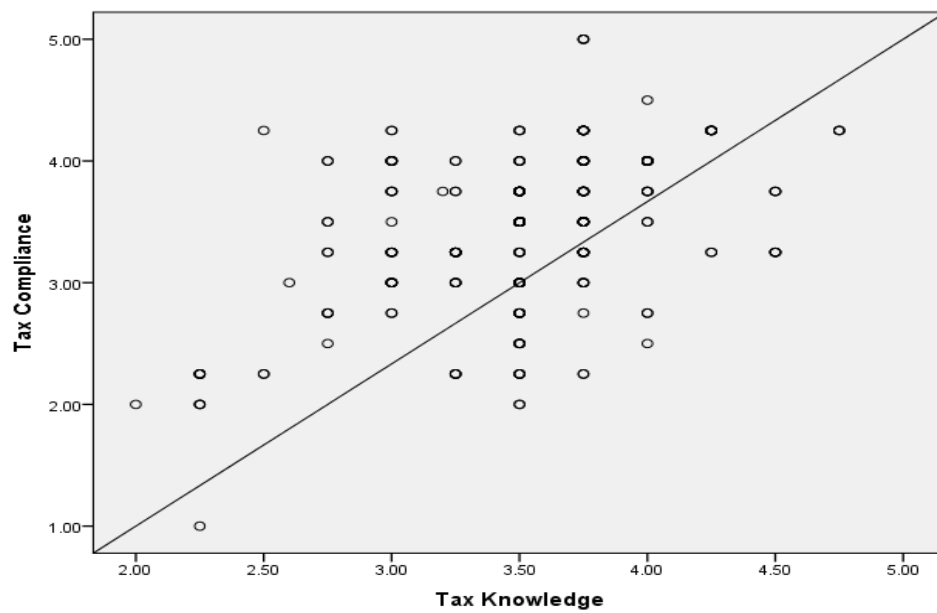

Figure 4.5: Tax Knowledge and tax compliance

Source: Research Data (2021)

According to the findings, tax knowledge and compliance have a positive linear relationship.
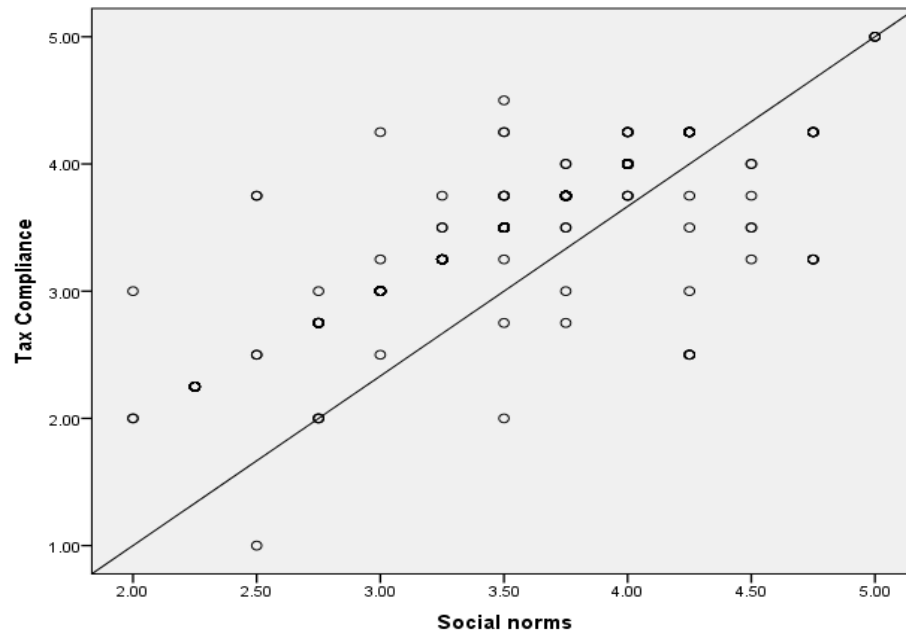

Figure 4.6: Social Norms and tax compliance
Source: Research Data (2021)

From the results above, there was a positive linear relationship between social norms and tax compliance.

