

**SOCIAL CULTURAL DETERMINANTS OF TAX COMPLIANCE AMONG
SMALL AND MEDIUM ENTERPRISES IN KANDUYI SUBCOUNTY,
BUNGOMA COUNTY, KENYA**

**BY
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**A RESEARCH PROJECT SUBMITTED TO SCHOOL OF BUSINESS AND
ECONOMICS, DEPARTMENT OF ACCOUNTING IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF TAX AND CUSTOM ADMINISTRATION**

MOI UNIVERSITY

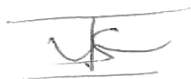
2024

DECLARATION

Declaration by Candidate

This project is my original work and has not been presented for a degree in any other University.

Signature:



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DEDICATION

I dedicate this research project to my dad Daniel Simiyu Wanjekeche and my wife Maureen Nasimiyu Nassiuma.

ACKNOWLEDGEMENT

I wish to extend my appreciation to my supervisors Dr. Marion Nekesa and Dr. John Tarus for their professional guidance and advice throughout the whole process. I extend my gratitude to the Kenya School of Revenue Authority and Moi University for providing the necessary resources and for enhancing a great and conducive environment to achieve this research work. To my fellow students, thank you for the support and advice you have given me both in school and while writing this research project. May God bless you.

ABSTRACT

Due to their historical role as the primary engine of production development and job creation in both established and emerging economies, small and medium-sized businesses are crucial for economic growth. Therefore, it is important that small and medium enterprises adhere to governmental tax laws. However, due to inefficient and incompetent tax administration, Kenya is included among the nations with the lowest tax compliance. According to KRA, the majority of SMEs do not pay taxes, and the rate of tax evasion among SMEs is still quite high. It was therefore important to investigate the factors that determine tax compliance among SMEs. The aim of this study was to determine the sociocultural determinants of tax compliance among SMEs in Kanduyi Subcounty. The study specifically aimed to ascertain the impact of education level, gender, culture, and religiosity on tax compliance among SMEs. The Theory of Reasoned Action, the Theory of Planned Behavior, and the Fiscal Psychology Model served as the study's foundation. An explanatory research design was employed in this study. 254 SMEs operating in Kanduyi Sub County were the target population. A basic random selection method was used to choose 155 SMEs from the intended audience. The respondents' information was gathered using a standardized questionnaire. Pilot research involving 39 SME owners was carried out in Kakamega County. The study employed the experts' judgment approach to ascertain the validity of the research questionnaire. The Cronbach Alpha coefficient was used to determine reliability, with a 0.7 cutoff point. The analysis of the data was done on the Statistical Packages for Social Sciences (SPSS). Descriptive statistics like percentages, frequencies, means, and standard deviations, as well as inferential analysis like regression and correlation analysis, were among the techniques used for data analysis. The assumptions of linearity, homoscedasticity, normality and absence of multicollinearity among the variables was assessed. The study identified the socioeconomic determinants of tax compliance among SMEs in Kanduyi Sub County as being gender, culture, religiosity and educational level. The study found that culture ($\beta=0.124$, $p=0.009$), gender ($\beta=0.165$, $p=0.004$), religiosity ($\beta=0.151$, $p=0.009$) and educational level ($\beta=0.287$, $p=0.000$). have positive and significant effect on tax compliance among SMEs. The study made recommendations that the management of KRA should reach out to the owners and managers of SMEs to encourage them to be more tax compliant by addressing the cultural backgrounds that discourage tax compliance through more educational programs to society leaders, reaching out more to male owners and also teaching religious leaders on the benefits of tax compliance. The report also suggested that tax laws be created with the intention of penalizing religious and societal figures that actively discourage tax evasion.

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ABBREVIATIONS AND ACRONYMS

BDT:	Bangladeshi Taka
CGPA:	Cumulative Grade Point Average.
EFDs:	Electronic Fiscal Devices
GDP:	Gross Domestic Product
ISCED:	International Standard Classification of Education
ITA:	Income Tax Act
KRA:	Kenya Revenue Authority
NACOSTI:	National Commission for Science Technology and Innovation
NBR:	National Board of Revenue
OECD:	Organisation of Economic Cooperation and Development
PD:	Power Distance
SEM:	Structural Equation Model
SMEs:	Small and Medium Enterprises
SPSS:	Statistical Packages for Social Sciences
SSA:	Sub Saharan Africa
SVO:	Social Value Orientation
TPB:	Theory of Planned Behavior
TRA:	Theory of Reasoned Action
UA:	Uncertainty Avoidance
UK:	United Kingdom
UNITEN:	Universiti Tenaga Nasional
US:	United States
VAT:	Value Added Tax
VIF:	Variance Inflation Factor

OPERATIONAL DEFINITIONS OF TERMS

- Culture:** refers to the collective integration of background knowledge, traditions, beliefs, norms, values, behaviors, attitudes, principles, meanings, faith, spatial relations, terminology of the universe, and possessions owned by the SME owners and managers.
- Educational Level:** refers the highest level of education that a person has completed
- Gender:** refers to the socially constructed roles, behaviours, expressions and identities of girls, women, boys, men, and gender diverse people.
- Religiosity:** refers to the level of an individual's religiousness based on his/her religious activities and beliefs.
- Tax Compliance:** refers to taxpayers' intention to report all income and deduction of their income as truest as possible in a timely manner and in accordance with applicable rules.

CHAPTER ONE

INTRODUCTION

1.0 Overview

The chapter contents included a study background where the concepts of the study are introduced with a global regional and local perspective. The chapter also constituted the problem statement, general and specific objectives and the research hypotheses. The significance of the study to various parties was also provided and finally a description of the scope of the study.

1.1 Background of the Study

One of the main sources of funding for the government is tax income (Subramaniam, 2019). Taxes are imposed by governments for a variety of reasons, but the main one is to generate revenue for public spending and, conversely, to allocate resources appropriately (Tilahun, 2018). Every tax administration initiative focused on meeting tax collection goals and tracking performance outcomes at all levels has been drawn to the role that taxes play in weaning a nation off of its reliance on foreign sources of income. Revenue might be the only performance metric that is acknowledged in less developed nations (Olaniyi & Akinola, 2020). The magnitude of the tax gap, which is determined by the difference between the amount of tax due and the amount actually collected, is concerning, nevertheless, and is typically brought about by underpaying taxes, failing to file tax returns, and declaring false income and expenses, among other things (Rackowski & Mroz, 2018). Developing nations encounter enormous challenges in generating the necessary amount of revenue to expand their development initiatives (Mannan, 2020).

According to Tilahun (2019), tax compliance is the willingness of taxpayers to behave in a way that complies with national tax legislation. This includes accurately reporting income or asset balances used to determine tax liabilities, computing tax liabilities accurately, filing returns on time, and making timely payments of the outstanding balance. According to Oladele et al. (2019), tax compliance is defined as adhering to reporting requirements, which implies filing returns on time and disclosing accurate tax liabilities in line with applicable court rulings at the time the return is filed. This definition makes the assumption that in order to abide by the tax code, one must accurately report their income and any deductible costs, and then they must pay the correct amount of taxes by the deadline. James and Alley, which takes the tax gap into account when evaluating tax compliance (Tadesse & Goitom 2014). This is the distinction made between an individual's actual income tax burden and the amount ultimately paid voluntarily or through enforcement action. In general, obeying the law is considered compliance, whereas breaking it is considered noncompliance. Drawing from the aforementioned definitions, tax compliance may be succinctly defined as the intention or readiness of the taxpayers to adhere to tax legislation and their voluntary endeavor to settle their tax debt promptly (Mannan, 2020).

Social harm results from tax noncompliance because it can lower revenue, skew the labor market, and undermine state stability by enhancing the public's view of dishonesty and fraud. If tax payers' reasons for noncompliance are identified, then reducing noncompliance can be successful. The tax authority can benefit from knowing the reasons behind taxpayers' attitudes and actions about voluntary compliance since it can help them determine which approach is most appropriate and successful in boosting compliance (Mannan, 2020).

Because tax disobedience is on the rise and has a negative impact on the government's ability to gather income, tax compliance has become a more pressing subject for researchers in the last few decades (Tilahun, 2018). In most developing countries, where widespread tax fraud and avoidance undermines domestic revenue bases, taxpayer non-compliance is a chronic and growing worldwide issue that is rarely addressed (Sebele-Mpofu, Gomera & Sibanda, 2022). Even after numerous tax system improvements, the fastest developing economies with the most powerful tax authorities typically struggle to finance their operations on their own because of non-compliance. Moreover, all tax systems address the problem of tax evasion and avoidance, in which individuals use legal defenses to lessen or entirely avoid paying taxes (Moore & Prichard, 2020).

Tax collection and remittance are the responsibilities of small firms (Slemrod & Boning, 2018). They thus have a significant role in a nation's tax structure. According to D'Agosto et al. (2018), SMEs are more likely than other taxpayer groups to commit fraud. Some scholars have conducted research on SMEs, and the study's findings demonstrate the importance of small business owners in a nation's tax structure. Nonetheless, studies indicate that small companies have a higher probability of evading taxes (Newman, et al. 2018). It is frequently impossible to demonstrate non-compliance. According to estimations from the Kenya Revenue Authority, tax audits are often expensive affairs and only half of business non-compliance is discovered (Abdul & Wangâ, 2018). It is therefore worthwhile to increase small enterprises' voluntary compliance. To do this, a thorough comprehension of the elements that promote noncompliance is necessary. In addition to paying income taxes, SMEs also have to pay other business taxes like payroll, property, and corporate taxes; they have

to collect sales taxes like VAT; and if they have one or more employees, they have to withhold personal income taxes (Abdul & Wangâ, 2018).

Policies must take into account social and cultural factors that influence taxpayer behavior since they also impact the rate of tax collection (Mugler, 2018). Policies pertaining to taxes and spending that are designed with the cultural, legal, economic, political, and social aspects of society in mind will have an impact on tax compliance since they will make gaining societal approval simpler. This could make the government's policies and procedures more successful (Erul, 2020).

As with other forms of behavior, it is plausible to suppose that social connections have an impact on human behavior when it comes to taxes. As a result, a person's reference group—which consists of their friends, family, and neighbors—may have an effect on their tax system compliance behavior and views. Accordingly, a taxpayer's commitment to complying will be less if they know a large number of people in groups that are significant to them yet who cheat taxes (Wadesango, et al, 2018). Conversely, social connections could also serve to discourage people from engaging in evasion out of concern for the social repercussions that would follow if their actions were found and made public (Mitu, 2018). Social effects may impact compliance, particularly by altering the perceived probability of detection, according to theoretical research on herd behavior in economics (Roy, 2021). This study examined a number of sociocultural variables of tax compliance, including education level, gender, culture, and religiosity.

A culture is an inherited set of human behaviors that are passed down through the generations (De Mooij, 2019). Usually, it's just connected to the way of life and principles of a certain community. In other words, culture is precisely the way a

certain group thinks, feels, and behaves (Shirev and Levy, 2020). It is an amalgam of the beliefs, standards, customs, and behaviors that set one group apart from all others. Culture is relevant and influences everything that individuals choose to do or not do. Without a question, culture contributes to the advancement of human society in a variety of ways. Thus, it is impossible to discount the influence of culture (Olaniyi & Akinola, 2020).

Gender disparities are evident in tax compliance tests (Alm, 2019; Alm & Malézieux, 2019; D'attoma, Volintiru & Malézieux, 2020). These studies, along with a meta-analysis by Alm and Malézieux (2019), show that women are frequently more tax compliant than men in laboratory settings. D'Attoma et al. (2017) examined gender differences in tax evasion in the US, Sweden, UK, and Italy and found that, generally speaking, women are less likely than men to do so on a global and cultural level. In a different study using the same data, D'Attoma (2020) discovered that although men are less obedient than women, men are more responsive to an increase in reward from a public benefit.

According to Utama et al. (2022) religiosity is characterized by one's depth of understanding, strength of belief, implementation of worship and laws, and profound appreciation of the religion one practices. The degree to which a person identifies with or adheres to his religion is known as his religiosity (Puckett, et al, 2018). A person's intricate integration of their religious beliefs, emotions, and behaviors is what defines their religiosity. Hidayat et al. (2022) define religiosity as the degree to which people adopt their religion's teachings and are devoted to their faith in order for their attitudes and behaviors to reflect this commitment. A taxpayer's admiration and attitude toward their religious beliefs are gauged by their level of religiosity. Conduct

that complies with taxes is an indication of this gratitude. Generally speaking, religiosity is associated with cognition (knowledge and religious belief), which shapes behaviors such as praying, attending houses of worship, and reading sacred texts that are connected to feelings for religion (Sutrisno & Dularif, 2020). In specifics, the five key components of religiosity are: appreciation, knowledge (intellectual), ritualistic religious practice, ideological belief, and consequential religious practice (Boguszewski et al., 2020).

According to Chesters and Daly (2017), the Organization for Economic Cooperation and Development (OECD) defines educational attainment as the highest grade a person obtains at the most advanced level they attended in the nation's educational system. The greatest degree of education attained by an individual is known as educational attainment (Schoon & Cook, 2021). It can also be defined as the greatest degree of knowledge that a person has acquired in a given discipline in accordance with the nation's educational system. People can generally progress in their cognitive, emotional, psychomotor, and psychoproductive areas with the use of education. The process of teaching and learning is how this is achieved (Al-Qaysi, et al, 2023). Nonetheless, studies have indicated that the relationship between tax compliance and education is not always linear. Although there were positive relationships, there were also negative correlations found between education and tax compliance, which can be attributed to taking advantage of chances for tax evasion and avoidance with greater fiscal awareness (Kazi Abdul & Khandaker Mursheda, 2023).

1.1.1 Global Perspective

Developed nations in Asia, Europe and North America are setting trends in bringing societal morale on matters relating to tax compliance of individuals and businesses by

publicly publishing individual tax compliance status (Dwenger, et al, 2016). One of the most recurrent conclusions regarding the attitudes and behaviors of taxpayers in Western nations is that individuals who report compliance think that their friends, peers, and fellow taxpayers comply, while individuals who report cheating think that other taxpayers cheat (Kraak, & Hart, 2019). There is evidence to suggest that compliance behavior may be influenced by one's view of the honesty of others.

Small businesses have global challenges related to regulatory costs; these challenges are essentially the same in the US, UK, Australia, and New Zealand. Among these are a lack of knowledge about the requirements set forth by rules and their frequent revisions (Ulvenblad, et al, 2018). According to the findings of a survey conducted among 217 American taxpayers, social variables have an impact on tax compliance. This further shown that compliance intentions are indirectly influenced by societal norms through individual internalization of subjective norms. when a result, when taxpayers' support for personal norms regarding tax compliance grows, so do their subjective personal norms, which in turn causes a rise in their intentions to comply. This study concluded that people's intentions to comply are indirectly influenced by social norms, which they absorb as personal norms. Specifically, the strength of social norms that encourage tax compliance is positively correlated with the development in personal norms of tax compliance, which in turn increases the intents of compliance (Jimenez & Iyer, 2016). Small and medium-sized enterprises are important in European nations (Kaledin et al., 2018). According to Gherghina et al. (2020), 768 922 listed SME establishments in Bangladesh make up 90% of all businesses, 80% of industrial employment, around 25% of the labor force, and over 45% of the country's manufacturing value-added. They discovered that the complexity of the law may have an impact on taxpayers' capacity to comply with VAT regulations as it relates to

Bangladeshi SME compliance. They discovered that because of the complexity of the tax system, some businesses (those with the resources to do so) may engage specialized tax professionals to help them with complex tax planning in an effort to lower their tax responsibilities. Furthermore, they discovered that non-compliance may be influenced by unfavorable opinions about how taxes are spent and government policies. Perceptions of tax officers as being unfair, dishonest, and abusing their discretionary power are among the other factors that have a detrimental impact on compliance. Bangladesh was placed 18 in Asia and 65 in the globe in the tax loss rating. According to the National Board of Revenue (NBR 2018), BDT (Bangladeshi Taka) 251.94 billion was the targeted income tax and travel tax, while BDT 206.4596 billion was collected by the NBR. As of November 2017, the difference between the targeted and collected income tax collection was BDT 45.4804 billion.

SMEs in Malaysia may be liable to income tax as corporate taxpayers (incorporated firms) or as individual taxpayers (unincorporated enterprises), depending on the type of company establishment (Ng, Lee & Wong, 2020). The ITA 1967, which has nearly identical tax regulations, governs the taxation of both individual and corporate businesses. Legal requirements for business taxpayers include filing an accurate and complete annual tax return, maintaining adequate records and paperwork, and adhering to other tax-related obligations. Businesses must also put the Scheduler Monthly Tax Deduction Scheme into effect and provide specific returns on behalf of their employees. Companies that are liable to indirect tax must also abide by all rules stipulated in the relevant statutes. Businesses must also pay state and local taxes, such as property taxes and other business permits and licenses, in addition to the federal government's direct and indirect taxes. It is mandatory in nature to adhere to the

aforementioned regulatory standards (Nawawi & Salin, 2018). The research findings on social tax policy and compliance level, encompassing 62 social groups in Malaysia, indicate that appropriate communication regarding the purpose of a particular tax and its long-term benefits to citizens is necessary. What taxpayers receive in direct exchange for their tax payments—publicized services—is the primary source of concern (Frazer, Winkelman & D'Amico, 2019).

