MODERATING EFFECT OF SOCIAL NORMS ON THE DETERMINANTS OF TURNOVER TAX COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN KARIOKOR MARKET IN NAIROBI, KENYA

BY

VICTOR KIPKOSIOM KANDAGOR

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS AND ECONOMICS, DEPARTMENT OF ACCOUNTING AND FINANCE IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER IN TAX AND CUSTOMS ADMINISTRATION

MOI UNIVERSITY

2024

DECLARATION

Declaration by the Student

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

Sign……………………………………… Date…………………………………

Victor Kipkosiom Kandagor

MU/KRA/105/0060/2021

Declaration by Supervisors

This research project has been submitted for examination with my approval as university supervisor.

Sign……………………………………… Date…………………………………

DR. Bruce Ogaga

Kenya School of Revenue Administration

Sign……………………………………… Date…………………………………

DR. Naomi Koske

Moi University

DEDICATION

This research project is dedicated to all those who assisted me in making this project successful and particularly my friends and family for their encouragement and support throughout the study. May God bless them abundantly.

ACKNOWLEDGEMENT

First, I want to thank God for giving me strength and good health throughout my studies. The development of this research project depended on the effort, support and guidance of several people, especially my classmates Lito, Michael and Wangechi. I am also grateful to my supervisors Dr. Bruce Ogaga and Dr. Naomi Koske for their assistance and positive criticism.

ABSTRACT

Taxes are one of the main sources of funding for governments worldwide and make up a sizable portion of the budget. Tax evasion of all kinds, including sales tax, salaries, and lowering the tax burden through illicit ways, has resulted in the loss of hundreds of millions of dollars in revenue. Kenyan small and medium-sized businesses (SMEs) have had significant difficulties complying with Turnover Tax (TOT), and tax collection has not reached its goals. This study looks at the moderating effect of social norms and the factors influencing Turnover Tax compliance. With social norms acting as a moderating factor, the particular goals were to evaluate the effects of compliance costs, taxpayer awareness, and system automation on Turnover Tax compliance among SMEs in Nairobi's Kariokor market. The research is guided by Expected Utility Theory, Cost of Service Theory, Social Learning Theory, Unified Theory of Acceptance and Use of Technology, and Behavioral Theory. A sample of 311 SMEs extracted from a sample population of 1382 using a Yamane's formula sampling technique. The response rate was 245. The data collected in this study were quantitative in nature. The information was primarily based on numerical values and statistical relationships between variables. The study used regression analysis to examine the impact of compliance costs, taxpayer knowledge, system automation, and social norms on TOT compliance. The findings of the study were that Compliance Costs: A unit change in compliance costs results in a significant decrease in TOT compliance ($\beta = -0.870$, $p = 0.000$). Taxpayer Knowledge: A unit change in taxpayer knowledge leads to a substantial increase in TOT compliance ($\beta = 0.934$, $p = 0.000$). System Automation: A unit change in system automation significantly increases TOT compliance ($\beta = 0.741$, $p = 0.025$). Social norms were found to significantly moderate these relationships, positively impacting Turnover Tax Compliance ($\beta = 0.356$, $p = 0.016$). The moderating effect of social norms on relationship between Compliance Costs and turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya was statistically significant ($\beta = 0.781$, $p = 0.000$). Further there was a significant moderating effect of social norms on relationship between Taxpayer Knowledge and turnover tax compliance among micro, small, and medium enterprises in Kariokor market in Nairobi, Kenya. β= 1.122, p=0.015. Lastly the moderating effect of social norms on relationship between system automation and turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya was statistically significant ($\beta = 0.351$, $p = 0.000$. KRA should consider simplifying tax procedures for SMEs, particularly those subject to turnover tax. Streamlining compliance requirements and reducing bureaucratic barriers can help alleviate compliance costs and encourage better adherence to tax regulations. KRA should invest in taxpayer education programs to improve knowledge and awareness among SMEs. This would empower business owners to navigate the tax system more effectively and ensure voluntary compliance. It would be valuable to investigate how regional and industry-specific variations influence tax compliance. A study should be conducted on how cost of compliance can be a moderating factor to determinants of tax compliance.

TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

EU: European Union

EUR: Euro.