4.6.4 Heteroskedasticity Test

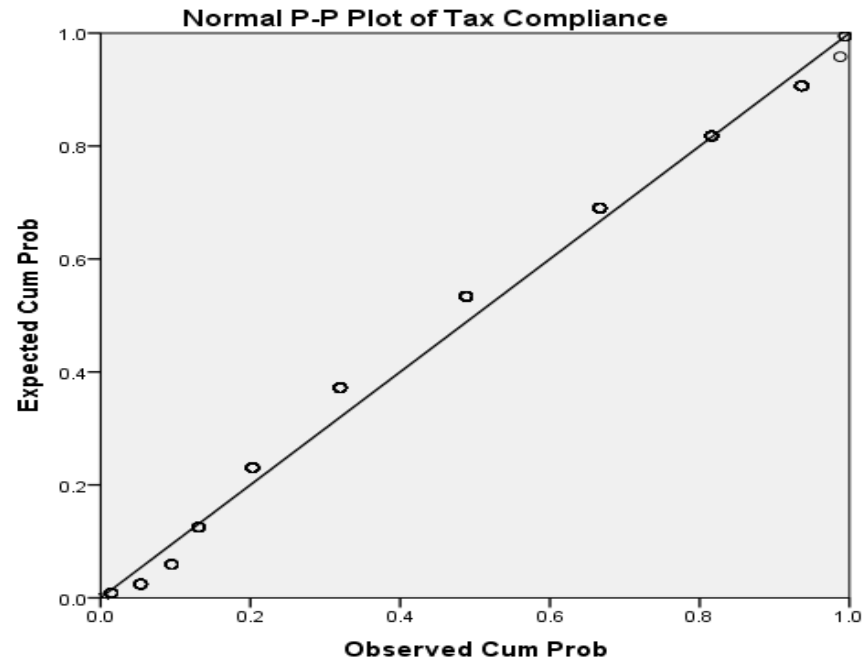Heteroskedasticity results of tax compliance were shown in Figure 4.7

Figure 4.7: Heteroskedasticity Results
Source: Research Data (2021)

From the results above, the points are about the same distance from the line. Therefore, the data have no heteroskedasticity. This shows that the regression model chosen between psychological factors and tax compliance was appropriate to the data.

4.7 Correlation Results

The result in Table 4.10 shows the correlation between the study variables.

Table 4.10: Correlation Matrix

		Tax compliance	Tax payer Attitude	Tax Knowledge	Social norms
Tax Compliance	Pearson Correlation	1.000			
	Sig. (2-tailed)				
Tax payer Attitude	Pearson Correlation	.707**	1.000		
	Sig. (2-tailed)	0.000			
Tax Knowledge	Pearson Correlation	.487**	.158**	1.000	
	Sig. (2-tailed)	0.000	0.007		
Social norms	Pearson Correlation	.788**	.515**	.476**	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	

** Correlation is significant at the 0.01 level (2-tailed).
Source: Research Data (2021)

The findings demonstrated a favorable and substantial relationship between tax payer attitude and tax compliance (r=0.707, p=0.000). These findings corroborated those of Kuria (2016), who discovered that tax payer attitude is strongly linked to tax compliance. Furthermore, there was a positive and significant relationship (r=0.487, p=0.000) between tax knowledge and tax compliance. These findings corroborated those of Adhiambo (2019), who found that tax knowledge has a significant impact on tax compliance.

Furthermore, social norms were found to have a positive and substantial relationship with tax compliance (r=0.788, p=0.000). Mutatembwa (2013) found that there is a significant and positive association between societal norms, the tax system, and tax compliance based on these data.

4.8 Regression Results

Regression analysis was used to examine whether psychological factors can be used to explain tax compliance of MSEs in Nairobi city county, Kenya.