1.1.2 Regional Perspective

The annual loss to African nations exceeds \$50 billion, making it more difficult for the government to collect taxes (Fiawoo, 2018). The fact that most African countries' tax percentage of GDP either lowers or stays at the same level raises considerable concerns because the continent is notorious for having behavioral problems when it comes to paying taxes (Olaniyi & Akinola, 2020).

Like many developing nations in sub-Saharan Africa, Zambia continues to levy taxes at a relatively modest rate; on average, its tax to GDP ratio is 14%, which is within the range of 10–20% that many developing nations levy. However, this ratio is much lower than the 30–40% of GDP that modern nations are able to collect (Pemstein, Seim & Siwale, 2019). Like many developing nations, Zambia has obstacles and traits that make it challenging to bring in larger amounts of money. Numerous socially-focused interventions have been demonstrated to be more cost-effective than enforcement procedures and to increase compliance even in inadequate institutional environments (Girón et al., 2021). Businesses that meet the MSME5 criteria are categorized as small taxpayers and are thought to be in the informal sector under Zambia's tax code. Six Low tax compliance among businesses that choose to reside in the informal sector is one of its distinguishing characteristics, yet this opinion is

currently being reexamined in light of the discovery that workers in the informal sector are paying several user fees and taxes (Resnick, 2018).

Sub-Saharan Africa (SSA) has rules like a high penalty rate and more frequent tax official inspections. However, low tax evasion and avoidance (high compliance) do not reflect this (Kamasa, Adu & Oteng-Abayie, 2019). Despite numerous governmental initiatives aimed at increasing income generation, the GDP and tax revenue have not increased steadily. By the end of 2003, the SSA's tax income to GDP ratio was 14.32%. By the end of 2004, this percentage had increased to 14.81%. By the end of 2008, this had continued and improved even more to 17.95%. After that, food has been a significant issue as the ratio has been declining overall, with a low of 15.79% by the end of 2013. According to Fenochietto and Pessino (2013), the average tax effort for Sub-Saharan Africa was 0.71, with the bulk of the countries having tax efforts that were lower than this average. Nigeria and Guinea-Bissau made the least amount of tax effort—0.39 and 0.39, respectively. Only a few nations were able to reach a tax effort of According to Kamasa, Adu, and Oteng-Abayie (2019), they are Mozambique (0.85), Namibia (0.91), Malawi (0.98), and Zambia (0.98). The likelihood of tax compliance is lower among those who think their ethnic group is unfairly treated by the government, according to studies done in South Africa and Tanzania.

According to Malawi revenue collection reports from 2011 to 2017, around 52,000 SMEs account for approximately 30% of all tax receipts in Malawi (Badiane, et al, 2018). Tax administration in Malawi has put in place a number of techniques as either treatments for reasons that favor SME non-compliance or as deterrents to reduce the risks connected with non-compliance. These consist of taxpayer education, the

removal of fines for voluntary underpayment disclosures, the use of electronic fiscal devices (EFDs) as a risk management innovation, and system modernization. There hasn't been much of an influence because SMEs are a dangerous group because they are numerous and challenging to manage. In addition, they face difficulties with formal education and managerial skills, financial availability, technical know-how, and the incapacity to learn new skills and utilize modern technologies (Nanthuru, Pingfeng & Guihua, 2017). In addition, SMEs have trouble obtaining financing and maintain inadequate records of their commercial dealings that leave no audit trail (Simba, et al 2023). The overall compliance level of SMEs in Malawi is still below 30%, despite all the efforts made by the tax administration to improve tax compliance (Ligomeka, 2019).

1.1.3 Local Perspective

In Kenya, the Micro Small and Medium Enterprises provided on the measurement factors implied based on the number of employees and annual turnover. The qualification criteria were based on business employing ten to fifty employees with a yearly turnover of 500,000 to 5 million Kenyan Shillings (Chiira, Odunga & Koske, 2021). The term small scale businesses integrate a wide mix of meaning and its definition varies from state to state based on the standard of reporting. According to Mambori (2020), small scale traders are suppliers, institutions, or businesses with less than a particular amount of sales that fall below a specific taxation threshold and operate in a formal or informal arrangement with minimal planning. Urban small- and medium-sized businesses, as well as the formal and informal economies, depend heavily on small-scale business owners. In Kenya, small and medium-sized enterprises (SMEs) are seen as the main forces behind social and economic

advancement and are primarily acknowledged for their significant contribution to the country's tax revenue (Gituru, 2017).

In Kenya, paying taxes can be difficult for both the less educated and the more educated persons who make up the majority of taxpayers by engaging in income-generating activities (Wamuyu, 2019). Due to this, the tax compliance rate among SMEs, the majority of which are in the informal sector, is extremely low. According to Brown et al. (2017), Kenya's low compliance rate and potential for discriminatory tax treatment based on OECD tax treaty structural characteristics make it a low-income country with challenges in ensuring efficient and effective tax administration. In Kenya, SMEs confront significant challenges when it comes to taxes. Mambori (2020) observed that low sales turnover, inconsistent business operations, ownership changes, and poor record-keeping practices are all positively correlated with tax compliance among SMEs. A sizable portion of SMEs' owners are ignorant of the taxation procedures and calculations that result from their transactions.

1.2 Statement of the Problem

SMEs are crucial for economic growth, according to Amoah and Amoah (2018), since they have traditionally been the primary force behind the expansion of production and the creation of jobs in both developing and developed countries. SMEs are becoming more and more significant in developing countries because of their capacity to enhance income distribution, provide employment, lessen poverty, and boost exports, claim Amoah and Amoah (2018). It also encourages the development of industry, business, and the rural economy. SMEs are seen as important for the creation of jobs, economic expansion, and social change in Kenya. Therefore, it is crucial that SMEs adhere to governmental tax laws (Gituru, 2017).

However, due to inefficient and incompetent tax administration, Kenya was included among the nations with the lowest tax compliance (Bernard, Memba, & Oluoch, 2018). According to KRA, the majority of SMEs did not pay taxes, and the rate of tax evasion among SMEs was still quite high (Omondi, 2020). In Bungoma County, only 40% SMEs were tax compliant (KRA, 2023). By avoiding or evading taxes, tax payers failed to fulfill their obligations as they become due. Professional tax avoidance is done to lower tax burden (Kabisa, Kirwa & Atandi, 2023). Because of this, it was crucial to look into the variables that affect SMEs' tax compliance in Kanduyi Sub County in order to solve the issue and ultimately close the tax gap.

Despite the aforementioned, not much research has been done to examine the sociocultural elements in Bungoma County SMEs that affect tax compliance. The study conducted in Bungoma County, Kenya by Nduruchi, Gregory, and Namusonge (2017) focused on the variables that affect small and medium-sized firms' tax compliance; however, it did not look at specific social and cultural issues. Keraro (2017) conducted study on the factors influencing tax compliance among small and medium-sized firms in the Nakuru Central Business District of Kenya. However, he was unable to precisely explore the social and cultural components of these issues. Mwaura (2019) carried out another study on the factors influencing tax compliance among small businesses in Thika Town, but it was again unable to identify the sociocultural factors. In addressing this gap, the present study proposed to determine the sociocultural determinants on tax compliance among SMEs in Kanduyi Sub County, Bungoma County, Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to determine the sociocultural determinants on tax compliance among Small and Medium Enterprises in Kanduyi Sub County.

1.3.2 Specific Objectives

The specific objectives were specified as follows:

- i. To determine the effect of culture on tax compliance among Small and Medium Enterprises in Kanduyi Sub County, Kenya
- ii. To investigate the effect of gender on tax compliance among Small and Medium Enterprises in Kanduyi Sub County, Kenya.
- iii. To assess the effect of religiosity on tax compliance among Small and Medium Enterprises in Kanduyi Sub County, Kenya.
- iv. To examine the effect of educational level on tax compliance among Small and Medium Enterprises in Kanduyi Sub County, Kenya.

1.4 Research Hypothesis

The study tested the following hypotheses:

- H₀₁:** There is no significant relationship between culture and tax compliance among Small and Medium Enterprises in Kanduyi Sub County, Kenya.
- H₀₂:** There is no significant relationship between gender and tax compliance among Small and Medium Enterprises in Kanduyi Sub County, Kenya.
- H₀₃:** There is no significant relationship between religiosity and tax compliance among Small and Medium Enterprises in Kanduyi Sub County, Kenya.

H₀₄: There is no significant relationship between educational level and tax compliance among Small and Medium Enterprises in Kanduyi Sub County, Kenya.

1.5 Significance of the Study

The results of this research could help the KRA devise plans for enhancing tax compliance among SMEs, especially those in Kenya's Kanduyi Sub County. This is because the management of KRA would be able to understand the social and cultural factors that might be affecting the compliance levels of SMEs. With this understanding therefore, the management of KRA would have a chance to reach out to the specific SMEs and educate them on the importance of paying taxes while also addressing the social and cultural barriers that will be identified in this study.

The study would provide policy implications that would align with the findings of the study. Therefore, policymakers in Kenya and especially those who make policies on matters tax and tax compliance would adopt the study findings and recommendations to formulate best policies regarding tax compliance among SMEs and in line with their social and cultural settings. The policy makers would therefore not just make policies blindly, but with a better understanding of the implications of the policies they make. They might also be able to come up with policies that touch on the social and cultural aspects of the SMEs.

Finally, the study might make contributions to the knowledge on the sociocultural determinants of tax compliance among SMEs. Therefore, the study would act to provide rich empirical on this topic. Future researchers and scholars can therefore find the study to be useful since they might have better references for their studies. The study will also provide more supporting evidences to existing theories on tax

compliance and social cultural determinants which will be useful to future scholars and researchers.

1.6 Scope of the Study

The study was conducted among SMEs in Kanduyi Sub County, Bungoma County, Kenya. The study was hence limited to SMEs operating in Kanduyi Sub County. Given that the SMEs in the area had been having trouble complying with tax laws, this location was chosen. From July 2023 to December 2023 was the study's duration. Descriptive and inferential analysis were used to examine the data that was gathered from SMEs' owners or managers using a questionnaire.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The contents of the chapter were the description of the study concepts, the theoretical review and the empirical review. The conceptual framework was also presented as well as the critique of literature review. Finally, a table showing a summary of literature review was provided.

2.2 Study Concepts

The term "sociocultural" describes a broad range of social and cultural factors that have an effect on a population group's attitudes, values, beliefs, behaviors, and relationships. The social-cultural approach considers the ways in which individuals engage with their social groups and the ways in which these groupings impact individuals' lifelong changes. Any group that the person is a member of can be considered their social group, and most people are involved in several distinct social groups. These include of educational levels, racial and gender groups, and religious affiliations. Cultural attributes are enduring patterns of learned behaviors shared by a country, a society. These are demonstrated by attitudes, values, ideas, behaviors, and symbolic representations. This study narrowed n=down to culture, gender, religiosity and educational level as the socio-cultural dimensions that could influence tax compliance.

2.2.1 Culture

Chávez and Longerbeam (2023) define culture as the outcome of the combined incorporation of background information, traditions, beliefs, norms, values, behaviors, attitudes, principles, meanings, faith, spatial relationships, universe-related

terminology, and possessions that are inherited by several individuals and handed down through the generations. Culture, according to Hofstede (2001), is the collective mental instruction that distinguishes one group or category of individuals from another. The defining achievements of human societies are patterns of feeling, thinking, and doing that are mainly learned and passed down via symbols. Artifacts are representations of these thought, feeling, and behavior patterns. According to Kayode (2022) traditional (historically derived and chosen) ideas and, most importantly, the values associated with them are the primary components of culture.

Singelis, Bond, Sharkey, and Lai (1999) distinguished between two kinds of culture: those that exist within and outside of people. The first category is known as subjective culture, or as beliefs, values, and internalized interaction patterns—what Hofstede (2001) dubbed the "software of the human mind." The second category is the environment that has been created by humans and can include anything that they have made, such as buildings and artwork. Two further differences in the definition of culture are covered by Rohner (1984). First, culture as a system of meanings is distinguished from culture as a set of actions. Second, some academics—referred to as realists—ascribe an autonomous existence to culture, while others—referred to as nominalists—see it as a product of human subjectivity.

In order to create an empirically grounded typology of cultural traits, Hofstede (2001) examined data from surveys that were carried out between 1968 and 1972 among people in various countries. Hofstede categorized nations along four dimensions—power distance, individualism/collectivism, masculinity/femininity, and uncertainty avoidance—based on the data that was collected. The degree to which a society tolerates unequal power distribution among people, institutions, and businesses is

known as Power Distance (PD). People in large Power Distance civilizations are more receptive to larger power imbalances than people in small Power Distance cultures. The idea of Uncertainty Avoidance (UA) measures the extent to which members of a society feel frightened by confusing and ambiguous conditions and attempt to avoid them. Individuals in countries with high levels of uncertainty avoidance could impose stricter regulations and show less tolerance for novel and unusual concepts and actions. Cultures associated with men tend to be more forceful, goal-oriented, and materialistic. Human relationships and caring for others are valued more highly in cultures that lean feminine. A manly culture emphasizes performance, competitiveness, assertiveness, and achievement. Feminine cultures value life quality, service, and taking care of the vulnerable. Higher tax revenues are necessary to sustain the welfare state that these less masculine-oriented societies value.

Individualism describes a loosely connected social network in which members easily transition between different social groups and take care of themselves. On the other hand, collectivism describes a close-knit social network in which persistent patterns of dependency are identified and a robust sense of collective identity is evident. In collectivist cultures, people are typically part of smaller, more cohesive, and more enduring groupings that serve similar purposes to that of friendship, family, and the workplace. In individualistic cultures, not only are the main groups that people are a part of—like their families, workplaces, and friendships—tend to be more separate from one another, but membership in each group also fluctuates more readily (Triandis 1995).

2.2.2 Gender

Men and women behave and think differently when it comes to taxes. According to reports, women comply with tax regulations to a greater extent than males do (D'attoma, Volintiru & Steinmo, 2017). Studies by D'attoma, Volintiru, and Steinmo (2017) and Puspitaningrum (2018) have shown that women are significantly more obedient than men. It was also shown that the likelihood of tax evasion is lower in women than in men. Additionally, women are more likely to view tax evasion as unethical behavior (McGee & Ross, 2014). According to most honesty games, women are more likely to act honorably (Brañas-Garza, Capraro & Rascon-Ramirez, 2018). However, there are also individuals that contest gender roles. Grosh and Rau (2017) found that men cheat considerably more than women do in a deception game, which validates gender discrepancies. They further linked these gender differences to SVO (consideration for others).

Risk-taking, in the words of Gomez-Mejia, Neacsu, and Martin (2019), is embracing the chance that the choice chosen will have unfavorable consequences. Despite the possibility of larger rewards, women don't seem to be as willing to tolerate such a bad consequence. According to a number of research, women are less willing to take risks than males (Hoang, Nguyen & Van Tran, 2019; Shropshire, et al, 2021). Through a cross-country investment experiment, Barasinska and Schäfer (2018) demonstrate that women tend to make fewer hazardous financial decisions. Furthermore, gender differences are noticeably more noticeable in wealthier countries (Falk & Hermle 2018), and there is a stronger correlation between gender and tax compliance in Europe and North America (Hofmann et al 2017).

Studies on tax compliance (Bruner, D'Attoma, & Steinmo 2017, D'Attoma, Volintiru, & Steinmo 2017; D'attoma, Volintiru & Malézieux, 2020) clearly show gender differences. These studies, along with a meta-analysis by Alm and Malézieux (2019), show that women are frequently more tax compliant than men in laboratory settings. D'Attoma et al. (2017) examined gender differences in tax evasion in the US, Sweden, UK, and Italy and found that, generally speaking, women are less likely than men to do so on a global and cultural level. However, in another study using the same data, Bruner et al. (2017) discover that although men are more responsive to an increase in the reward from a public benefit, women are more obedient than men.