EUT Expected Utility Theory

FBR: Federal Board of Revenue

FTR: Final Tax Regime

GDP: Gross Domestic Product

GRA: Ghana Revenue Authority (GRA

ICT: Information and Communication Technology

IDR: Indonesian rupiah

IFC: International Finance Corporation

IMF: International Monetary Fund

IRIS: Insurance Regulatory Information System

KES: Kenya Shillings

KIPPRA: Kenya Institute for Public Policy Research and Analysis

KMPG: Klynveld Peat Marwick Goerdeler

KNBS: Kenya National Bureau of Statistics

KRA: Kenya Revenue Authority

MET: Microenterprise Tax

MSEA: Micro Small Enterprises Association

MSMEs: Micro, Small, And Medium-Sized Firms

NACOSTI: National Commission for Science, Technology, and Innovation

OECD:	Organization for Economic Cooperation and Development
PKR:	Pakistani Rupee
R:	Rand
SAITP:	South African Institute of Tax Professionals
SARS:	Tax authority in South Africa
SMEDA:	Small Enterprises Development Authority
SMEs:	Small and Medium Enterprise
TOT:	Turnover Tax
TPA:	Tax Procedures Act
UNCTAD:	United Nation Trade and Development
UNDP:	United Nations Development Program
USAID:	United States Agency for International Development
VAT:	Value Added Tax
VIF:	Variance Inflation Factor (VIF)

OPERATIONAL DEFINITION OF TERMS

Compliance cost: The expenditures that taxpayers suffer in completing the obligations imposed upon them by the revenue authorities and the tax legislation encompass a wide range of expenses or challenges that the taxpayer faces in order to comply with the tax law (Sandford, 1989).

Small and Medium Enterprises A small and medium-sized enterprise (SME) is a legally recognized company that employs five to one hundred fifty people, has an annual revenue of Kshs. 8 to Kshs10 million, and has at least Kshs. 4 million in assets (World Bank, 2019).

Social norms: unwritten codes of conduct that are socially negotiated and understood through social interaction (Chung et al., 2016).

System automation: Technology's use to support tax compliance and compilation (Iordachi & Timus, 2017).

Taxpayer knowledge: The taxpayers' ability in understanding tax laws and regulations (Ayuba et al. 2016).

Turnover tax compliance: Three factors are used to assess voluntary conformity with tax laws: filing a return (filing compliance), equating the amount declared with the amount owed (reporting compliance), and paying any declared liabilities (payment compliance) (Kostis, 2020).

CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter presents an introduction to the study on the determinants of Turnover Tax compliance among, small and medium enterprises in Kariokor market in Nairobi, Kenya. The chapter contains the background of the study, the problem statement, objectives of the study, research hypotheses, significance and scope of the study.

1.1 Background of the Study

The government's main source of revenue is through taxation (Castro & Scartascini, 2015). The levies and financial obligations that a government imposes on both its residents and nonresidents are known as taxes. It covers all levies, including sales, capital gains, corporate, income, and property taxes. The government is able to fund public services like roads, water, schools, hospitals, and security by collecting taxes. The importance that small businesses play in boosting a nation's economic growth and employment creation is widely recognized. Therefore, supporting small enterprises is in the best interests of the general public and all governments (Schutte et al, 2019). The only realistic way to raise money to pay for government expenditures on the products and services that residents demand is through taxes, according to the OECD.

According to Mascagini and Gadenne (2021) tax compliance is the process of adhering to tax laws and regulations by disclosing income, claiming credits and deductions, paying taxes due, and maintaining accurate records. Tax compliance involves several key elements, including filing tax returns on time, paying taxes owed by the due date, maintaining accurate records, and responding to tax authorities' inquiries or audits. To ensure compliance, taxpayers must understand the tax laws and regulations that apply to them, keep up with changes to tax laws, and seek professional assistance when needed. Governments use a range of tools and strategies to enforce tax compliance, including audits, penalties, and incentives. In order to ensure that tax returns are accurate, tax authorities may audit taxpayers. Inaccurate or late tax files may result in fines. Incentives, such as tax credits or deductions, may also be offered to encourage compliance with certain tax laws or regulations (Mayega et al., 2021).