Table 4.11: Model of Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.879a	0.773	0.771	0.29095

Source: Research Data (2021)

Psychological factors were found to satisfactory explain the tax compliance of micro and small enterprise owners in Nairobi County, Kenya, with coefficient of determination, R^2 of 0.773. This also suggests that psychological factors account for 77.3 percent of the variation in the dependent variable, which is micro and small business owners' tax compliance. This also means that additional variables not included in the model account for 22.7 percent of the variation in the dependent variable.

Table 4.12: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	82.806	3	27.602	326.058	.000b
Residual	24.296	287	0.085		
Total	107.102	290			

Source: Research Data (2021)

The p value of 0.000, which is less than the threshold p value of 0.05, indicates that the whole model was statistically significant. This was further substantiated by a F statistic of 326.058, implying that psychological elements are good predictors of micro and small business owners' tax compliance.

Table 4.13: Regression of Coefficient

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0.641	0.154		-4.154	0.000
Tax payer Attitude	0.441	0.034	0.433	13.12	0.000
Tax Knowledge	0.254	0.042	0.193	6.01	0.000
Social norms	0.464	0.036	0.473	12.744	0.000

Source: Research Data (2021)

Regression of coefficients showed that tax payer attitude and tax compliance were positively and significantly related ($\beta=0.441$, $p=0.000$). This implied that an increase in tax payer attitude by one unit would lead to an increase in tax compliance by 0.441 units. The findings were in line with those of Abdul–Razak and Adafula (2013), who discovered a substantial positive statistical link between tax compliance decisions and levels of comprehension.

In addition, tax knowledge and tax compliance were positively and significantly related ($\beta=0.254$, $p=0.000$). This implied that an increase in tax knowledge by one unit would lead to an increase in tax compliance by 0.254 units. These findings corroborated those of Adhiambo (2019), who found that tax awareness and education have a good and significant impact on tax compliance. These findings contradicted the conclusions of Fauziati, Minovia, Muslim, and Nasrah (2016), who claimed that tax knowledge is not required for tax compliance in Indonesia.

Results further showed that social norms and tax compliance were positively and significantly related ($\beta=0.464$, $p=0.000$). This implied that an increase in social norms by one unit would lead to an increase in tax compliance by 0.464 units. These findings corroborated those of Bobek, Hageman, and Kelliher (2013), who discovered that social norms have a direct impact on tax compliance.

4.9 Test of Hypotheses

4.9.1 Test of Hypothesis One

H_{01}: There is no significant effect of taxpayer attitude on tax compliance of micro and small enterprise owners in Nairobi County, Kenya.

The regression results for tax taxpayer attitude in Table 4.13 revealed that the p value =0.000. The decision rule for hypothesis testing was to reject H01 if p value<0.05. This hypothesis was rejected since the p value was less than 0.05 (p<0.05). This implies that taxpayer attitudes have a major impact on micro and small business owners' tax compliance in Nairobi County, Kenya. The findings were in line with those of Abdul– Razak and Adafula (2013), who discovered a substantial positive statistical link between tax compliance decisions and levels of comprehension.

4.9.2 Test of Hypothesis Two

H_{02}: There is no significant effect of tax knowledge on tax compliance of micro and small enterprise owners in Nairobi County, Kenya.

The regression results for tax knowledge in Table 4.13 revealed that the p value =0.000. The decision rule for hypothesis testing was to reject H_{02} if p value<0.05. This hypothesis was rejected since the p value was less than 0.05 (p<0.05). This implies that tax knowledge has a major impact on micro and small business owners' tax compliance in Nairobi County, Kenya. These findings agreed with Adhiambo (2019) who established that tax knowledge significantly influences tax compliance.

4.9.3 Test of Hypothesis Three

H_{03}: There is no significant effect of social norms on tax compliance of micro and small enterprise owners in Nairobi County, Kenya.