2.2.3 Religiosity

Villani et al. (2019) define religiosity as an individual's level of adherence to and application of their religious principles and beliefs in their daily lives. According to one definition, religion is the degree to which a person is committed to a specific religious institution. As on Arya's (2018) assertion, an individual's religiosity is determined by the degree of obedience they possess towards their own faith. Personal moral beliefs and religiosity are related, but moral beliefs derived from religion are different (Villani et al., 2019). Arya (2018) provides an additional definition of religiosity, which is "the degree to which a person is devoted to the religion he follows and its precepts, such that personal attitudes and actions demonstrate this dedication." Stated differently, the implication is that while an individual's religion may be visible to others, only they themselves can determine how deeply religious they are. Similar to habit, religiosity can be used to regulate and manage behavior, which improves social predictability and helps people feel safer and more at ease in unpredictable situations (Arya, 2018).

Glock (1962) distinguished five (five) dimensions of religion. The last component of conduct is made up of the preceding four dimensions, which include religious practices, beliefs, experiences, and knowledge. Identity (close engagement), Statuses (social roles), Affiliation (adherence), Community (congregation and collectivity), and Deity (relation to the divine) are the five aspects identified by Vaillancourt (2008). Even so, it remains challenging to gauge each person's level of religiosity because it depends on a variety of factors, including the religion itself, culture, socioeconomic status, and more. Hill and Hood (1999) wrote a book about this subject, focusing on the measurement of religiosity from a western perspective. In this book, he groups measurements using a variety of categories, including beliefs and practices, religious attitudes, religious orientation, religious development, religious commitment and involvement, religious experience, and moral values.

It appears that religiosity is a multifaceted notion that encompasses not just observable attitudes and behaviors but also unobservable experiences, feelings, and beliefs. Prior research indicates that there are two main perspectives on religiosity: religious affiliation and religious commitment (Aman, et al, 2021). "Religious affiliation" refers to a person's practice of one of the following religions: Buddhism, Christianity, Islam, Hinduism, or Islam. Religion is the carrier of intricate subcultures and group social heritage items that are pertinent to nearly every stage of human existence. Individual behavior might therefore be influenced differently by the historical values of various religious affiliations. There are two categories of religious commitment: interpersonal religiosity, which arises from participation in religious groups or organizations, and intrapersonal religiosity, which derives from personal views and attitudes (Utama, et al., 2022).

2.2.4 Educational Level

The greatest grade that a person can achieve at the most advanced level in a country's educational system is considered their degree of educational achievement, according to the Organization for Economic Cooperation and Development (OECD) (2003). The greatest degree of education attained by an individual is known as educational attainment. It can also be defined as the greatest degree of knowledge that a person has acquired in a given discipline in accordance with the nation's educational system. However, Fafunwa and Aisiku (2022) define education as what one generation imparts to the next in order to help them acquire the necessary knowledge, abilities, attitudes, and other behavioral traits that are important for the development of the community in which they live.

Generally speaking, education is a tool used to help people improve in their cognitive, emotional, psychomotor, and psychoproductive domains. This is accomplished through the process of teaching and learning (Jalil & Remali, 2021). However, research has shown that there is a varied correlation between education and tax compliance. Although there were positive correlations, there were also negative correlations reported between education and tax compliance, which can be attributed to the fact that greater fiscal literacy increases the likelihood of tax avoidance and evasion (Defitri & Fauziati, 2018). The ability of taxpayers to understand and comply with tax regulations is correlated with their level of education, as measured by demographic variables (Taing & Chang, 2021). Tan et al. (2021) have distinguished between two dimensions of education: the overall level of financial literacy and the level of proficiency with regard to tax evasion prospects. It is thought that attitudes toward tax compliance are influenced by this information.

The International Standard Classification of Education (ISCED) attempts to make education statistics comparable across countries by matching nation-specific mappings of educational attainment categories, such as vocational or technical degrees and apprenticeship programs, to their standardized international equivalents (Angrist, et al, 2020). An additional metric that is employed is average years of education, which has the benefit of providing a numerical representation of the population's degree of educational achievement. It uses four broad levels of educational attainment: post-secondary education (earning some kind of college, university, or vocational degree beyond high school), also known as "higher education" in this report; no formal schooling (less than one year of primary school); primary education (completing at least one grade of primary school); and some secondary education (no degree beyond high school).

2.2.5 Tax Compliance

According to Arya (2018), tax compliance is the aim of the taxpayer to timely report all income and deductions as accurately as possible and in compliance with all applicable laws. Tax compliance can be defined as accurately declaring income and spending in accordance with tax law regulations, guaranteeing timely payment without the involvement of tax managers from the authorities. Tax compliance is a sign of a taxpayer's intention to pay taxes as mandated by law to preserve the country's economic stability (Nguyen, 2022).

When deciding whether to comply with tax laws, taxpayers will consider the potential rewards from underreporting their income against the hazards involved (Nguyen, 2022). The relationship between a taxpayer's faith in the government and the authority's right to keep an eye on taxpayers is referred to as voluntary intention to

cooperate (Arya, 2018). Taxpayers will voluntarily intend to pay taxes when they have a high level of faith in the government. A taxpayer's eagerness to collaborate skillfully and moral commitment to further the public good are the sources of voluntary compliance. The taxpayer's confidence in the tax authorities is the main factor influencing voluntary tax compliance. Even in the absence of tax audits, taxpayers see it as a civic duty; they have faith in their activities regardless of what other people do; and they want to assist the government, fellow citizens, and the general welfare. Kenimak (2019). Because they believe paying taxes is a duty, taxpayers voluntarily pay taxes even in situations where there is little tax enforcement (Nicholson, 2019).

Using a decrease in tax rates (Tax Facilities) as a moderating factor, Dwianika and Biasini (2019) investigated the effects of financial conditions, kinds, and size on tax compliance of SMEs in Tangerang. The people living in Bintaro, South Tangerang, were SMEs. Purposive sampling was used to choose 70 SMEs as confirmed respondents out of the total. Respondents were given questionnaires to complete in order to gather data. Using techniques for multiple linear regression, the hypothesis was tested. The findings indicated that taxpayer compliance was not entirely impacted by a SME's size or financial standing. However, the kind of SME has an impact on taxpayer compliance.

A mixed-method study comprising 210 MSMEs and 10 key informants was conducted by Peprah et al. (2020) to examine the income tax administration compliance of MSMEs in Ghana's Nkwanta South District. The study found that the main and most important factors influencing MSMEs' tax compliance were high tax rates, low income levels, high household spending levels, and a lack of tax

knowledge. The survey also showed that among the challenges associated with tax administration include low institutional capacity, inadequate budget, a negative public opinion of tax payment, a lack of cooperation among tax authorities, and political interference.

Aladejebi (2018) investigated Nigerian small- and medium-business (SMEs) owners' tax compliance. Small businesses are essential to Nigeria's economy. A total of 223 SME owners answered the questionnaire that was sent, making the 250-person sample size for the study. The acquired data was analyzed using the quantitative approach. The data was analyzed using SPSS. Results indicated that compared to their male counterparts, female SME owners pay greater taxes. SME owners need to be educated on taxes.

Using knowledge from Nigeria, Vincent (2021) evaluated the tax noncompliance behavior of SMEs in Sub-Saharan Africa. A total of 392 people from all geopolitical zones in Nigeria were asked to participate in the study by filling out survey questionnaires with paper and pencil. The study's findings demonstrate that tax system complexity, tax deterrence sanctions, tax noncompliance opportunities, tax information, tax attitude and perception, and tax rate may all have a considerable influence on tax compliance behavior, even though they may not always have a substantial one. The study's main conclusion shows that certain behavioral and economic elements can effectively encourage or discourage tax compliance behavior. The study also demonstrates that tax information is one of the most important aspects impacting tax compliance; nevertheless, very little or nothing about this idea is known in the literature that is currently being published.

In Ghana, Nartey (2023) aimed to report tax compliance behavior from the demand side—tax collecting authorities—and supply side—SMEs. The study was made possible by 233 survey replies, of which 64 tax officers from the Ghana Revenue Authority and 169 SME managers were eligible. Tax compliance is positively impacted by isomorphic pressures and tax fairness, according to the study. Nonetheless, the strategic approach had negligible effect on tax compliance.

2.3 Theoretical Framework

The research was based on the Fiscal psychology model, Theory of Reasoned Action (TRA) and Theory of Planned Behavior (TPB).

2.3.1 Fiscal Psychology (Behavioural) Model

Inductive models of fiscal psychology look to taxpayer attitudes and beliefs to forecast actual behavior. The premise behind this logic is put forth by Ajzen and Fishbein (1980), who claim that attitudes are objective measures of actual behavior. Ten theoretical models are reviewed by Hessing et al. (1988), who divide them into two major categories: those that mainly concentrate on people's perceptions, attitudes, and beliefs, and those that incorporate elements of tax administration and policy. According to Lewis' tax evasion model, a profile of taxpayers who have a strong inclination to dodge taxes may be created by looking at the attitudes and beliefs of the taxpayer. Background characteristics including age, sex, socioeconomic status, education, and occupation may be included in this profile.

The behavioral perspective takes into account a range of sociological and psychological factors, such as age, gender, ethnicity, education, culture, institutional influence, peer influence, ethics, and tax morale, that may have an effect on taxpayer compliance behavior (Helhel & Ahmed, 2014). The significance of this model lies in

its prediction that tax compliance behavior is indirectly influenced by demographic characteristics, which in turn affect non-compliance opportunities and attitudes. Three primary types of drivers of individual tax compliance behavior were identified through a survey of the literature on the subject. Richardson et al. (2012) list behavioral, economic, and demographic influences as belonging to these groups. Demographic characteristics include age, gender, education level, and occupation; economic factors include income level, income source, tax rates, and penalties. Behavioral determinants include things like ethics, revenue authority contact, complexity, fairness, and peer influence. As a result, this theory served as an anchor for the study variables, explaining the relationship between each dimension and tax compliance.

2.3.2 Theory of Reasoned Action (TRA)

The Theory of Reasoned Action (TRA) holds that a person's behavioral intentions determine their conduct. Fishbein and Ajzen (1975) were the first to establish this theory in their study on intention in persons. Nonetheless, criticisms such as those made by Gentry and Calantone (2002) highlighted the theory's wide applicability in elucidating the connection between attitudes, perceived standards, behavioral intention, and actual behavior. Individual attitudes and subjective norms have an impact on widespread opinions regarding taxes (Hanno and Violette 1996).

According to the hypothesis, people's intentions can predict their behavior (Fishbein & Ajzen, 1975). The focus of TRA is on the purpose behind behavior as a precursor to actual behavior. It is believed that intentions capture the driving forces behind behavior. According to Ajzen (1991), intention reveals the degree of effort or hard work someone are willing to put forth to carry out a behavior. Finding the determinant

of behavioural intention is crucial for comprehending the actions of a certain person, such as a taxpayer (Hanno & Violette, 1996). TRA proposes that attitude toward behavior and subjective standards are two independent factors that determine intentions. According to Ajzen and Fishbein (2004), attitude refers to how well or poorly a person evaluates a specific behavior. Ajzen and Fishbein (2004) identified behavioral belief as a determinant of attitudes, entailing the assessment of the results or repercussions of a specific behavior. Attitudes are influenced by one's degree of belief in an outcome, which is measured in terms of result assessment. Subjective norms are social expectations that people feel compelled to follow, whether or not they act (Ajzen, 1991). Beliefs that form the basis of subjective norms are known as normative beliefs. Belief about a referent other or group affects normative belief. This suggests that someone attempts to do something because they believe others require them to. According to the theory of reasoned action, subjective norms have a direct impact on behavioral intention as well. Subjective norms indicate the desire to conform to significant referents in order to comply or not comply with tax laws. Hanno and Violette (1996) discovered that in the context of taxation, subjective standards had a significant and positive impact on behavioral intention. In a business simulation scenario, Bobek (1997) discovered that subjective norm had a major impact on compliance behavior. Bobek and Hatfield (2003) conducted a comparison study in Australia, Singapore, and the US and discovered that subjective norm played a significant role in explaining tax compliance behavior.

2.3.3 Theory of Planned Behavior (TPB)

As an extension of the Theory of Reasoned Action (TRA), Ajzen (1991) proposed the Theory of Planned Behavior (TPB), which contends that attitudes, subjective norms, and perceived behavioral control are the main factors influencing people's intentions

to engage in a particular behavior, which in turn influences behavioral performance (Fishbein & Ajzen 1974). The Expected Utility hypothesis (Fishbein et al., 1980) offered a number of explanatory variables that were claimed to be able to explain any human behavior, which is where the TPB got its start. In the event that this is the case, then taxpayer behavior is easily predicted, and the TPB may be able to help the tax authority predict and support taxpayer behavior.

The Theory of Planned Behavior (TPB) aims to predict an individual's intention to act in a particular manner at a specific time and place. The concept was to take into consideration every activity that a person is able to regulate. The main concept of this model is behavioral intent, which is influenced by subjective evaluations of the benefits and drawbacks of a certain outcome along with attitudes regarding the likelihood that a behavior would result in the intended outcome. The Theory of Planned Behavior (TPB) posits that an individual's decisions are shaped by three distinct cognitive processes: normative beliefs, which pertain to the normative expectations of others; control beliefs, which are beliefs regarding the presence of factors that may enable or hinder the performance of the behavior; and behavioral beliefs, which are beliefs regarding the probable consequences of the practiced behavior (Ajzen, 1991).

Generally speaking, one's impression of social pressure or subjective norms is determined by their normative beliefs, their attitude toward a particular activity is determined by their behavioral beliefs, and their perception of behavioral control is determined by their control beliefs. In general, the more positive behavior, subjective norm, and perceived control there are, the stronger the person's intention to engage in the activity in question. The TPB's behavioral determinants are intentions to

participate in that activity and perceived behavioral control over that conduct. An individual's intentions reveal their driving force. The construct is characterized as an individual's intentional plan or decision to exert effort in order to engage in a particular behavior. Perceived behavioral control is the belief held by an individual that they have control over their conduct (Fishbein & Ajzen, 1974).

Three factors are used to determine intentions. First of all, there is the attitude toward behavior, which is a person's general assessment of the behavior. Subsequently, there are the subjective norms, which comprise an individual's convictions regarding the opinions of important people regarding whether or not they should exhibit the conduct, and finally, there is the perceived behavioral norm. This measures the extent to which the individual feels in control of their actions. The components of the attitude, subjective norm, and perceived behavioral norm are all influenced by underlying beliefs. An individual's attitude is determined by their salient behavioral beliefs, which reflect the behavior's estimated likelihood of consequences. Normative beliefs, or the prominent preferences of others on the acceptability or inappropriateness of a specific behavior, give rise to a subjective norm. Perceived behavioral norms are based on beliefs about possessing the resources and opportunities necessary to do an action successfully (Ajzen, 1991).

People are more likely to engage in an activity, according to the Theory of Planned Behavior (TPB), if they believe it will lead to particular outcomes that they find valuable, if they believe others who share their values believe they should engage in the activity, and if they believe they have the means and opportunity to engage in the activity (Fishbein & Ajzen, 1974). Therefore, behavior (together with intentions) and attitudes toward behavior and subjective norms are determined by perceived

behavioral control. The shared determination of intents is simple: it is thought that people consider their degree of influence over their conduct while forming their intentions. There are two ways to think about how behavior and intention are jointly determined. The first has to do with motivation: a person with high perceived behavioral control who has made the decision to do something will just make a more effort to follow through on it than a person with low perceived behavioral control but a similar purpose. According to the second argument, an individual's inability to carry out a purpose is caused by their inability to exercise control over the conduct involved. Here, perceived behavioral control plays a "nonpsychological" function in that the lack of actual control, not the impression of control, is what leads to the inability to behave in accordance with goals (Fishbein et al. 1980).

2.4 Empirical Review

2.4.1 Culture and Tax Compliance

Subramaniam (2019) examined the ethical, moral, religious, and cultural background issues on individual voluntary tax compliance using a quantitative research approach and 200 valid questionnaire responses from respondents who are individual taxpayers in Malaysia. Multiple regression analysis was used to ascertain the influence of morality, ethics, religion, and cultural background on voluntary tax compliance among persons in Malaysia. Results indicated that cultural background had no discernible impact on an individual's tax compliance habit.

Using structural equation modeling, Sadjiarto et al. (2020) examined the variables influencing Chinese Indonesians' perceptions of tax evasion. A questionnaire survey was utilized in the study, and it was given to individual taxpayers in Surabaya, Jakarta, and Medan. Four categories of influences were identified by the research: tax

morale, traditional factors, institutional factors, and character and culture. In order to determine the impact and importance of tax expertise, a moderating variable, on tax evasion, the study looked more into it. It was discovered that perceptions of tax evasion were strongly positively influenced by character and culture.

Radzia (2020) used Hofstede's Cultural Dimensions Theory as the theoretical foundation for her investigation of the cultural impact on deliberate tax disobedience. 248 usable SME owners from Peninsular Malaysia's northern region provided data for the survey. The results show a substantial relationship between purposeful tax non-compliance and power distance, individualism, masculinity, uncertainty avoidance, and long-term orientation.