Tax compliance among SMEs is a critical issue for both governments and business owners. SMEs often lack the resources and expertise to navigate complex tax regulations, which can result in errors and non-compliance. Non-compliance by SMEs can have significant economic consequences, such as reduced tax revenue, unfair competition with compliant businesses, and increased administrative costs for tax authorities. Studies have revealed that SMEs encounter a number of difficulties in adhering to tax requirements, such as restricted access to accounting and tax experts, a lack of knowledge and comprehension of tax laws, and time restrictions brought on by other business priorities (Keraro, 2017). Furthermore, SMEs may find it expensive to comply with tax laws, especially if they operate in several jurisdictions (OECD, 2022).

Taxes are the fees and financial obligations that a government charges its citizens and non-citizens alike. It includes all levies, such as corporate, income, capital gains, sales, and property taxes. According to Hofmann et al. (2008), behavioral perceptions that enhance voluntary tax compliance include norms, willingness to cooperate, knowledge and assessment of taxes, and fairness. Osman and Turnim's (2023) research also focus on Malaysian individual voluntary compliance. The study specifically looked at how tax knowledge, social norms, personal values and attitudes, tax system complexity, fairness, tax rates, and peer pressure affect voluntary tax compliance.

To improve tax compliance among SMEs, tax authorities can take several steps, such as providing education and outreach programs, simplifying tax regulations, and helping with tax filing and record-keeping. SMEs can also benefit from seeking professional advice and using digital tax management tools to streamline tax compliance processes. Overall, ensuring tax compliance among SMEs is essential for maintaining a fair and equitable tax system and supporting sustainable economic growth.

Taxes are one of the main sources of funding for governments worldwide and make up a sizable portion of the budget (Mwaura, 2019). Many Arab countries have begun to emphasize taxes as a source of income in order to minimize their budget deficits, either because of the dramatic decline in oil prices or because they want to lessen their excessive reliance on foreign help (Alm, 2018). Randlane (2016) claims that tax evasion of all kinds, including sales tax, salaries, and lowering the tax burden through illicit ways, has resulted in the loss of hundreds of millions of dollars in revenue.

Small and medium-sized enterprises (SMEs) are critical to the Curaçao economy in South America. SME accounts for 30% of the GDP in Curaçao. The Curaçao Bureau of Statistics reported in 2020 that there are 28,709 SMEs, accounting for 97.4% of all businesses. According to a Bureau of Statistics of Curaçao investigation in October 2014, only 5,000 are active, the rest are dormant. SMEs employ 55.7% of all workers (Kunneman, 2014), contributing significantly to employment and economic activity on the island.

A small and medium-sized enterprise (SME) in Pakistan is someone who works in manufacturing and whose annual revenue does not surpass PKR 250 million (Awais, Khan & Mushtaq, 2024). If a company's yearly revenue surpasses PKR 250 million, it will no longer qualify as a SME for that tax year and beyond (CC, 2022). These institutions are required to register with the Small Enterprises Development Authority (SMEDA) on the registration portal or the FBR on IRIS web portal. The State Bank of Pakistan's Annual Report 2019/2020 states that the actual revenue collection for the fiscal year 2019-2020 was PKR 4,691 billion, or 84.5% of the target, of PKR 5,555 billion. The report also mentions that the collection from the turnover tax was PKR 72.7 billion, which is 91.98% of the annual target of PKR 79.1 billion. This data depicts a high chance of tax noncompliance among the SMEs (State Bank of Pakistan, 2020).

Indonesia has a total of 64,194,056 SMEs in 2019 (Ministry of Cooperatives and SMEs, 2020). It employs more than 96.9% of the total workforce and contribute to more than 60% of the Indonesian GDP (OECD, 2022). These demonstrates the important role of SMEs in the economy and resulted in the government of Indonesia to issue Regulation number 7 of 2021 to ease, protect and empower to grow and develop. Turnover tax was introduced in the year 2013 by the finance minister issued a regulation at a rate of 1% of the gross turnover for small enterprises with a turnover of less than 4.8 billion Rupia (US$336,000) and is paid monthly. In 2018, the rate was adjusted to 0.5 %. Self-assessment system is used in Indonesia where the taxpayer is expected to determine the taxes due and pay to the Directorate General of Taxes the taxing authority.