The regression results for social norms in Table 4.13 revealed that the p value=0.000. The decision rule for hypothesis testing was to reject H_{03} if p value<0.05. This hypothesis was rejected since the p value was less than 0.05 (p<0.05). This implied that

there is a significant effect of social norms on tax compliance of micro and small enterprise owners in Nairobi County, Kenya. Mutatembwa (2013) found that there is a significant and positive association between societal norms, the tax system, and tax compliance based on these data.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings, which were obtained in accordance with the study's objectives. The study's goals were to determine the impact of taxpayer attitude on micro and small business tax compliance in Nairobi County, Kenya, to determine the impact of tax knowledge on micro and small business tax compliance in Nairobi County, Kenya, and to examine the impact of social norms on micro and small business tax compliance in Nairobi County, Kenya.

5.2 Summary of Findings

5.2.1 Taxpayer Attitude on Tax Compliance

The majority of small-scale business owners say Kenya's tax administration is fair, according to descriptive findings. Furthermore, most small business owners place a high importance on paying taxes to the government. Results further revealed that most small scale business are motivated to paying the required taxes on time. In addition, the tax burden to the small scale business owners in Nairobi was also seen to be too much.

The correlation results showed that of taxpayer attitude has a positive association with tax compliance of micro and small enterprise owners in Nairobi County, Kenya. Furthermore, regression analyses revealed that a one-unit rise in tax payer attitude corresponded to a 0.441 unit rise in tax compliance. The results of the hypothesis also revealed that taxpayer attitude has a major impact on micro and small business owners' tax compliance in Nairobi County, Kenya.

5.2.2 Taxpayer Knowledge on Tax Compliance

Results showed that most small scale business owners in Nairobi find it simple and easier to understand tax system. Results further showed that most small scale business owners have adequate knowledge on technical matters relating to tax administration. In addition, results showed that MSEs owners have adequate knowledge on legal matters relating to tax knowledge on technical matters relating to tax administration. Further results showed that regularly seek tax advisory from tax consultants enhances tax compliance.

Tax knowledge has a favorable relationship with tax compliance of micro and small business owners in Nairobi County, Kenya, according to the correlation data. Furthermore, regression analyses revealed that a one-unit improvement in tax knowledge corresponded to a 0.254-unit improvement in tax compliance. The results of the hypothesis also revealed that tax knowledge has a substantial impact on tax compliance among micro and small business owners in Nairobi County, Kenya.

5.2.3 Social Norms on Tax Compliance

Findings showed that most small scale business owners have personal belief that it is important to pay taxes. Results further showed MSEs owners level of tax compliance is influenced by what people close to them suggest they should do. Further results showed that level of tax compliance is determined by what most people suggest MSEs owners to do. In addition, results showed that small scale owners level of tax compliance is determined by what they think other people do.

The findings revealed that social norms have a favorable relationship with tax compliance among micro and small business owners in Nairobi County, Kenya.

Furthermore, regression studies revealed that a one-unit increase in social norms would result in a 0.464-unit rise in tax compliance. The results of the hypothesis also revealed that social norms had a substantial impact on tax compliance among micro and small business owners in Nairobi County, Kenya.

5.3 Conclusion

According to the findings, taxpayer attitudes have a favorable and significant impact on micro and small business owners' tax compliance in Nairobi County, Kenya. In addition, fairness in the administration of tax enhances business to comply with the tax system. In addition, too much tax burden on small scale business owners demotivates them from paying tax on time. The null hypothesis that there is no significant effect of taxpayer attitude on tax compliance of micro and small business owners in Nairobi County, Kenya was rejected based on the regression results. Therefore, there is likelihood of increase in tax compliance as a result of improvement in taxpayer attitude.

The study found that tax education had a favorable and significant impact on micro and small business owners' tax compliance in Nairobi County, Kenya. In addition, have adequate knowledge on technical matters relating to tax administration enhances tax compliance. Further, regularly seek tax advisory from tax consultants enhances tax compliance. The null hypothesis that there is no significant influence of tax knowledge on tax compliance of micro and small business owners in Nairobi County, Kenya was rejected based on the regression results. As such, an increase in tax knowledge is expected to enhance tax compliance among MSE owners.

The study concluded that social norms have a positive and significant effect on tax compliance of micro and small enterprise owners in Nairobi County, Kenya.