Guerra and Harrington (2023) investigated the effect of culture on tax compliance by concentrating on regional differences within a single country, Italy. Provinces from the north and south took part in a tax compliance lab experiment. In terms of average compliance rates and people's openness to changes in tax structures, the study's results showed that taxpayers in the north and south generally behaved similarly, with the exception of Salerno subjects' less receptiveness to a larger redistribution of tax revenues than did Bologna subjects. This implied that institutional explanations have greater explanatory power than culture when it comes to tax compliance.

2.4.2 Gender and Tax Compliance

D'attoma, Volintiru, and Steinmo (2017) examined gender and tax compliance in both Europe and America. The research took use of one of the biggest tax compliance trials ever carried out in a strictly regulated setting across the US, UK, Sweden, and Italy. In every country, women are notably more obedient than males, according to the survey. Additionally, similar trends held true for all of the study's participating

nations. Stated differently, there is little discernible difference between the behavior of men and women in more gender-neutral nations and more conventional societies.

D'attoma, Volintiru, and Malézieux (2020) investigated if women's greater prosociality accounts for gender variations in tax compliance. The researchers conducted a large-scale cross-national experiment in Italy, the United Kingdom, the United States, Sweden, and Romania to establish the proportion of reported income, which was used as a measure of tax compliance. Additionally, the study discovered that not all nations had more prosocial women than men. Moreover, Social Value Orientation (SVO) does not mediate the relationship between gender and tax compliance, despite the fact that women are generally more prosocial than men. The study came to the conclusion that whereas gender disparities in prosociality appear to rely on the situation, gender inequalities in tax compliance are, in fact, far more stable.

Yimam and Asmare (2020) looked into the relationship between tax compliance in Ethiopian businesses and the gender of the firm owner. The study combined survey data from 408 businesses with tax audit registry data to determine the tax compliance of businesses. The findings indicated that the gender of an enterprise's owners had a substantial impact on the enterprise's tax compliance behavior, with female-owned businesses being more likely than male-owned businesses to be tax compliant. When businesses grow in size, there is also a stronger correlation between the owner's gender and tax compliance.

The sociodemographic traits of SME enterprises were investigated by Vincent, Stevenson, and Owolabi (2023) for their impact on tax (non)compliance behavior. Information on tax non-compliance behavior and sociodemographic characteristics

was gathered from SME entrepreneurs from six geopolitical zone divisions of Nigeria using a questionnaire and survey study approach. The study's findings showed that the gender of SME owners had little bearing on their behavior regarding tax (non)compliance.

2.4.3 Religiosity and Tax Compliance

Mohdali et al. (2018) investigated the effects of religiosity on tax compliance in two Muslim-majority countries, Malaysia and Turkey, both freely and under coercion. In both countries, information was gathered from individual taxpayers using self-administered surveys. In Malaysia, respondents to the survey comprised both salaried and self-employed taxpayers; in the Turkey study, the survey was limited to self-employed taxpayers. A descriptive study was conducted to find out more about the backgrounds of the respondents from both countries. An analysis of the religiosity levels in the two countries revealed that the mean for highly religious people in Malaysia was somewhat higher than the mean for those in Turkey. Overall, there seemed to be a significant difference between the populations in both countries that were very and not so religious. The results of the t-test indicate that taxpayers in both nations with different levels of religiosity have statistically significant attitudes toward voluntary tax compliance. Regarding mandatory tax compliance, however, there was no discernible variation among Malaysian participants with varying degrees of religiosity.

Arya (2018) carried out research to see how religion affected Sidoarjo residents' ability to comply with tax laws. One of the busiest cities in Indonesia's East Java is Sidoarjo. This study used quantitative research methods. Primary data for the study were obtained by online and direct distribution of questionnaires to resource

individuals. Three hundred correspondents in Sidoarjo, East Java, were the target of the data gathering. The outcome suggested that, in Sidoarjo, religiosity has no bearing on tax cheating. Taxpayers frequently base their compliance with tax laws on social and moral considerations.

The relationship between religiosity and tax compliance was examined by Nicholson (2019), with a focus on the effect that religiosity has on tax morale and how it affects tax compliance. The research method used in the study is interpretivist. Twenty in-depth interviews were conducted with various individuals who fit the profiles of religious leaders, small- and medium-sized business owners, and accountants. Each group was chosen to reflect the various experiences that each group has had with both religion and tax compliance, as well as the current religious landscape in New Zealand. The results showed that while most participants thought religion may increase tax compliance, the broader public had the opposite opinion. While religion may have an impact on tax compliance, this influence is thought to be weaker than that of other factors, such as civic responsibility and New Zealand's source deduction (Pay as You Earn) system.

The impact of religiosity and attitude on the intention to file taxes, as modulated by the use of electronic filing, was investigated by Hidayat et al. (2022). The study used a quantitative, analytical methodology. Structural Equation Model (SEM) measurement model with WarpPLS technique was utilized for data analysis. Runtime for the analytical tools is WarpPLS 6.0. 529 businesses that are a part of the Large Tax Service Offices 1 and 2 of the Directorate General of Taxation of Large Taxpayers Jakarta made up the study's sample. Research has demonstrated that religiosity significantly influences the intention to pay taxes.

2.4.4 Educational Level and Tax Compliance

Defitri and Fauziati (2018) looked into the relationship between tax compliance and e-filing usage and demographic factors (such age and education). The study's sample was chosen through the use of purposeful sampling, and a survey research approach was applied. Ninety taxpayer samples and questionnaires were sent in order to gather data. Multiple regression analysis was used to examine the theories. The examination of the study showed that there is no connection between tax compliance and schooling.

Kenimak (2019) investigated the effect of education level as a predictor of tax compliance among small and medium-sized firm (SME) owners on Ronald Ngala Street, Nairobi. Descriptive survey design was the research methodology employed in this study. Out of the 6000 owners of registered SMEs along Ronald Ngala Street, the survey sampled 375 respondents using a simple random sampling technique. The formulas from Yamane (1967) were used to calculate the sample size. A questionnaire was the main instrument used in the study to collect data. To examine the data, both inferential and descriptive statistics were applied. While multiple regression modeling was utilized in inferential statistics, descriptive analysis comprised mean, percentages, and frequencies. The research showed that the degree of education among SME owners along Ronal Ngala Street had an impact on their tax compliance.

Ogoun and Ekpulu (2020) investigated the connection between tax compliance in Nigeria and educational attainment. Ex post facto research approach was used in the study to determine how government spending on education improves tax compliance. The study looked at tax revenue, which is a proxy for tax compliance, and education expenditures, which is a proxy for educational attainment, over a 17-year period

(2002–2018). Based on the empirical findings, the research came to the conclusion that tax income and government spending on education are positively correlated.

Tan et al.'s (2021) investigation focused on how an individual taxpayer's ethical perception is impacted by their educational attainment, which in turn affects how they comply with tax laws. The researcher used a cross-sectional survey approach to collect data at a certain moment in time. In this study, data analysis was conducted using SPSS version 21, a statistical tool for social science. The study, which included 606 respondents from Peninsular Malaysia, demonstrates that ethical impression had a favorable effect on tax compliance behavior. The results also demonstrated a strong positive association between tax compliance behavior and ethical perception when education level was taken into consideration. It indicated that a higher degree of knowledge would improve each taxpayer's ethical perception, leading to more compliance.

By concentrating on demographic variables (gender and CGPA) and tax education—which imparts knowledge of the tax code and an ethical mindset—Jalil and Remali (2021) examined whether tax education can enhance tax compliance among undergraduate students when it comes to making tax compliance decisions. The study's population consisted of undergraduate students enrolled in Malaysian Tax I and II courses at Universiti Tenaga Nasional (UNITEN) Muadzam Campus, Pahang, between the academic years of 2018/2019 and 2020/2021. A total of 119 people answered the online questionnaire that was used for the investigation. The study found that decisions about income tax compliance are significantly influenced by CGPA. Furthermore, understanding the tax system (or how one perceives it) has a big impact on how decisions about sales tax compliance are made.

2.5 Summary of Literature Review and Research Gaps

Table 2.1: Research Gaps

Author &Year	The focus of the study	Research Gap	Focus on the current study
Subramaniam (2019)	The impact of cultural, religious, moral, and ethical factors on voluntary individual tax compliance in Malaysia	The study only concentrated on individual tax compliance while it was also conducted in Malaysia hence a geographical gap	The study focused on a corporate tax and was conducted in Kenya
Sadjiarto, et al (2020)	variables influencing how Chinese Indonesians perceive tax evasion	The study only narrowed down to the tax evasion which is a component of tax compliance hence other aspects were not studies. The study was also conducted in China hence the geographical gap	The present study studied tax compliance as a whole concept and was based in Kenya
Radzia (2020)	cultural influence on intentional tax noncompliance in Malaysia	Since the study was carried out in Malaysia, a geographical gap was revealed.	The present study was conducted in Kenya
Guerra and Harrington (2023)	the impact of culture on people's tax compliance by highlighting regional variations within Italy	The location of the study was Italy presenting a geographical gap	The study was conducted in Kenya
D'attoma, Volintiru and Steinmo (2017)	tax compliance and gender in Europe and America	The geographical location of the study was Europe and America	Present study was based in Africa and specifically Kenya
D'attoma, Volintiru and Malézieux (2020)	examined whether gender differences in tax compliance are due to higher prosociality among women	Geographically, it was done in Italy, the United Kingdom, the United States, Sweden, and Romania.	Present study was based in Kenya
Yimam and Asmare (2020)	association between tax compliance and the gender of firm owners in Ethiopian companies	The context of the study was large enterprises	The study was conducted among SMEs
Vincent, Stevenson and Owolabi (2023)	impact of SME entrepreneurs' sociodemographic traits on their tax (non)compliance behavior	The location of the study was Nigeria	The study was based in Kenya
Mohdali, et al (2018)	influence of religion on tax compliance, both voluntarily and by enforcement, in Malaysia and Turkey, two nations with a majority of Muslims	The geographical gap was presented	Was conducted in Kenya

Arya (2018)	role of religiosity towards tax compliance in Sidoarjo in Indonesia	The study was conducted in Indonesia	The study was carried out among SMEs in Kenya
Nicholson (2019)	the part religion plays in tax compliance, more especially, how religion affects tax morale, which in turn affects tax compliance	There was a geographical gap as it was conducted in New Zealand	The study location was Kenya
Hidayat, et al (2022)	effect of religiosity and attitude on tax compliant intention, moderated by the utilization of e-Filing	The location of the study was Indonesia	The study was located in Kenya
Defitri and Fauziati (2018)	effects of e-filling usage and demographic characteristics (age and education) on tax compliance	The general public was the study's target audience.	The study was carried out with SMEs in mind.
Kenimak (2019)	effects of educational attainment as a tax compliance predictor among Ronald Ngala Street SME owners in Nairobi	The location of the study was Naiorbi County	The study was conducted in Kanduyi Sub County
Ogoun and Ekpulu (2020)	link between tax compliance and educational attainment in Nigeria	The study measured education in terms of expenditure on education	Education was measured in terms of level of schooling attained
Tan, et al (2021)	How a taxpayer's level of education affects their ethical perception, which in turn affects how they behave when it comes to tax compliance	The focus of the study was on individual taxpayers	The study focused on tax on SMEs
Jalil and Remali (2021)	whether tax education can increase undergraduate students' compliance with tax laws	The target population of the study was students	The study was conducted among business people that is SME owners.

Source: (Researcher (2023))

2.6 Conceptual Framework

Figure 2.1 presents the conceptual framework for the study. The explanatory construct were culture, gender, religiosity and educational level and the outcome variable was tax compliance. The independent variables are expected to have a relationship with the dependent variable.

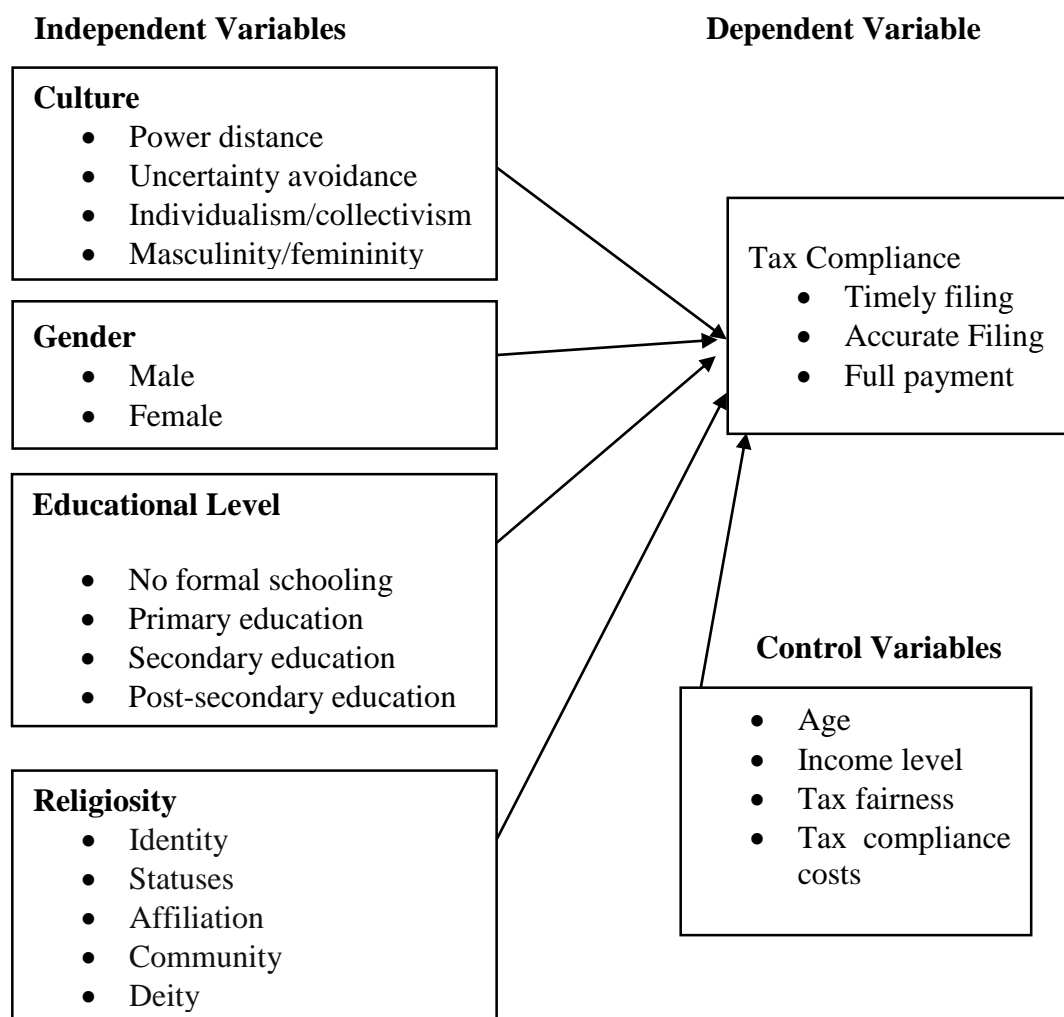


Figure 2.1: Conceptual Framework

Source: Researcher (2023)

CHAPTER THREE

RESEACH METHODOLOGY

3.1 Introduction

The contents of this chapter included the methodology adopted in the realizing the aim of the study. This included the target population, sampling design, sample size, and study design. The data gathering process, data collection tool, pilot study, validity and reliability tests, data processing, and data presentation were all covered in this chapter. Further discussion was held regarding the study's assumptions and ethical considerations.

3.2 Research Design

The research design of a scientific investigation is its blueprint. It includes the tools, processes, and techniques needed to carry out the investigation. An explanatory research design was employed in this investigation. A method known as explanatory research was developed to investigate a phenomenon that has not received enough attention or explanation. Its main objective is to provide specifics regarding the locations of a restricted amount of information. The strength of a cause-and-effect link between two items is another topic covered by explanatory research. It investigates issues without drawing a firm judgment (Swedberg, 2020). The design was therefore useful in this study as it helped to understand the SMEs in Kanduyi Sub County in relations to their social cultural characteristics and tax compliance and also leaving room for further research as it was not conclusive.

3.3 Target Population

The target population is the complete group or population that a researcher is interested in looking into and studying. In research, the target population is the entire group of units for which study data are meant to be used in order to form conclusions

(Cox, 2013). The study's target audience included every SMEs in Kanduyi Sub County. As per the Bungoma County Company Registrar (2023), Kanduyi Sub County had 254 registered small and medium-sized enterprises (SMEs). The target population for the study was therefore 254 SMEs. The respondents were the SME owners or the managers.