The World Bank (2017) research states that Indonesia had a low tax-to-GDP ratio when compared to other Asian countries, such as Singapore and Malaysia. The tax-to-GDP ratio was stable from 2012 to 2014, and then it fell to about 11% in 2015 and 2016. This made the government introduce tax amnesty in 2016 and 2017, where it collected undisclosed income of IDR 4,813 trillion and penalties of close to IDR 135 trillion. This shows that there is still a high level of noncompliance in the country. In 2019, the government had set a simplified tax revenue collection target of IDR 51.4 trillion, but it was only able to collect IDR 44.7 trillion, which was approximately 87% of the target.

Tax compliance costs are a significant burden for businesses in Malaysia, particularly small and medium-sized firms (SMEs), according to study by Abdul-Jabbar and Pope (2008). This is brought about by the tax system's complexity, the ambiguity of tax laws and regulations, and the onerous administrative cost associated with fulfilling tax duties. The study also found that compliance issues, such as tax evasion and avoidance, are a concern for the Malaysian tax authorities. This is caused by a lack of cooperation between tax authorities and taxpayers, a loose enforcement framework, and a lack of tax education and awareness among taxpayers. A correlation between tax compliance costs and compliance issues was also found by the study, with greater compliance costs typically linked to a higher likelihood of non-compliance. This is because businesses may be more likely to engage in non-compliant behavior to reduce their tax burden and offset the costs of compliance. The study suggests that reducing tax compliance costs and improving compliance issues requires a multi-faceted approach, including simplifying the tax system and providing more guidance and support to taxpayers, strengthening tax enforcement measures, and promoting greater cooperation between tax authorities and taxpayers.

In Aruba, in the Netherlands, the Turnover Tax is a type of consumption tax that is levied on the sale of goods and services within the country. The current rate of TOT in Aruba is 1.5% for most goods and services, but there are some exceptions. Some goods and services are exempt from TOT. in Aruba, including exports, some financial services, and some medical services. There are also reduced rates of TOT for certain goods and services, such as basic food items, water, and electricity. Businesses in Aruba are required to register for TOT and collect the tax on behalf of the government. Depending on the turnover of the firm, the collected TOT has to be recorded and remitted to the Aruba Tax Department either monthly or quarterly.

A study by the IMF (2015) assessed the effectiveness of TOT administration in Aruba, Curaçao, and St. Maarten. The study found that TOT is a simple and transparent tax that is easy to administer, but there are some areas where improvements could be made. The study recommended improvements in areas such as registration, enforcement, and compliance. Another study by the Commonwealth Secretariat in 2013, analyzed the impact of TOT on small island states, including Aruba. The study found that TOT can be an effective way to raise revenue in small island states, but there are some challenges in implementing and administering the tax. The study recommended improvements in areas such as tax design, compliance, and taxpayer education. In conclusion, Siregar et al.'s (2020) analysis of the variables affecting turnover tax compliance in Indonesia revealed that technology, high-quality services, and taxpayer knowledge all contribute significantly to increased compliance.

The Tax authority in South Africa (SARS) allows businesses with taxable turnover not exceeding R1 million and whose total assets less than R5 million for a year of assessment, to be registered as micro business and taxed based on turnover rather than income tax which is based on taxable income. This system is simple and increases compliance levels among the small-scale traders. According to the Nation development plan of South Africa, SME is predicted to account for more than 90% of all new jobs. The current rates of turnover taxes are on a graduating scale such that the first a turnover of R335, 000 is charged at 0%, the next between R335,001 and 500,000 is taxed at 1%, next turnover of R500,001 and R750,000 is taxed at 2% and turnover excess of R750,000 taxed at 3%.

The turnover tax is payable three times a year, the first is due at the middle of the year, the second once is due at the end of the financial year and the last one is after filing of the annual returns. A list of assets with a cost price greater than R10,000 and liabilities exceeding a comparable amount, as well as records of amounts received and declared are among the relatively few documents that the taxpayer must maintain (SARS, 2022). SMEs make up more than 98% of all firms, employ between 50% and 60% of the labor force in all industries, and create 25% of new jobs in the private sector annually. Furthermore, while South Africa's SMEs provide 39 percent of GDP to the national GDP, they contribute 57 percent to the GDP of the EU (IMF, 2015). Data study by South African Institute of Tax Professionals (SAITP,2014) out of 5.6 million SMMEs in South Africa only 17% of those SMMEs are registered businesses and furthermore only 50% of those were tax compliant. These show a huge problem of tax compliance. Furthermore, out of approximately 86,000 small business corporations close to1000 of those are registered.