Furthermore, what others close to them advise them to do impact on their level of tax compliance. Furthermore, what most people advise MSE owners to do determine their level of tax compliance. The null hypothesis that there is no significant effect of social norms on tax compliance of micro and small business owners in Nairobi County, Kenya was rejected based on the regression findings. The implication is that improvement of social norms may increase tax compliance of micro and small enterprise owners.

5.4 Recommendations

From the study findings, taxpayer attitude has a positive and significant association with tax compliance of micro and small enterprise owners in Nairobi County, Kenya. Therefore, the MSE owners need to have positive attitude towards payment of taxes. In addition, the Kenyan government needs to ensure that the administration of taxes to business is fair so that the businesses do not form wrong attitude towards the tax system. The Kenyan government also needs to ensure that the tax burden to the small scale business is not much and instead make it affordable to them. This will enhance tax compliance.

From the study findings, tax knowledge has a positive and positive association with tax compliance of micro and small enterprise owners in Nairobi County, Kenya. The small scale business owners need to invest in knowing and understanding the Kenyan tax system. This will help them in tax compliance. The Kenyan government should also ensure they train the business owners on the tax system so as they have adequate knowledge on technical matters and legal matters relating to tax administration. The small scale business owners also ought to regularly seek tax advisory from tax consultants enhances tax compliance.

From the study findings, social norms have a positive and positive association with tax compliance of micro and small enterprise owners in Nairobi County, Kenya. The study therefore recommends that business owners should mind whom they interact with since they are likely to influence them on tax compliance matters. In addition, the small scale business owners should not look at what other people do but they should do what is right without being influenced by other people's decisions.

5.5 Contribution to Theory, Policy and Practice

This research is projected to make a significant contribution to tax administration theory, policy, and practice. The study adds to the body of information on the relationship between psychological characteristics and tax compliance from a theoretical standpoint. Furthermore, the research supports the theoretical framework and the many theories that were utilized to explain the variables. In terms of policy, the report advises policymakers like KRA on what should be changed or improved in tax policy. Taxpayer attitude, tax knowledge, and societal norms, all of which have been demonstrated to have a considerable predictive ability in determining tax compliance, should be given special attention. In practice, the study instructs MSE owners/managers on how to effectively address psychological elements in order to comply with tax laws.

5.6 Areas for Further Studies

The goal of the study was to see how psychological factors affected tax compliance among micro and small business owners in Nairobi County, Kenya. The study was limited to Nairobi County. For comparison, further research might be conducted on other micro and small businesses in other counties such as Machakos or Mombasa. In

addition, other studies can focus on other East African Countries for purposes of comparison.

In addition, R squared was 77.3% and thus not 100%. This implies that there are other factors that could influence tax compliance of micro and small enterprise owners in Nairobi County, Kenya. Other studies can therefore focus on those other factors that may explain the remaining 22.7% of variation in tax compliance of micro and small enterprise owners in Nairobi County, Kenya.

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APPENDICES

Appendix I: Letter of Introduction

I' am a Master student at the Kenya School of Revenue Administration (KESRA). I wish to conduct a research entitled "*Effect of Psychological Factors on Tax Compliance of Micro and Small Enterprise Owners in Nairobi County, Kenya*"

A questionnaire has been designed and will be used to gather relevant information to address the research objectives of the study. The purpose of writing to you is to kindly request you to grant me permission to collect information on this important subject from your organization.

Please note that the study will be conducted as an academic research and the information provided will be treated in strict confidence. Strict ethical principles will be observed to ensure confidentiality and the study outcomes and reports will not include reference to any individuals.

Your acceptance will be highly appreciated.

Yours Sincerely

YVONNE MUNGA

Appendix II: Questionnaire for the Business Owners

This questionnaire seeks to collect information on effect of psychological factors on tax compliance of micro and small enterprise owners in Nairobi County, Kenya. You are requested to provide accurate answers to the questions. The information you give will be treated with utmost confidentiality.