Table 3.1: Target Population Distribution

Sector	Number of SMEs
Services sector	215
Manufacturing	30
Agribusiness	8
Construction, mining and quarrying	1
Total	254

Source: KIPPRA (2023)

3.4 Sampling Design

Sampling design is the exact method used to choose a sample from a given population. It makes reference to the technique or procedures the researcher would employ to choose the sample objects. Employing a simple method, SMEs were chosen at random from the target demographic. This technique provided each SME with equal chance of being sampled.

3.5 Sample Size

The sample size is the number of participants in a research study that is meant to represent a population. Yamane's formula was applied to calculate the sample size for this study as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where

n = the sample size

N = the population of the study

e = the margin error in the calculation (0.05)

The sample size was therefore be calculated as follows:

$$n = \frac{254}{1 + 254(0.05^2)}$$

$n=155$

The sample size for the study was 155 SMEs.

Table 3.2: Sample Size Distribution

Sector	Number of SMEs
Services sector	131
Manufacturing	18
Agribusiness	5
Construction, mining and quarrying	1
Total	155

Source: KIPPRA (2023)

3.6 Data Collection

Data collection is the process of gathering and evaluating relevant variable data in a planned, systematic way to answer research questions, test hypotheses, and evaluate findings.

3.6.1 Data Collection Procedure

The data collection exercise commenced once a go ahead was provided by the university, and a research permit issued by the NACOSTI. After this, the researcher visited the county offices in Bungoma County and sought consent to collect data from the SMEs in the county. The researcher then recruited 9 research assistants and trained them on data collection. The 9 research assistants collected data each from one Sub County. After training the research assistants, they were provided with the questionnaires that they then distributed to the SMEs. The research assistants walked them through the data gathering exercise's ethical considerations as well as the goal of the study and data collection. The research assistants then issued the respondents with the questionnaires and requested them to fill accurately and give them a maximum of two weeks to fill them after which the research assistants picked them up. The research assistants also collected contacts of the persons to whom the questionnaires were administered which they used to contact them to check on the progress of filling in the questionnaires.

3.6.2 Data Collection Instrument

Data from the respondents was gathered using a standardized questionnaire. As a result, the questionnaire only included closed-ended inquiries. A component of the questionnaire asked questions about the respondents' and their companies' demographics, including age, size, length of operation, and annual turnover. The next sections were based on themes representing the study variables that is culture, gender, religiosity, educational level and tax compliance. A five-point Likert scales measurement levels was used in each section.

3.7 Pilot Study

The first step in the entire research process is a pilot study, which is usually a smaller-scale inquiry that helps with the design and adjustment of the major study. In, J. (2017). A pilot study was carried out in Kakamega County, which shares similarities with Bungoma County due to its border. Ten percent of the study's sample size, or fifteen people, participated in the pilot trial. The data used in the final study did not contain the data from the pilot trial. The validity and reliability of the questionnaire, as well as its appropriateness, were evaluated using the data gathered from the pilot study.

3.7.1 Validity of the Research Instrument

Validity is the extent to which an instrument performs as intended and measures what it is supposed to measure. Since an instrument's 100% validity is rare, if not unattainable, it is usually represented in terms of degrees. The process of collecting and assessing data to ascertain the accuracy of an instrument is known as validation. Numerous statistical tests and metrics are available for assessing the validity of quantitative instruments; nevertheless, the majority require pilot testing. The supervisor looked over the questionnaire to assess its appropriateness and make recommendations for improvements. Therefore, the experts' judgment approach was used to evaluate the validity of the research questionnaire used in this study.

3.7.2 Reliability of Research Instrument

Reliability is the extent to which a phenomenon's measurement produces a constant and reliable outcome (Carmines & Zeller). Another facet of reliability is repeatability. When a scale has strong internal consistency and reliability, its components are said to "hang together" and measure the same construct. The most commonly used internal consistency statistic is the Cronbach Alpha coefficient. In the context of Likert scales,

it is regarded as the most appropriate reliability metric. There are no hard and fast rules for internal consistencies, despite the consensus that an internal consistency coefficient of at least .70 is required. Therefore, in order to assess dependability, the Cronbach Alpha coefficient with a 0.7 cutoff threshold was employed. Table 3.3 presents the reliability results. Every variable displayed a Cronbach's alpha greater than 0.7, demonstrating the reliability of the survey.

Table 3.3: Reliability Test

Variable	Cronbach's Alpha
Culture	0.843
Gender	0.829
Religiosity	0.83
Education Level	0.81
Tax Compliance	0.807

Source: Research Data (2023)

3.8 Measurement of Variables

Table 3.4: Variable Measurement

Variable	Indicators	Scale	Type of Analysis
Independent Culture	<ul style="list-style-type: none"> • Power distance • Uncertainty avoidance • Individualism/collectivism • Masculinity/femininity 	Ordinal	Descriptive & Inferential analysis
Independent Gender	<ul style="list-style-type: none"> • Male • Female 	Nominal	Descriptive & Inferential analysis
Independent Religiosity	<ul style="list-style-type: none"> • Identity • Statuses • Affiliation • Community • Deity 	Ordinal	Descriptive & Inferential analysis
Independent Educational Level	<ul style="list-style-type: none"> • No formal schooling • primary education • secondary education • post-secondary education 	Nominal	Descriptive & Inferential analysis
Dependent Tax Compliance	Tax Compliance <ul style="list-style-type: none"> • Timely filing • Accurate Filing • Full payment 	Ordinal	Descriptive & Inferential analysis

Source: (Researcher (2023))

3.8 Data Analysis and Presentation

After the data was collected via the questionnaire, it was entered and coded into an excel document. The data was analyzed using the Statistical Packages for Social Sciences (SPSS). Among the methods for data analysis were inferential analysis such as regression and correlation analysis, as well as descriptive statistics such as percentages, frequencies, means, and standard deviations. Descriptive statistics were used to summarize the data, and inferential analysis was used to show how the study variables related to one another. To show the nature and strength of the relationship between the independent and dependent variables, a correlation analysis was specifically carried out. A multiple regression analysis was also performed in order to assess the research hypotheses and show how the independent and dependent variables relate to one another.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y stands for the dependent variable Tax compliance

X₁ stands for independent variable culture

X₂ stands for independent variable Gender

X₃ stands for independent variable religiosity

X₄ stands for independent variable educational level

β₁, β₂, β₃, β₄ represent the coefficients that will be estimated

β₀ is the constant

ε is the error term

3.9 Assumptions of the Study

Regression analysis holds onto several assumptions which include: linearity, homoscedasticity, normality and absence of multicollinearity among the variables. These assumptions were therefore tested before conducting the multiple regression analysis as follows.

3.9.1 Linearity

When a regression is said to be linear, it indicates that the relationship between the predictor and result variables is straight-line. Linearity is assured if the residuals are homoscedastic and regularly distributed. Scatter plots were used to determine linearity.

3.9.2 Homoskedasticity

The homoskedasticity was assessed using the Breusch–Pagan test. It is used to test for heteroskedasticity in a linear regression model and assumes that the error components are normally distributed. The null hypothesis (H_0) is homoscedasticity, or the equal variance distribution of the residuals. If the test's p-value is less than a predetermined level of significance, we conclude that the regression model has heteroscedasticity and reject the null hypothesis.

3.9.3 Normality

The study used the Shapiro-Wilk test of normalcy to assess normalcy statistically. The test's null hypothesis, that the observed data was not likely to have come from a normal distribution, is supported by a low p-value.

3.9.4 Multicollinearity

Multicollinearity is the term used to describe a significant connection between the predictor variables. Values for the variance inflation factor (VIF) were utilized to test

for multicollinearity. The Variance Inflated Function (VIF) calculates the extent to which the predicted regression coefficients' variance is higher than it would be if the predictor variables lacked linear correlation. When the VIF score is more than 10, multicollinearity is present.

3.10 Ethical Considerations

Being ethical when conducting research is beneficial since it ensures that no one is hurt or suffers adversely as a result of the research (Mugenda & Mugenda, 1999). The researcher treated the data with the utmost care and received an introductory letter from the institution to ensure ethics. These are crucial, especially when conducting research, because they ensure that respondents cooperate during data collection.

The researcher wished to keep information private and confidential, and to keep the respondents' identities hidden in this regard. This was accomplished by utilizing the information obtained from the questionnaires without mentioning the respondents' individual names, and the respondents were anonymous.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

The contents of this chapter include the presentation of the results and discussion of the various tests. The survey's response rate, reliability findings, respondent and company demographics, and the findings of descriptive statistics are all presented at the beginning of the chapter. The chapter further presents the assumptions of regression results, correlation and regression analysis and the hypotheses test results. Finally, the chapter provides a discussion of the key findings under subsections reflecting the study objectives.

4.2 Response Rate

Figure 4.1 shows the response rate for the study.

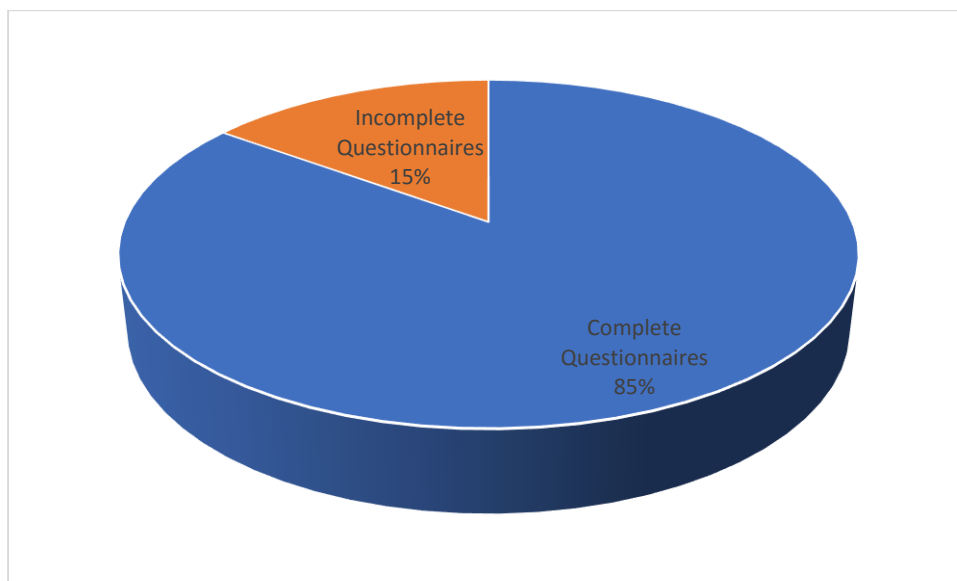


Figure 4.1: Response Rate

Source: Research Data (2023)

Of the 155 questionnaires distributed to the sampled SMEs in Kanduyi Subcounty, Bungoma County, those that were properly filled, completed and returned represented 85%. According to Baruch (1999), the average and also reasonable, acceptable response rate is 60%. For the study, this 85% response rate was deemed sufficient.

4.3 Demographic Characteristics

4.3.1 Age of Respondents

The respondents were asked to indicate their age bracket at the time of the study.

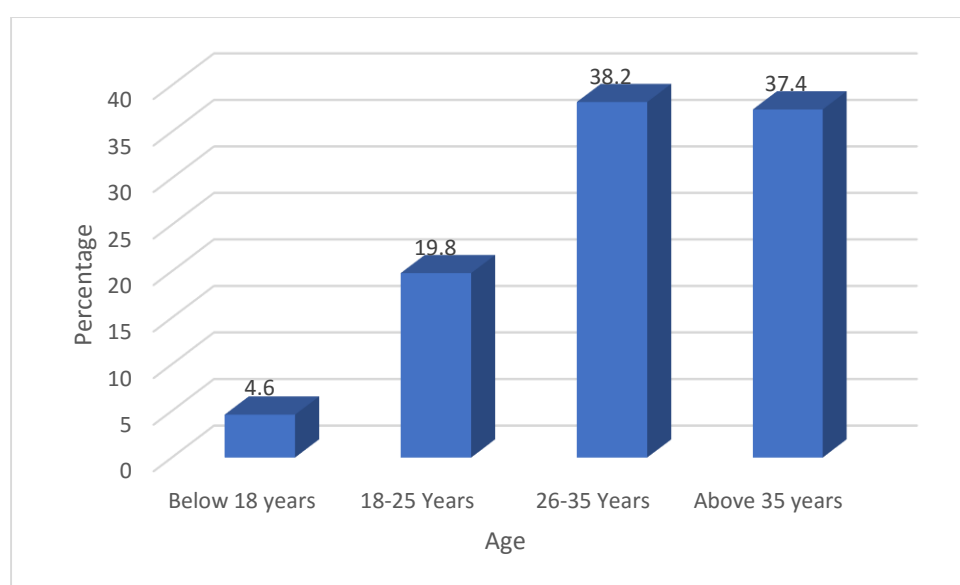


Figure 4.2: Age of Respondents

Source: Research Data (2023)

From the results shown in Figure 4.2, it was evident that most of the respondents were aged 26-35 years and this represented 38.2% while those aged above 35 years followed closely at 37.4%. The respondents who were aged 18-25 years represented 19.8% and only 4.6% of the respondents were aged below 18 years. This means that most of the SMEs owners and or managers in Kanduyi Subcounty Bungoma County were aged above 25 years. This could be explained as the age when most people are

done with basic education and have obtained the necessary training hence are ready to start businesses.

4.3.2 Number of Employees

The responses for the number of employees in the SMEs are shown in Figure 4.3.

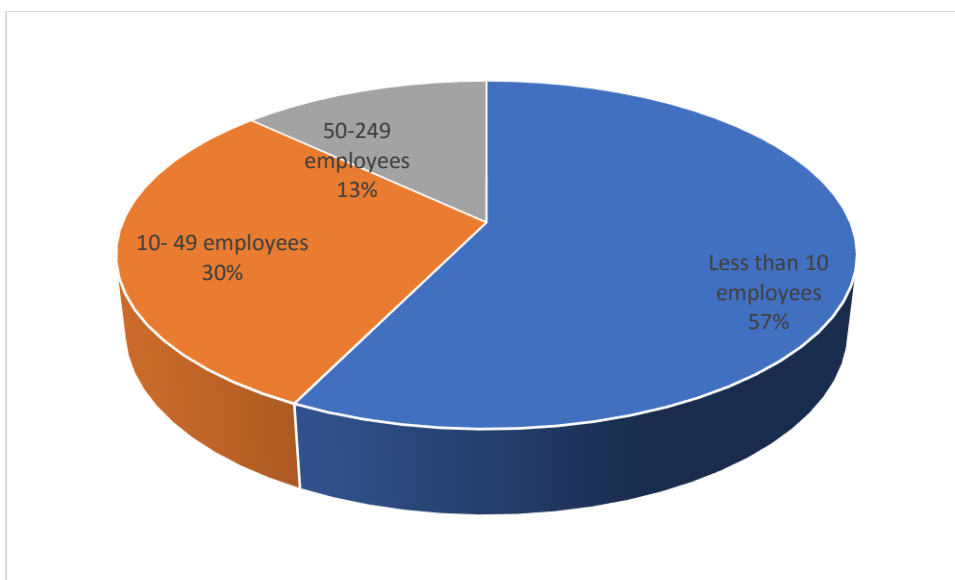


Figure 4.3: Number of Employees

Source: Research Data (2023)

Results revealed that slightly above half of the SMEs in Kanduyi Subcounty Bungoma County have employed less than 10 employees. Those with 10-49 employees in their businesses represented 30% and only 13% had between 50 and 249 employees. This could imply little growth among the SMEs.

4.3.3 Duration Business been in Existence

The results in Figure 4.4 show the number of years that the SMEs in Kanduyi Subcounty, Bungoma County had been in existence.

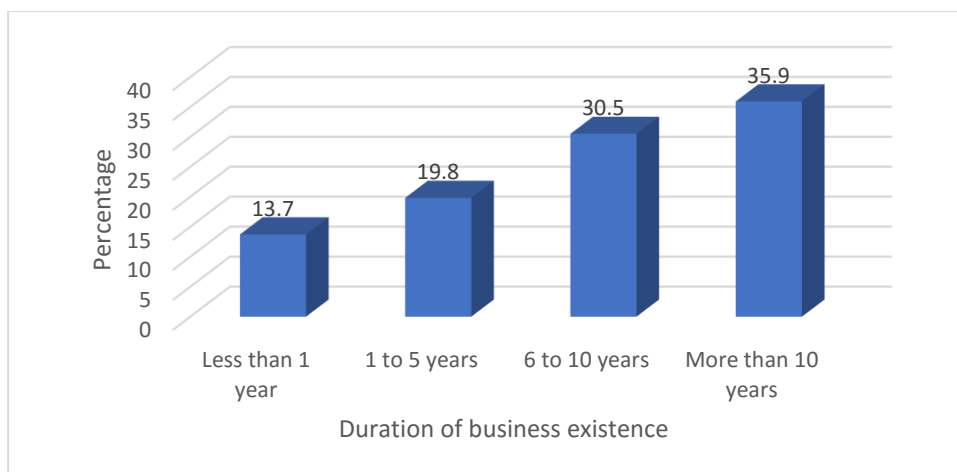


Figure 4.4: Duration Business has existed

Source: Research Data (2023)

The findings showed that 35.9% of the SMEs had been operational for more than 10 years, 30.5% had existed for 6-10 years, and 19.8% had been in existence for between 1 and 5 years and only 13.7% had existed for less than 1 year. This demonstrates that the majority of the companies had been in operation for long enough to have a sufficient understanding of the applicable tax laws and, as a result, be able to offer reliable information.