According to the latest available data from the Ethiopian Central Statistical Agency, the total number of SMEs in Ethiopia was approximately 1.1 million in 2018/2019 (CSA, 2020). Small and medium-sized enterprises (SMEs) play a significant role in Ethiopia's economy by contributing to employment creation, income generation, and poverty reduction. In Ethiopia, small and medium-sized enterprises (SMEs) comprise 99 percent of all firms, employ more than 90 percent of the non-agricultural labor population, and generate 60 percent of the nation's GDP, according to research published by the International Finance Corporation (IFC, 2019). Furthermore, by fostering innovation and entrepreneurship, SMEs are essential for advancing economic development and progress. They also contribute to export growth, promote technology transfer, and encourage regional development by creating jobs and supporting local communities.

Turnover in Ethiopia was introduced through the proclamation number 308 of the year 2002 (Lalishso & dereche,2020). A person who is not registered for VAT as per article 16 and 17 and whose turnover is below Birr 500,000 or any threshold determined by the minister from time to time is eligible to be registered as TOT taxpayers (VAT proclamation, 2002). SMEs including traders working in the market and open spaces were targeted with the introduction of TOT since they deal with cash transactions which are difficult to trace to determine the actual income from the transactions. In accordance with the proclamation, the rate of TOT is 2% for items sold locally, 2% (two percent) for contractors, grain mills, tractors, and combine harvesters, and 10% (ten percent) for all others. The government wanted to increase the revenue from unregistered businesses in comparable terms (Sow & Gebresilasse, 2020). In order to maintain the revenue contribution from TOT to the government's finances, it is critical to guarantee that the tax's revenue is raised as efficiently as possible. Additionally, in order to increase TOT revenue collection, efficient tax administration is required (Temesgen, 2018).

Studies such as the study by Alm Schulze, Von Bose and Yan (2019) and Górecki and Letki (2020) have shown that social norms can play an essential role in understanding tax compliance decisions. Social norms represent the rules and standards understood by members of a group, and become the guidelines for, or limitations on, social behavior without going through law enforcement. The literature shows that social norms are closely related to tax compliance (Alm et al., 2019). Individuals are less likely to commit tax fraud when there is a strong social consensus about ethical behavior. Implicitly, social norms shape individual moral beliefs (Cahyonowati, Ratmono & Juliarto, 2022).

Previous empirical research has recognized that social norms directly affect tax compliance and act as a deterrent – the social norms interaction effect. Kahan (2019) argued that social norms render the deterrent superfluous. Taxpayers who have internalized the social norms would be unaffected by the deterrent. Therefore, internalized social norms delimit the relevance of the deterrence factors (Kahan, 2019). Furthermore, Górecki and Letki (2020) suggested that the deterrence effect of penalties can be suppressed entirely when the subjective norms are strong. These arguments tend to lessen the importance of a deterrent, as compliance can be achieved through the existence of social norms.

Community members who violate the social norms will bear the economic costs of engaging in tax evasion, such as damaging their reputations or endangering their future economic prospects. From this perspective, individuals assess the social norms objectively and believe that community members are quickly made aware of taxpayers' non-compliance (Cahyonowati, Ratmono & Juliarto, 2022). This finding implies that the violation of the tax laws will have economic and social consequences. Therefore, this study argues that the effect of any factors requires a belief in the social norms, which state that tax noncompliance, is behavior that none of the community's members accept. Individuals who believe that tax noncompliance is not socially agreed-upon behavior and has economic consequences in the future will be more likely to comply. This study will examine social norms as a moderating factor that might affect the effect of determinants of tax compliance decisions.