Instructions: Tick and fill were appropriate.

SECTION A: DEMOGRAPHIC INFORMATION

1. What is your Gender

   Male [   ]   Female [   ]

2. Highest Level of Education

   Primary [   ]   Secondary [   ]   College [   ] University [   ]

3. For how long has your firm being operating?

   Less than 2 years [   ] 2-5 years [   ] 6-10 years [   ] More than 10 years [   ]

SECTION B: TAXPAYER ATTITUDE

4. Please indicate whether you agree or disagree with the following statements relating to tax payers attitude. Use the scale: 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, 5-strongly agree.

Statements	1	2	3	4	5
I believe there is fairness in the administration of tax in Kenya.					
I value the payment of taxes to the government					
Other small scale traders also value payment of taxes.					

I am motivated to paying the required taxes on time.					
I think the tax burden to small scale businesses is too much.					

SECTION C: TAX KNOWLEDGE

5. Please indicate whether you agree or disagree with the following statements relating to tax knowledge. Use the scale: 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, 5-strongly agree.

Statements	1	2	3	4	5
I find it simple and easier to understand tax system.					
I have adequate knowledge on technical matters relating to tax administration.					
I have adequate knowledge on legal matters relating to tax knowledge.					
I have general understanding of the tax systems.					
I regularly seek tax advisory from tax consultants.					

SECTION D: SOCIAL NORMS

6. Please indicate whether you agree or disagree with the following statements relating to social norms. Use the scale: 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, 5-strongly agree.

Statements	1	2	3	4	5
My personal belief is that it is important to pay taxes.					
My level of tax compliance is influenced by what people close to me suggest I should do.					
My level of tax compliance is determined by what most people suggest I should do.					
My level of tax compliance is determined by what I think other people do.					

SECTION E: TAX COMPLIANCE

7. Please indicate whether you agree or disagree with the following statements relating to tax compliance. Use the scale: 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, 5-strongly agree.

Statements	1	2	3	4	5
The amount of tax my business pays has increased over time					
I always make tax payments on time.					
I always engage in correct tax declaration					
My business always files tax within the stipulated time					

Appendix III: Plagiarism Certificate

EFFECT OF PSYCHOLOGICAL FACTORS AND KNOWLEDGE ON TAX COMPLIANCE OF MICRO AND SMALL ENTERPRISE OWNERS IN NAIROBI COUNTY, KENYA

ORIGINALITY REPORT

19%	18%	8%	10%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	ir-library.ku.ac.ke Internet Source	2%
2	Submitted to Kenyatta University Student Paper	2%
3	ir.mu.ac.ke:8080 Internet Source	1%
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Appendix IV: Authorization Letter

REF: KESRA/NBI/036

26th February, 2021

TO WHOM IT MAY CONCERN

RE: REQUEST FOR RESEARCH PERMIT:
YVONNE MUNGA - REG. NO. KESRA/105/0040/2017

This is to confirm that the above named is a student at Kenya School of Revenue Administration (KESRA) Nairobi Campus pursuing Masters in Tax and Customs Administration.

The named student is undertaking Research on TOPIC: *"Effect of Psychological Factors In Tax Compliance Of Micro And Small Enterprise Owners In Nairobi County, Kenya"*.

The purpose of this letter is to request your good office to assist the above student with the information to enable her work on her project.

Your support to KESRA in this regard will be highly appreciated.

Thank you.

Dr. Marion Nekesa PHD,
Head Academic Research
KESRA

Appendix V: Research License

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: 845552

Date of Issue: 15/March/2021

RESEARCH LICENSE

This is to Certify that Miss.. Yvonne Munga of Moi University, has been licensed to conduct research in Nairobi on the topic: EFFECT OF PSYCHOLOGICAL FACTORS ON TAX COMPLIANCE OF MICRO AND SMALL ENTERPRISE OWNERS IN NAIROBI COUNTY, KENYA for the period ending : 15/March/2022.

License No: NACOSTI/P/21/9351

845552

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY &
INNOVATION

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