4.3.4 Annual Turnover

Figure 4.5 shows the annual turnover of the SMEs in Kanduyi Subcounty, Bungoma County.

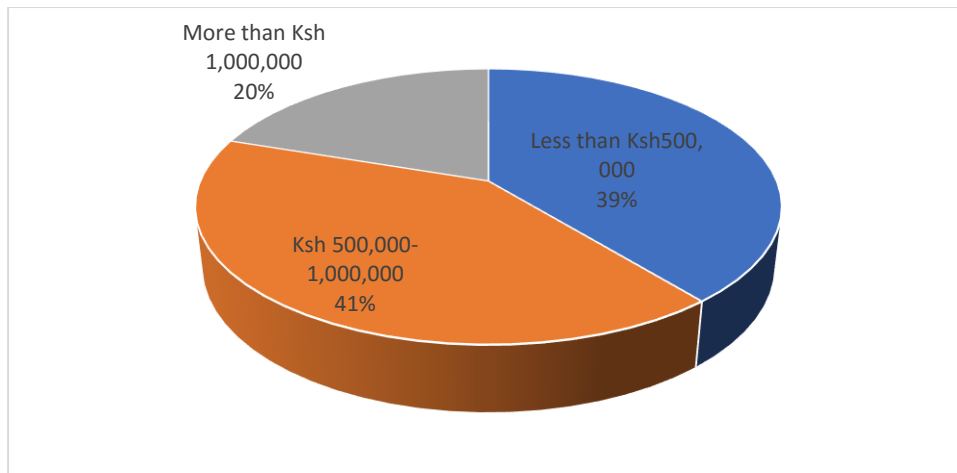


Figure 4.5: Annual Turnover

Source: Research Data (2023)

According to the results, over half (41%) of the SMEs had an annual revenue of Ksh 500,000 to Ksh 1000000, with 39% of them falling into the same category. Those which had managed an annual turnover of more than ksh 1,000,000 were only 20%. This could imply an underperformance among the businesses.

4.4 Factor Analysis

Exploratory factor analysis was conducted to determine the number of represented by the statements and the results were indicated in Table 4.1.

Table 4.1: Factor Loadings

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.304	19.562	19.562	4.304	19.562	19.562	2.238	10.173	10.173
2	1.558	7.081	26.643	1.558	7.081	26.643	2.191	9.959	20.133
3	1.404	6.381	33.024	1.404	6.381	33.024	2.126	9.662	29.795
4	1.341	6.096	39.12	1.341	6.096	39.12	2.052	9.325	39.12
5	1.194	5.428	44.548						
6	1.182	5.371	49.918						
7	1.108	5.036	54.955						
8	1.039	4.724	59.679						
9	0.956	4.344	64.022						
10	0.899	4.089	68.111						
11	0.871	3.961	72.072						
12	0.831	3.777	75.849						
13	0.756	3.438	79.288						
14	0.695	3.158	82.446						
15	0.63	2.865	85.311						
16	0.595	2.707	88.017						
17	0.535	2.43	90.448						
18	0.505	2.298	92.745						
19	0.446	2.029	94.774						
20	0.413	1.876	96.65						
21	0.383	1.741	98.39						
22	0.354	1.61	100						

Extraction Method: Principal Component Analysis.

Source: Research Data (2023)

The factor loadings showed that the statement loaded strongly onto four factors that represented culture, gender, religiosity and educational level.

4.5 Descriptive Analysis

4.5.1 Culture

The analysis of the descriptive statistics for the indicators of the variable culture was conducted and the percentages, mean and standard deviation provided in Table 4.2.

Table 4.2: Descriptive Statistics for Culture

Statements	Strongly disagree	Disagree	Not sure	Agree	Strongly Agree	Mean	Std. Dev.
In my society, followers are expected to obey their leaders without question	7.60%	10.70%	13.70%	30.50%	37.40%	3.79	1.26
In my society, power is concentrated at the top	5.30%	12.20%	9.20%	27.50%	45.80%	3.96	1.24
My society places a high value on uniformity and order, even at the sacrifice of creativity and experimentation.	8.40%	3.80%	13.70%	32.10%	42.00%	3.95	1.21
In my society, societal requirements and instructions are spelled out in detail so citizens know what they are expected to do.	7.60%	11.50%	12.20%	22.90%	45.80%	3.88	1.31
In my society, leaders encourage group loyalty even if individual goals suffer	5.30%	10.70%	13.00%	25.20%	45.80%	3.95	1.23
The economic system in this society is designed to maximize collective interests	5.30%	8.40%	16.00%	29.00%	41.20%	3.92	1.18
People will achieve organizational goals without being pushed.	8.40%	6.10%	15.30%	32.10%	38.20%	3.85	1.24
Overall						3.90	1.24

Source: Research Data (2023)

According to the analysis, the majority of respondents (Mean=3.79, standard deviation=1.26) said that followers in their culture are expected to follow leaders without inquiry. In a similar vein, most respondents (Mean=3.96, standard deviation=1.24) concurred that power is concentrated at the top in their society. Similarly, it was found that the majority of respondents believed that order and consistency are valued in their culture, even at the price of creativity and experimentation (Mean =3.95, Standard deviation =1.21). It also revealed that the majority of respondents agreed that social norms and guidelines are clearly stated in their culture so that people are aware of what is expected of them (Mean =3.88,

Standard deviation =1.31). Furthermore, the majority of respondents (Mean =3.95, Standard Deviation =1.23) felt that leaders in their society promote group loyalty even at the expense of individual aspirations. Additionally, the data showed that most respondents (Mean =3.92, Standard deviation =1.18) agreed that the goal of their society's economic system is to maximize communal interests. Lastly, it was noted that a majority of respondents—Mean = 3.85, Standard deviation = 1.24—agreed that individuals will accomplish organizational goals without coercion. The variables' respective overall means and standard deviations were 3.90 and 1.24.

This suggested that the majority of respondents agreed with the cultural statement. The study's conclusions supported those of Guerra and Harrington (2023), who discovered that, with the exception of subjects in Salerno being less responsive to a larger redistribution of tax revenues than those in Bologna, taxpayers in different cultures generally behaved similarly in terms of average compliance rates and individual sensitivity to changes in tax structures.

4.5.2 Gender

The results in Figure 4.6 revealed that majority of the respondents (59%) were male while 41% were female. This revealed that most of the SMEs in Kanduyi Subcounty, Bungoma County are owned or managed by men. This shows a small disparity in terms of ownership and management of SMEs. This may also have an effect on how decisions about tax compliance is made.

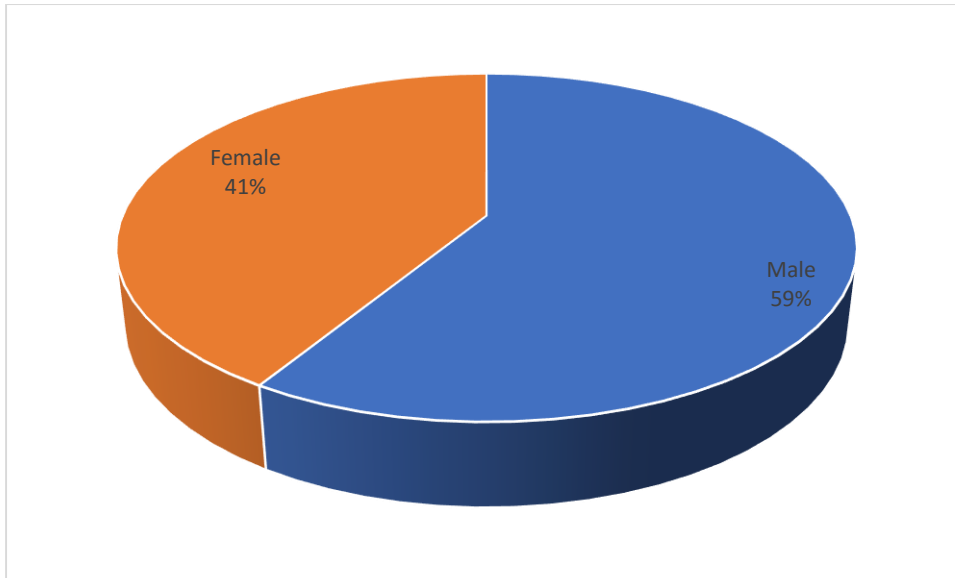


Figure 4.6: Gender of Respondent

Source: Research Data (2023)

The analysis of the descriptive statistics for the indicators of the variable gender was conducted and the percentages, mean and standard deviation provided in Table 4.3.

Table 4.3: Descriptive Statistics for Gender

Statements	Strongly disagree	Disagree	Not sure	Agree	Strongly Agree	Mean	Std. Dev.
Honest behavior is more common among women.	2.30%	11.50%	10.70%	34.40%	41.20%	4.01	1.09
Despite the possibility of larger gains, women were less willing to accept bad outcomes.	5.30%	6.90%	13.70%	34.40%	39.70%	3.96	1.14
Less financially risky decisions are made by women.	2.30%	8.40%	7.60%	33.60%	48.10%	4.17	1.04
Men are more likely to cheat than women	3.80%	3.10%	8.40%	35.10%	49.60%	4.24	1.00
Men are more responsive to an increase in the pay-off from a public good.	3.10%	8.40%	16.80%	42.70%	29.00%	3.86	1.03
Overall						4.05	1.06

Source: Research Data (2023)

According to the analysis, the majority of respondents (Mean=4.01, standard deviation=1.09) believed that women are more likely to behave honorably. In a similar vein, most respondents (Mean=3.96, standard deviation=1.14) agreed that women appear less willing to tolerate unfavorable outcomes despite the possibility of larger returns. Similarly, it was found that the majority of respondents believed women to be less inclined to take financial risks. (Standard deviation = 1.04, mean = 4.17). Furthermore, the majority of respondents (Mean = 4.24, Standard Deviation = 1.00) believed that men are more prone than women to cheat. Lastly, it was shown that men are more receptive to an increase in the payoff from a public good, according to more than half of the respondents (Mean = 3.86, Standard deviation = 1.03). The majority of respondents agreed with the gender claims, as indicated by the overall mean of 4.05 and the standard deviation of 1.06. This was in line with a 2017 study by D'attoma, Volintiru, and Steinmo, which found that women are consistently more obedient than men across all nations. Contrary to D'attoma, Volintiru, and Malézieux's (2020) findings, which showed that women are not more prosocial than men, the study's conclusions.

4.5.3 Religiosity

The responses for the religion to which the respondents belonged revealed that majority of the respondents were Christian representing 77%, Muslims were represented by 18% of the respondents and only 5% were Hindu. This implied that most of the owners and managers of SMEs in Kanduyi Subcounty, Bungoma County are Christian. This may have an impact on how tax compliance is among the SMEs as regards their beliefs. The responses were presented in Figure 4.7.

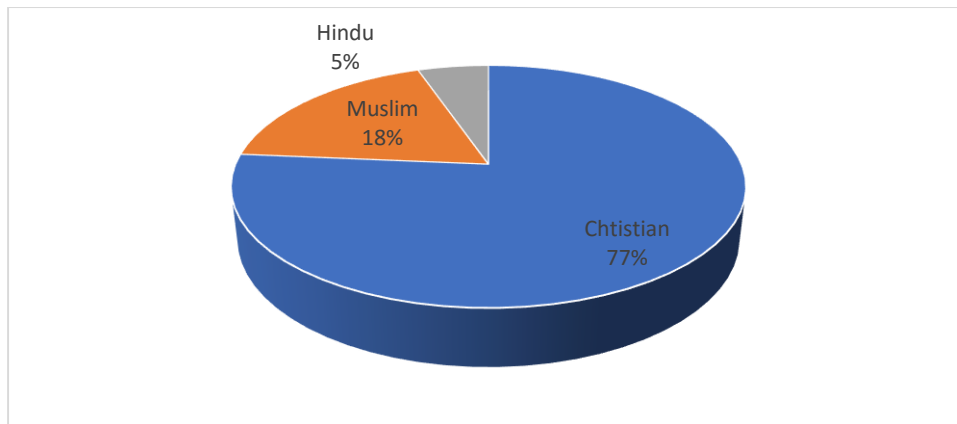


Figure 4.7: Religion of Respondent

Source: Research Data (2023)

The descriptive analysis of the indicators for religiosity was done and the results shown in Table 4.4.

Table 4.4: Descriptive Statistics for Religiosity

Statements	Very Poor	Poor	Fair	Good	Excellent	Mean	Std. Dev.
Intimate involvement	6.10%	13.00%	16.00%	30.50%	34.40%	3.74	1.23
Social roles	2.30%	5.30%	20.60%	29.00%	42.70%	4.05	1.03
Adherence	3.10%	3.80%	13.70%	33.60%	45.80%	4.15	1.00
Congregation and collectivity	3.80%	7.60%	18.30%	29.00%	41.20%	3.96	1.12
Relation to the divine	3.80%	3.80%	18.30%	31.30%	42.70%	4.05	1.06
Overall						3.99	1.09

Source: Research Data (2023)

According to the results, the majority of respondents were very interested in their religion, with a mean of 3.74 and a standard deviation of 1.23, suggesting that their level of involvement ranged from good to exceptional. With a mean of 4.05 and a standard deviation of 1.03 for social roles, the respondents were mostly good at their religion's social roles. Furthermore, the results demonstrated that the majority of

respondents had good religious adherence, with a mean of 4.15 and a standard deviation of 1.00 for adherence. Additionally, congregation and collectivity were found to have a mean of 3.96 and a standard deviation of 1.12, indicating that the majority of respondents had good congregating habits. Finally, the results indicated that most respondents had good to exceptional relationships with the divine, with a mean score of 4.05 and a standard deviation of 1.06. The majority of respondents agreed with the assertions about religiosity, as indicated by the overall mean of 3.99 and the standard deviation of 1.09. This was in line with Nicholson's (2019) findings, which showed that the majority of participants believed religion might positively influence tax compliance.

4.5.4 Educational Level

Regarding the education level, it was found that almost half (43%) of the respondents had acquired some secondary education, 30% had at most a primary education and 18% had a post-secondary education while just 9% had not acquired any formal schooling as shown in Figure 4.8. This revealed that most of the owners and managers of SMEs in Kanduyi Subcounty, Bungoma County had attained the basic education hence were well trained on matters entrepreneurship and also were able to understand the tax policies and hence could make decisions on tax compliance easily.

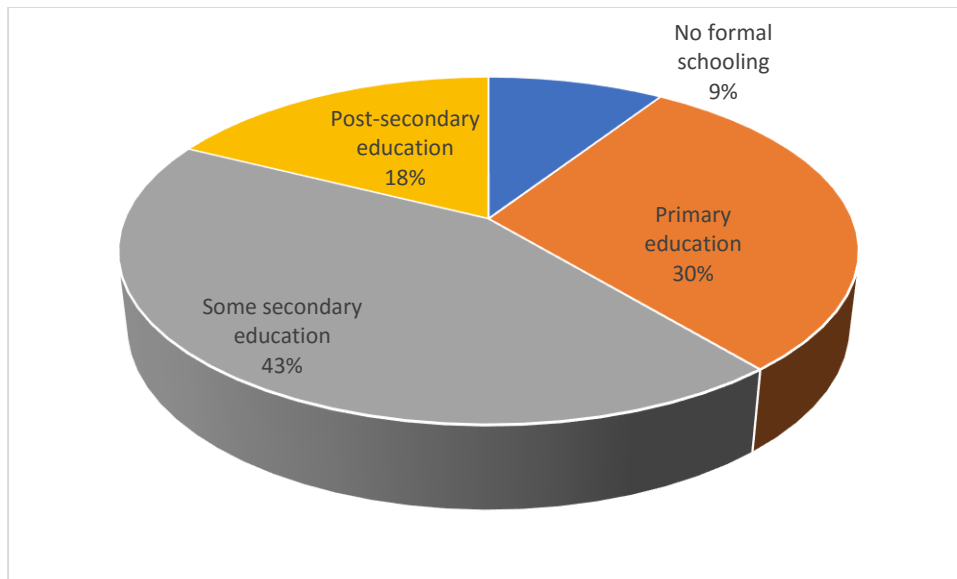


Figure 4.8: Highest Level of Education of Respondents

Source: Research Data (2023)

The analysis of the descriptive statistics for the indicators of the variable educational level was conducted and the percentages, mean and standard deviation provided in Table 4.5.