Although there have been attempts to analyze the determinants of tax compliance, little had been done on turnover tax compliance especially among SMEs and studies failed to include a moderating variable in the study. For instance, Muthinji (2022) conducted a study on factors affecting turnover tax compliance among Micro Small and Medium Enterprises. In Roysambu, Nairobi. Adhiambo (2019) assessed factors affecting tax compliance among small scale traders in Nakuru Town, Kenya. Cahyonowati, Ratmono and Juliarto (2022) conducted a study on the moderating role of social norms on tax compliance model in Indonesia. SMEs being major contributors in the economy, it is important to research on the determinants of TOT compliance which is the main tax among SMEs. By researching on this, the findings would help make policies that could improve turnover tax compliance among the SME s hence increasing the revenue collection for the nation.

A small business in Kenya is considered a SME if its yearly sales are less than Kshs one million. Small businesses are those that employ between 10 and 49 people, whilst micro enterprises are those that employ fewer than ten people. In contrast, a medium-sized business employs 50–99 people. These are all distinct kinds of SMEs in Kenya, which are collectively referred to as micro, small, and medium-sized firms (MSMEs), which are companies with one to 99 employees with a yearly revenue of fifty million Kenyan Shillings.

Small and Medium Enterprises refer to organizations that employ between 1 and 99 workers (KIPPRA,2016). These organizations play a fundamental role in the country's economy as they support the employment of many people. They also support the government through payment of taxes. Most of the SMEs are informal; hence they do not have well-defined structures. SMEs play a significant role in Kenya's economy by contributing to employment creation, income generation, and economic growth. In Kenya, there were over 7.4 million SMEs in 2019, which makes up 98% of all firms in the nation, according to the most recent data available from the KNBS (KNBS, 2019). Additionally, according to the MSEA there are 10,060,500 SMEs in Kenya (MSEA,2020). Out of this number, less than 15% are registered (USAID,2023). SMEs are a crucial source of employment in Kenya, providing jobs for over 14.9 million people, which represents 80 percent of the non-agricultural workforce. Furthermore, SMEs contribute to 28 percent of the country's GDP, which underscores their importance to the Kenyan economy (KNBS, 2019).

Kenya's tax-to-GDP ratio fell from 16.4% in 2019 to 15.3% in 2020, a fall of 1.1 percentage points. In comparison, the average for the 31 African countries fell by 0.2 percentage points in the same period. Between 2010 and 2020, the average for the 31 African countries increased from 14.4% to 16.0%, a gain of 1.6 percentage points. Kenya's tax-to-GDP ratio dropped from 15.7% to 15.3% during that time, a decline of 0.4 percentage points (OECD, 2022).

Kariokor market in Nairobi is known for its wide range of unique African jewelry, curios, decor items, leather goods, and fabrics. Also, the market is a home for traders dealing with food items in wholesale and retail, mechanics and other *Jua kali* (informal or non-formal sector of the economy in Kenya) traders. It has more than 800 stalls that offer various items at wholesale or retail prices, catering to both local and international consumers. Interestingly, most of the wares sold in other curio markets come from Kariokor market. Aside from its curio offerings, the market is also home to local textile and garment industries that play a significant role in Kenya's industrialization and nation branding. Additionally, the market has a leather cluster that is the largest producer of leather products by SMEs in Kenya and Eastern Africa. The GPS coordinates for the Kariokor market are -1.2724605 (latitude) and 36.8456254(longitude). The market stretches from Kariokor main market up to Ngara, Kirinyaga road and areas close to Kamukunji police station. According to data from KRA Majority of non-compliant taxpayers in North of Nairobi region are located within the Kariokor market, 264 out of 956 late returns were traders from the market and 511 out of 1,617 filed Nil returns in that period. The same trend was also observed in previous periods.

1.2 Statement of the Problem

Tax compliance among Small and Medium Enterprises is critical in assuring the government's ability to increase tax income in order to manage the country's development plans (Warundu, 2021). Turnover tax was introduced in Kenya in 2007 to enhance revenue collection, improve tax administration and reduce non-compliance and collection costs among SMEs (Muthinji, 2022). The majority of taxpayers who have subscribed to the Turnover Tax have not met their required levels of compliance, posing an increasing challenge to Kenya's SMEs' tax compliance. The government of Kenya through its taxman strives to meet its revenue targets because of revenue collection shortfalls.