Table 4.5: Descriptive Statistics for Educational Level

Statements	Strongly disagree	Disagree	Not sure	Agree	Strongly Agree	Mean	Std. Dev.
Having a formal education is better than no formal schooling at all	5.30%	10.70%	18.30%	32.10%	33.60%	3.78	1.18
People with higher educational level have advantages over those with low education level	3.10%	7.60%	10.70%	26.70%	51.90%	4.17	1.09
People with high education level are able to understand the tax filling system better than those with low education	5.30%	5.30%	12.20%	30.50%	46.60%	4.08	1.13
Improved understanding of tax law is correlated with higher education	5.30%	7.60%	9.90%	29.00%	48.10%	4.07	1.17
A higher level of education is linked to easier access to tax avoidance information.	2.30%	6.90%	11.50%	35.10%	44.30%	4.12	1.02
Overall						4.04	1.12

Source: Research Data (2023)

According to the analysis, the majority of respondents (Mean=3.78, standard deviation=1.18) believed that attending formal education is preferable to not attending any schooling at all. Similarly, majority of the respondents agreed that people with higher educational level have advantages over those with low education level (Mean=4.17, standard deviation=1.09). Similarly, it was found that the majority of respondents believed that those with higher levels of education are better equipped to comprehend the tax filing procedure. Standard deviation = 1.13, mean = 4.08. Furthermore, the majority of respondents (Mean =4.07, Standard Deviation =1.17) believed that a greater understanding of tax law is correlated with a higher level of

education. Ultimately, it was noted that over 50% of the participants concurred that a greater level of education is linked to improved availability of information regarding tax avoidance strategies (Mean =4.12, Standard deviation = 1.02). Additionally, the overall mean and standard deviation were found to be 4.04 and 1.12, respectively, indicating that most respondents agreed with the claims regarding educational attainment. This was in line with the assertion made by an et al. (2021) that more education will improve taxpayers' perceptions of their own ethics and lead to higher compliance. It also makes sense in light of Jalil and Remali's (2021) finding that decision-making about sales tax compliance is significantly influenced by one's opinion of and familiarity with the tax system.

4.5.5 Tax Compliance

The analysis of the descriptive statistics for the indicators of the variable tax compliance was conducted and the percentages, mean and standard deviation provided in Table 4.6.

Table 4.6: Descriptive Statistics for Tax Compliance

Statements	Strongly disagree	Disagree	Not sure	Agree	Strongly Agree	Mean	Std. Dev.
I have been paying my tax obligation correctly	2.30%	8.40%	10.70%	37.40%	41.20%	4.07	1.03
I have been paying my tax obligations on time	3.80%	6.90%	11.50%	42.70%	35.10%	3.98	1.05
I have no problem in complying to my tax obligations	3.10%	6.10%	4.60%	49.60%	36.60%	4.11	0.96
I am fully satisfied with all tax requirements imposed on my business	3.80%	8.40%	9.90%	42.70%	35.10%	3.97	1.07
I honestly declare earnings in my tax filing	1.50%	5.30%	4.60%	55.70%	32.80%	4.13	0.85
Overall						4.05	0.99

Source: Research Data (2023)

The analysis revealed that majority of the respondents agreed that they have been paying their tax obligation correctly (Mean=4.07, standard deviation=1.03). Similarly, majority of the respondents agreed that they have been paying their tax obligations on time (Mean=3.98, standard deviation=1.05). In a similar manner, it was revealed that most of the respondents opined that they have no problem in complying with their tax obligations (Mean =4.11, Standard deviation =0.96). Further, according to the responses, majority of respondents agreed that they are fully satisfied with all tax requirements imposed on their business (Mean =3.97, Standard Deviation=1.07). In conclusion, it was shown that over 50% of the participants affirmed that they accurately report their income on their tax returns (Mean = 4.13, Standard deviation = 0.85). The statements' average was 4.05 overall, with a 0.99 standard deviation. This implied that the majority of respondents agreed with the claims made on tax compliance. This was consistent with Vincent's (2021) findings, which showed that certain behavioral and economic elements might effectively encourage or discourage tax compliance behavior. It was also in line with Nicholson's (2019) claim that, due to their inherent incentive originating from the belief that paying taxes is a duty, taxpayers voluntarily pay taxes even in the face of lax tax enforcement.

4.6 Assumptions

4.6.1 Linearity Test

Linearity was assessed using scatter plots and it was observed that the linearity was present among the predictors and outcome variable as below.

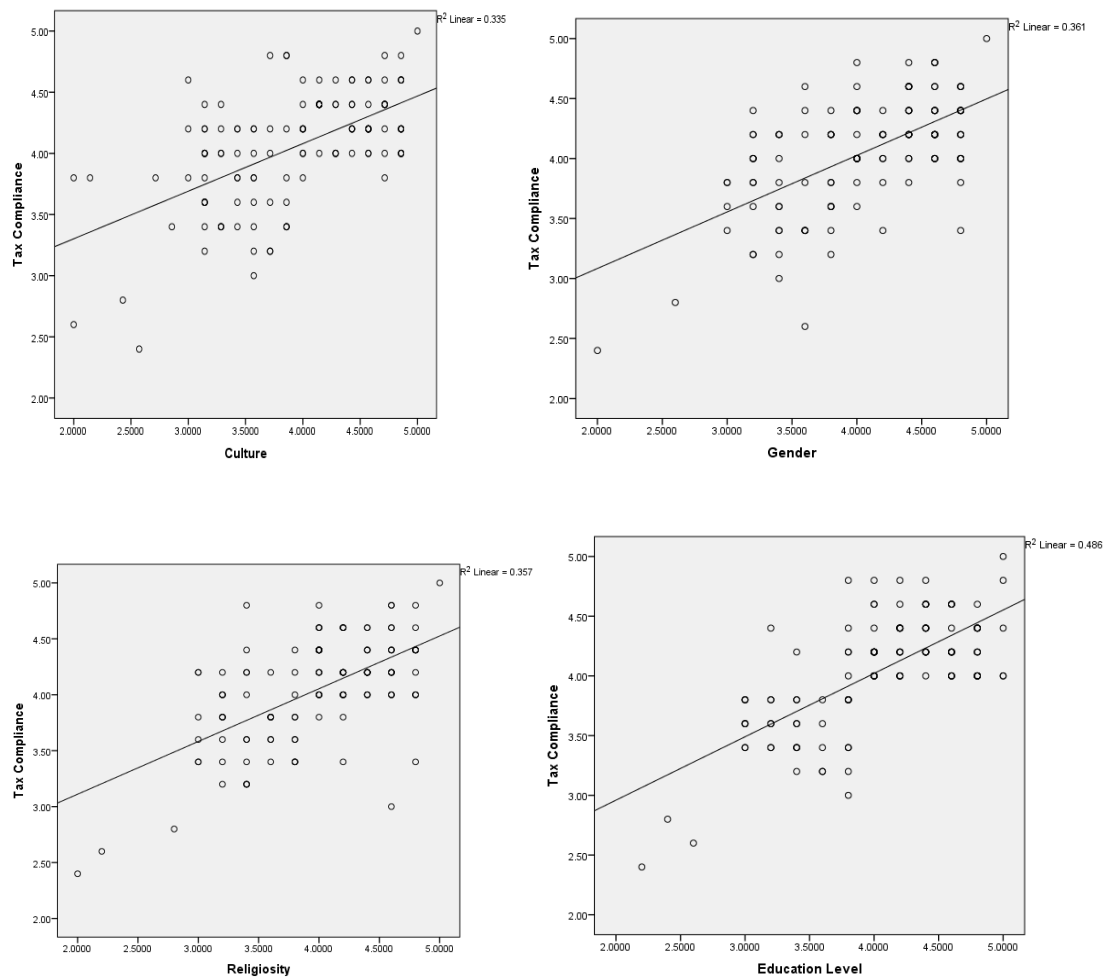


Figure 4.9: Linearity Tests

Source: Research Data (2023)

4.6.2 Homoskedasticity

Homoscedasticity was tested using the Breusch Pagan test. The results are presented in Table 4.7.

Table 4.7: Breusch Pagan Test Results

	Sum of Squares	df	Mean Square	F	Sig.
Regression	0	1	0	0	1.000
Residual	16.898	129	0.131		
Total	16.898	130			

Source: Research Data (2023)

The results showed that the p value of 1.0000 was greater than 0.05 hence the data was homoscedastic.

4.6.3 Normality

Table 4.8: Shapiro Wilk Test Results

	Shapiro-Wilk		
	Statistic	df	Sig.
Culture	0.95	131	0.053
Gender	0.936	131	0.316
Religiosity	0.947	131	0.0741
Education Level	0.95	131	0.398
Tax Compliance	0.94	131	0.378

Source: Research Data (2023)

From the results presented in Table 4.8, it was observed that all the variables had a significance level less than 0.05 hence it was concluded that the data was drawn from a normal distribution.

4.6.4 Multicollinearity

The test for multicollinearity was achieved through the use of Variance Inflation factor.

Table 4.9: Variance Inflation Factor Results

	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Culture	0.637	1.569
Gender	0.605	1.653
Religiosity	0.596	1.679
Education Level	0.543	1.843

Source: Research Data (2023)

The results revealed that all the variables had a VIF less than 10, hence the data did not have multicollinearity.

4.7 Correlation Analysis

Table 4.10 reveals the correlation outcome.

Table 4.10: Correlation Matrix

		Tax Compliance	Culture	Gender	Religiosity	Education Level
Tax Compliance	Pearson Correlation	1				
	Sig. (2-tailed)					
Culture	Pearson Correlation	.578**	1			
	Sig. (2-tailed)	0.000				
Gender	Pearson Correlation	.601**	.478**	1		
	Sig. (2-tailed)	0.000	0.000			
Religiosity	Pearson Correlation	.598**	.437**	.543**	1	
	Sig. (2-tailed)	0.000	0.000	0.000		
Education Level	Pearson Correlation	.697**	.555**	.524**	.558**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	131	131	131	131	131

Source: Research Data (2023)

The results revealed that the correlation matrix (r) for the association between culture and tax compliance was 0.578, $p=0.000$. This implied that culture has a positive and significant correlation with tax compliance. This means that if the culture indicators went up so will tax compliance. It was also demonstrated that there was a strong and significant correlation between gender and tax compliance ($r=0.601$, $p=0.000$). This suggested that tax compliance would rise in tandem with gender indices. Additionally,

it was demonstrated that there was a significant and positive association ($r=0.598$, $p=0.000$) between religion and tax compliance. Therefore, a rise in religious indicators will therefore result in a rise in tax compliance. Ultimately, it was discovered that there is a significant and positive correlation between tax compliance and educational attainment ($r=0.697$, $p=0.000$). Therefore, tax compliance would rise in tandem with indices of educational attainment.

4.8 Multiple Linear Regression Analysis

The purpose for performing a multiple linear regression analysis was to determine the relationship between the study's independent variables and the dependent variable.

Table 4.11 shows the results for estimating the model fitness.

Table 4.11: Model of Fitness

R	R Square	Adjusted R Square	Std. Error of the Estimate
.782a	0.611	0.599	0.29208

Source: Research Data (2023)

The results showed that the R square was 0.611. Therefore, it can be inferred that culture, gender, religiosity and educational level explain 61.1% of the variation in tax compliance among SMEs in Kanduyi Subcounty, Bungoma County. Other factors beyond the scope of the current study could factor for the remaining 38.9% of the variation in tax compliance.

Table 4.12: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	16.898	4	4.224	49.518	0.000
Residual	10.749	126	0.085		
Total	27.647	130			

Source: Research Data (2023)

The results showed that the p value was 0.000 which was less than 0.05. Therefore, the whole model that was used in explaining how the variables in the research relate was significant.

Table 4.13: Coefficients of Regression

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.124	0.213		5.273	0.000
Culture	0.124	0.047	0.184	2.651	0.009
Gender	0.165	0.056	0.211	2.954	0.004
Religiosity	0.151	0.057	0.192	2.668	0.009
Education Level	0.287	0.057	0.377	5.001	0.000

Source: Research Data (2023)

From the results, it was found that the coefficient for culture was positive and significant at 95% confidence level ($\beta=0.124$, $p=0.009$). Therefore, culture could be explained to have a positive and significant relationship with tax compliance. This implied that if culture was increased by one unit, then tax compliance would increase by 0.14 units. In contrast, Radzia (2020) found a significant correlation between variables including power distance, individualism, masculinity, uncertainty avoidance, and long-term orientation with willful tax non-compliance. The results also disagreed with Guerra and Harrington's (2023) conclusion that culture has little predictive value for tax compliance and Subramaniam's (2019) finding that cultural background has no discernible impact on an individual's behavior related to tax compliance.

The coefficient for gender was also found to be positive and also significant at 95% confidence level ($\beta=0.165$, $p=0.004$). Hence, gender also had a positive and significant relationship with tax compliance. In this regard, increasing the indicators of gender by one unit will translate to 0.165 units increase in tax compliance. This

was consistent with the findings of D'attoma, Volintiru, and Steinmo (2017), who showed that women are consistently far more obedient than men across all nations. The results corroborated Yimam and Asmare's (2020) theory that the gender of an enterprise's owners has a major impact on the enterprise's tax compliance behavior, with female-owned businesses being more likely than male-owned businesses to be tax compliant. Additionally, the results supported those of Vincent, Stevenson, and Owolabi (2023), who found that the gender of SME entrepreneurs had no discernible impact on their tax (non)compliance behavior.

Religiosity was similarly found to have a positive and significant coefficient at 95% confidence level ($\beta=0.151$, $p=0.009$) implying that religiosity has a positive and significant relationship with tax compliance. These results were in line with those of Mohdali et al. (2018), who found that there are statistically significant differences in taxpayers' voluntary tax compliance views amongst individuals with varying levels of religiosity in both nations. The outcomes also supported the conclusions of Hidayat et al. (2022) and Nicholson (2019), who showed that religiosity had a significant impact on people's intentions to abide by tax regulations. The results of this investigation, however, were not consistent with those of Arya (2018), who found no evidence linking religiosity and tax cheating.

Finally, education level was also found to have a positive and significant coefficient at 95% confidence level ($\beta=0.287$, $p=0.000$). This meant that educational level has a positive and substantial relationship with tax compliance. Therefore, if measures of educational level were increased by one unit, tax compliance would increase by 0.287 units. This was consistent with Kenimak's (2019) findings that the education level of small business owners influences their tax compliance. The outcomes were also consistent with Tan, et al.'s (2021) finding that education level improves an individual

taxpayer's ethical perception, leading to increased compliance. Conversely, Defitri and Fauziati's (2018) research showed that schooling had little bearing on tax compliance.

The estimated model could therefore be written as

$$Y = 1.124 + 0.124X_1 + 0.165X_2 + 0.151X_3 + 0.287X_4$$

Where;

Y stands for the dependent variable Tax compliance

X_1 stands for independent variable culture

X_2 stands for independent variable Gender

X_3 stands for independent variable religiosity

X_4 stands for independent variable educational level

4.9 Hypotheses Testing

Table 4.14 shows a summary of hypotheses testing based on coefficient regression findings above.

Table 4.14: Hypothesis Test Results

No:	Hypothesis	P-Value	Decision
H0₁	There is insignificant relationship between culture and tax compliance among SMEs in Kanduyi Sub County, Kenya	0.009<0.05	Reject
H0₂	There is insignificant relationship between gender and tax compliance among SMEs in Kanduyi Sub County, Kenya	0.004<0.05	Reject
H0₃	There is insignificant relationship between religiosity and tax compliance among SMEs in Kanduyi Sub County, Kenya	0.009<0.05	Reject
H0₄	There is insignificant relationship between educational level and tax compliance among SMEs in Kanduyi Sub County, Kenya	0.000<0.05	Reject

Source: Research Data (2023)

4.10 Discussion of the Key Findings

4.10.1 Culture and Tax Compliance

According to the study's findings, tax compliance and culture are positively and significantly correlated. Additionally, a strong and positive correlation between culture and tax compliance was discovered. This suggested that tax compliance among SMEs would rise if the owners' and managers' attitudes toward power distance, avoiding uncertainty, individuality versus collectivism, and masculinity against femininity were improved in Kanduyi Subcounty, Bungoma County. In contrast, Radzia (2020) found a significant correlation between variables including power distance, individualism, masculinity, uncertainty avoidance, and long-term orientation with willful tax non-compliance. The results also disagreed with Guerra and Harrington's (2023) conclusion that culture has little predictive value for tax compliance and Subramaniam's (2019) finding that cultural background has no discernible impact on an individual's behavior related to tax compliance.

4.10.2 Gender and Tax Compliance

The results of the study also showed a strong and positive correlation between gender and tax compliance. Regression study results also showed a substantial and positive correlation between gender and tax compliance. This was supported by the analysis of the responses which revealed a tendency of men to cheat more than women whereas women were seen to be more honest. It was therefore evident that a change in the gender such as an increase in female owners and managers of SMEs in Kanduyi Subcounty, Bungoma County will lead to more of tax compliance. This was consistent with the findings of D'attoma, Volintiru, and Steinmo (2017), who showed that women are consistently far more obedient than men across all nations. The results corroborated Yimam and Asmare's (2020) theory that the gender of an enterprise's

owners has a major impact on the enterprise's tax compliance behavior, with female-owned businesses being more likely than male-owned businesses to be tax compliant. Additionally, the results supported those of Vincent, Stevenson, and Owolabi (2023), who found that the gender of SME entrepreneurs had no discernible impact on their tax (non)compliance behavior.

4.10.3 Religiosity and Tax Compliance

The analysis of the correlation between religiosity and tax compliance revealed a positive and significant association. More so, the regression analysis showed that religiosity has a positive and significant relationship with tax compliance. This could help to explain why there will be a greater level of tax compliance if the owners and/or managers of SMEs in Kanduyi Subcounty, Bungoma County, become more religious in terms of their identities, statuses, affiliations, communities, and deities. These results were in line with those of Mohdali et al. (2018), who found that there are statistically significant differences in taxpayers' voluntary tax compliance views amongst individuals with varying levels of religiosity in both nations. The results also corroborated the findings of Hidayat et al. (2022) and Nicholson (2019), who demonstrated that religiosity strongly influences the intention to comply with tax laws. The results of this investigation, however, were not consistent with those of Arya (2018), who found no evidence linking religiosity and tax cheating.

4.10.4 Educational Level and Tax Compliance

It was further confirmed that the association between educational level and tax compliance is positive and significant according to the correlation analysis. The results of the regression study also demonstrated a strong and positive correlation between tax compliance and educational attainment. This shown that higher levels of education among SMEs' owners and/or managers in Bungoma County's Kanduyi

Subcounty will result in higher tax compliance. This was consistent with Kenimak's (2019) findings that the education level of small business owners influences their tax compliance. The outcomes were also consistent with Tan, et al.'s (2021) finding that education level improves an individual taxpayer's ethical perception, leading to increased compliance. Conversely, Defitri and Fauziati's (2018) research showed that schooling had little bearing on tax compliance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter entails a summary of the study, the conclusions and recommendations of the study such as for practice and management, for policy and implications to theory as well as recommendations for further research.

5.2 Summary

The study set out to investigate the sociocultural determinants on tax compliance among Small and Medium Enterprises in Kanduyi Sub County. The study specifically investigated the effect of culture, gender, religiosity and educational level on tax compliance by collecting data from SME owners and managers in Kanduyi Sub County. The data was analyzed by descriptive, correlation and regression analysis.

5.2.1 Culture and Tax Compliance

The analysis of the data for culture revealed that the culture among most of the SME owners and managers in Kanduyi Subcounty is characterized a by a large power distance, masculinity, high uncertainty avoidance, less Individualism and more collectivism as observed by the descriptive statistics results where majority of the respondents agreed to statements related to these aspects. The correlation analysis further revealed a positive and significant association between culture and tax compliance hence revealing a direct association ($r=0.578$, $p=0.000$). Regression analysis revealed a positive and substantial correlation between culture and tax compliance ($\beta=0.124$, $p=0.009$), indicating that a rise in the culture type represented by SME owners and managers will result in an increase in tax compliance. This supports the rejection of the null hypothesis, which holds that there is no meaningful

correlation between tax compliance and culture among small and medium-sized businesses in Kenya's Kanduyi Sub County.

5.2.2 Gender and Tax Compliance

The findings of the descriptive analysis showed that most SME owners and managers in Kanduyi Sub County believe that women are more likely to act honorably, are less likely to accept bad outcomes in spite of the possibility of higher returns, and don't take financial risks when making decisions. Conversely, since the majority of respondents agreed, they conjectured that males are more prone than women to cheat and that men are more receptive to a rise in the reward from a public benefit. Gender and tax compliance were found to positively and significantly correlate ($r=0.601$, $p=0.000$) in the correlation analysis results. Regression analysis also showed a substantial and positive correlation ($\beta=0.165$, $p=0.004$) between gender and tax compliance. This led to the rejection of the null hypothesis, which held that there is no meaningful correlation between gender and tax compliance among small and medium-sized businesses in Kanduyi Sub County, Kenya.

5.2.3 Religiosity and Tax Compliance

The results of the analysis on religiosity showed that most of the SMEs in Kanduyi Sub County scored good to excellent in terms of, identity, statuses, affiliation, community and deity. Additionally, it was established that there is a positive association ($r=0.598$, $p=0.000$) between religion and tax compliance. Additionally, the findings verified a noteworthy and affirmative correlation between tax compliance and religion ($\beta=0.151$, $p=0.009$). SMEs will therefore have more tax compliance if they commit to the aforesaid actions to a greater extent. The study's null hypothesis—that there is no meaningful correlation between tax compliance and religion among

small and medium-sized businesses in Kanduyi Sub County, Kenya—was rejected in light of the findings.

5.2.4 Educational Level and Tax Compliance

The analysis of the responses provided on the educational level showed that having a formal schooling is better than no formal schooling and increasing the level of educational attainment will mean more advantages as one is better able to understand the tax laws. Additionally, a positive association ($r=0.697$, $p=0.000$) was found between tax compliance and educational attainment. Additionally, regression analysis revealed a substantial and positive correlation ($\beta=0.287$, $p=0.000$) between tax compliance and educational attainment. Consequently, there will be a rise in tax compliance if the owners and managers of SMEs in Kanduyi Sub County obtain higher levels of education. The null hypothesis, according to these results, that there is no meaningful correlation between tax compliance and educational attainment among small and medium-sized businesses in Kanduyi Sub County, Kenya, was rejected.

5.3 Conclusions

The study findings led to the following conclusions.

First, the study concluded that culture had a positive and significant impact on SMEs' tax compliance. It focused on the effect of culture on tax compliance among Small and Medium Enterprises in Kanduyi Sub County, Kenya. SMEs whose owners and managers are inclined to a culture that encourages a larger power distance where leaders make most of the decisions without questioning will be more tax compliant. Similarly, if an SME owner or manager practices a culture that has a high uncertainty avoidance such that there is more orderliness without a chance for innovation, they will be more tax compliant. Moreover, an SME owner or manager living in a society

where individualism is discouraged and where collectivity is practiced will be more inclined to tax compliance.

The study concluded that gender had a positive and significant impact on the tax compliance of SMEs in Kanduyi Sub County, Kenya. The study's second purpose was to evaluate the effect of gender on tax compliance among SMES. A managers and owners whose gender is less inclined to cheat and are more honest, not being so fascinated by an increase in the pay-off and are less likely to accept a negative outcome even in the potentiality of higher returns while also making less financially risky decisions, they are more likely to comply with their tax obligation. The SME owner or manager will therefore comply with the tax obligation to avoid negative outcome such as payment of penalties that could be financially risky for their businesses.

The third objective was to assess how religion affected small and medium-sized enterprises' compliance with tax laws in Kanduyi Sub County, Kenya. According to the study's findings, SMEs' tax compliance is positively and significantly impacted by their religiosity. SME owners and managers who are intimately involved in their religion, practice their religions social roles more, are good in adherence to their religion as well as in congregating and collectivity and who are more excellent in their relation to divine have a higher tendency of complying with their tax obligation.

The study discovered a significant and favorable influence on the fourth goal, which looked at how educational attainment affected small and medium-sized businesses' compliance with tax laws in Kanduyi Sub County, Kenya. The study concluded that SME owners as well as mangers who have some type of formal schooling will be more inclined to comply with their tax obligation. Moreover, SME owners and

managers whose educational level is higher will have the advantage of understanding the tax laws better hence will be more likely to comply with the tax laws. Those with a high educational attainment are also able to understand and follow the filling system easily hence are able to file on time, correctly and accurately.

5.4 Recommendations

5.4.1 Practice and Management

Based on the aforementioned findings, this report suggests the following actions for KRA and the SMEs regulating body. To improve tax compliance among SMEs, KRA should encourage managers and owners of these companies to depart from cultures that penalize tax compliance. The management of KRA should also educate the managers and owners on the need for paying taxes which may help them understand better and not be manipulated by their culture inclinations. They can also go through the leaders of the society and educate them as well encouraging them to encourage the members of their society to pay all their tax obligations and also the need to let go cultures that are not inclined to economic development through paying of taxes. The management of KRA should also focus more on men and educate them more on the need to be honest and for complying with their tax obligations. In addition, the management of KRA should use the religious leaders to encourage the members of their congregation to pay their taxes. They can do so by first educating the religious leaders on the benefits of paying taxes who will then influence their followers to do so. In order to increase the levels of tax compliance among SME owners and managers who are not educated or those with little education, the management of KRA should come up with programs to teach them on the advantages of paying tax and also provide them with technical skills for filing of returns as well as teach them the tax laws related to their businesses.

5.4.2 Implication to theory

The study found that culture, gender, religiosity and educational level have positive and significant effect on tax compliance among SMEs. These findings therefore add to the existing knowledge regarding the socioeconomic determinants of tax compliance hence reducing the knowledge gap and bringing more clarity on the subject. The findings on the positive effect of gender and education level also expand the fiscal psychology model that suggest an influence of such demographic factors as gender and education on certain behaviors such as tax compliance. The results of the study lend credence to the idea of reasoned action, which postulates that certain subjective norms, such as societal influences from a culture or religion, may influence a subject's behavioral purpose, which in turn may influence the subject's conduct in terms of tax compliance. The findings also further the theory of planned behaviors which suggests that subjective norms that refer to how a person behaves subject to how the significant others belief they should act in that way such as the society.

5.4.3 Policy implication

The study findings also lead to some policy implications. Owing to the positive effect of culture on tax compliance of SMEs, policy makers in the government should come up with policies that exert some penalties on society leaders who advance societal rules and cultures that discourage its members from paying their tax obligations. Further, policy makers should also formulate policies that are more inclined towards male business owners encouraging them to be more tax compliant. Policymakers should create laws that are inclined to impose requirements on religions about tax matters in order to address the impact of religiosity on tax compliance. Furthermore, by providing the necessary resources, the government should devise regulations that

would result in a greater level of tax law education being made available to business owners.

5.5 Recommendations for Further Research

The current study set out to identify the sociocultural factors that influence small and medium-sized businesses' compliance with tax laws in Kanduyi Sub County. The study therefore only focused on SMEs in Kanduyi Sub County. Future studies may therefore focus on other counties that have not been studied. Other sociocultural determinants such as age, occupation, social norms that the study did not include can also be studied by future researchers. The sampling process applied in this study may also have led to gaps that future researchers can address by adopting sampling techniques such as non-probability sampling.

5.6 Limitations of the Study

The study faced time limitation since conducting such a study would require more time than was allocated to this research. Therefore, the researcher could not carry out an exhaustive analysis. To address this, recommendations for further research were made that would enable further research into the topic. Similarly, the study was only limited to just a few social cultural determinants of tax compliance due to time factor. Future researchers were therefore recommended to assess other factors not covered in the study.

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APPENDICES

Appendix I: Introduction Letter

Dear Participant,

I am a student in Moi University. I am conducting research on the **Social Cultural Determinants on Tax Compliance among Small and Medium Enterprises in Kanduyi Sub County, Bungoma County, Kenya.**

Kindly fill up this information and return. Any information obtained for this purpose will be kept strictly confidential and will only be used for academic purpose.

Your response will be treated with strict confidence and will be used only for research purposes of this study only. Your cooperation will be highly appreciated in this regard.

Yours' faithfully

.....

Appendix II: Questionnaire

Section A: Demographic Characteristics

1. Please indicate your age
 - a) Below 18 years []
 - b) 18-25 Years []
 - c) 26-35 Years []
 - d) Above 35 years []
2. How many employees have you employed in your business?
 - a) Less than 10
 - b) 10-49 []
 - c) 50-249 []
3. Duration of business existence
 - a) Less than 1 year []
 - b) 1 to 5 years []
 - c) 6 to 10 years []
 - d) More than 10 years []
4. Annual turnover
 - a) Less than Ksh500, 000
 - b) Ksh 500,000-1,000,000
 - c) More than Ksh 1,000,000

Section B: Culture

1) Please rate your level of agreement on the following statements on a scale of

1- strongly disagree, 2- disagree, 3- not sure, 4- agree and 5- strongly agree.

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
In my society, followers are expected to obey their leaders without question					
In my society, power is concentrated at the top					
In my society, orderliness and consistency are stressed, even at the expense of experimentation and innovation					
In my society, societal requirements and instructions are spelled out in detail so citizens know what they are expected to do.					
In my society, leaders encourage group loyalty even if individual goals suffer					
The economic system in this					

society is designed to maximize collective interests					
People will achieve organizational goals without being pushed.					

Section C: Gender

2) Please indicate your gender

- a. Male
- b. Female

3) Please rate your level of agreement on the following statements on a scale of 1- strongly disagree, 2- disagree, 3- not sure, 4- agree and 5- strongly agree.

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
Women are more prone to honest behavior					
Women seem less inclined to accept negative outcome despite the upside of potentially higher returns					
Women make less financially risky decisions.					
Men are more likely to cheat than women					
Men are more responsive to					

an increase in the pay-off from a public good.					
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Section D: Religiosity

4) What is your religion?

a. Christian

b. Muslim

c. Hindu

d. Others (Please indicate)

5) How would you rate your religiosity in terms of the following on a scale of 1- very poor, 2- poor, 3- fair, 4- good and 5- excellent?

Statement	Very Poor	Poor	Fair	Good	Excellent
Intimate involvement					
Social roles					
Adherence					
Congregation and collectivity					
Relation to the divine					

Section E: Educational Level

What is the highest level of education you have attained?

a) No formal schooling

b) primary education

- c) some secondary education
- d) post-secondary education

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
Having a formal education is better than no formal schooling at all					
People with higher educational level have advantages over those with low education level					
People with high education level are able to understand the tax filling system better than those with low education					
Higher education is related to better knowledge of tax law					
Higher education is associated with better access to information on schemes to avoid taxes					

Section F: Tax Compliance

Please rate your level of agreement on the following statements on a scale of 1- strongly disagree, 2- disagree, 3- not sure, 4- agree and 5- strongly agree.

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
I have been paying my tax obligation correctly					
I have been paying my tax obligations on time					
I have no problem in complying to my tax obligations					
I am fully satisfied with all tax requirements imposed on my business					
I honestly declare earnings in my tax filing					

Appendix III: KESRA Letter**KENYA REVENUE
AUTHORITY**

ISO 9001:2015 CERTIFIED

PUBLIC

KENYA SCHOOL OF REVENUE ADMINISTRATION**REF: KESRA/NBI/036**10th August 2023**TO: WHOM IT MAY CONCERN**

Dear Sir/Madam,

**RE: REQUEST FOR ASSISTANCE TO ISAAC SIMIYU OF REGISTRATION NO.:
KESRA105/0120/2018 UNDERTAKING MASTERS AT KESRA**

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: **Social cultural determinants on tax compliance among small and medium enterprises in Kanduyi Subcounty, Bungoma County**”






The purpose of this letter is to request for your kind facilitation in enabling the student progress in his research project by allowing access to any relevant information and/or conduct interviews, which are relevant to the project.

Your support to the student in this regard will be highly appreciated.

Thank you.


Damacrine Masira
Manager Academic Research,
KESRA***Tulipe Ushuru, Tujitegemee!***

Appendix IV: NACOSTI Research License

 REPUBLIC OF KENYA	
Ref No: 742233	Date of Issue: 23/August/2023
RESEARCH LICENSE	
	
<p>This is to Certify that Mr. ISAAC Wanjekhe Simlyu of Moi University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Bungoma on the topic: SOCIAL CULTURAL DETERMINANTS ON TAX COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN KANDUYI SUB COUNTY, BUNGOMA, KENYA for the period ending : 23/August/2024.</p>	
License No: NACOSTI/P/23/28786	
742233	
Applicant Identification Number	Director General NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
	Verification QR Code
	
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See overleaf for conditions	

Appendix V: Plagiarism Report

SOCIAL CULTURAL DETERMINANTS OF TAX COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN KANDUYI SUBCOUNTY, BUNGOMA COUNTY, KENYA

ORIGINALITY REPORT

23%

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