In the financial year 2021/2022, TOT collection amounted to Kshs. 99,739,158 against a target of Kshs 135,050,379 representing a performance of 73.6%(KRA,2022). In the 2022/2023 financial year, TOT collection was Kshs 112,653,556 compared to a target of Kshs 128,112,921 which resulted in a deficit of Kshs 15,459,365 (KRA,2023). North of Nairobi tax station registered 956 out of 5507(17%) in 2020, 1058 out of 4448 (24%) in 2021 and 759 out of 2326 (32%) in 2022 TOT late return filings. SMEs at the

Kariorkor market were not and exception as they faced the same challenge in TOT compliance. This trend shows an increase in non-compliance rate from 17% in 2020 to 32% in 2022. The above statistics show a continuing trend that KRA does not meet their revenue collection targets and increase in number of late, nil and zero fillings over the years, indicating noncompliance.

Previous empirical research has recognized that social norms directly affect tax compliance and act as a deterrent – the social norms interaction effect. Kahan (2019) argued that social norms render the deterrent superfluous. Studies such as the study by Alm Schulze, Von Bose and Yan (2019) and Górecki and Letki (2020) have shown that social norms can play an essential role in understanding tax compliance decisions.

A gap in the reviewed literature exists as far as addressing factors affecting turnover tax compliance among small and medium enterprises in Kenya. For instance, Muthinji (2022) conducted a study on factors affecting turnover tax compliance among Micro Small and Medium Enterprises in Roysambu, Nairobi. Adhiambo (2019) assessed factors affecting tax compliance among small scale traders in Nakuru Town, Kenya. Cahyonowati, Ratmono and Juliarto (2022) conducted a study on the moderating role of social norms on tax compliance model in Indonesia. This study seeks to find out the moderating effect of social norms on relationship between the determinants of TOT compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya.

1.3 Research Objectives

The study was guided by main objective and specific objectives.

1.3.1 Main objective

The main objective of the study was to establish the moderating effect of social norms on the relationship between determinants of turnover tax compliance among, small and medium enterprises in Kariokor market in Nairobi, Kenya.

1.3.2 Specific Objectives

The specific objectives of the study were:

i. Establish effect of Compliance costs on turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya.

ii. Determine the effect of Taxpayer knowledge on turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya.

iii. Establish the effect of system automation on turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya.

iv. Establish the moderating effect of social norms on the relationship between Compliance Costs, Taxpayers Knowledge and system automation and turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya.

   a) To establish the moderating effect of social norms on relationship between Compliance Costs and turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya.

b) To determine the moderating effect of social norms on relationship between Taxpayer Knowledge and turnover tax compliance among small, and medium enterprises in Kariokor market in Nairobi, Kenya.

c) To establish the moderating effect of social norms on relationship between system automation and turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya.

1.4 Research Hypotheses

This study seeks to test the following hypotheses:

H_{01}: Compliance cost has no significant effect on turnover tax compliance among SMEs in Kariokor market in Nairobi, Kenya.

H_{02}: Taxpayer's knowledge has no significant effect on turnover tax compliance among SMEs in Kariokor market in Nairobi, Kenya.

H_{03}: System automation has no significant effect on turnover tax compliance among SMEs in Kariokor market in Nairobi, Kenya.

H_{04}: Social norms have no moderating effect on the relationship between Compliance Costs, Taxpayers Knowledge and system automation and turnover tax compliance among, small and medium enterprises in Kariokor market in Nairobi, Kenya.

H_{04a}: Social norms has no moderating effect on the relationship between Compliance Costs, and turnover tax compliance among, small and medium enterprises in Kariokor market in Nairobi, Kenya.

H_{04b}: Social norms has no moderating effect on the relationship between Taxpayer Knowledge and turnover tax compliance among, small and medium enterprises in Kariokor market in Nairobi, Kenya.

H_{04c}: Social norms has no moderating effect on the relationship between system automation and turnover tax compliance among, small and medium enterprises in Kariokor market in Nairobi, Kenya.

1.5 Significance of the Study

The outcome of this research will assist the government in developing suitable strategies on tax policies to achieve tax compliance in the country. The outcomes also showed the attitudes displayed by the SMEs sector in the country. It will also help tax scholars make a reference and enrich knowledge in tax management and further studies.

1.6 Scope of the Study

The scope of a study refers to the boundaries or limits of the research project, including the specific objectives, research questions, variables, population, and geographical or temporal boundaries. The scope of a study defines what the study covered, what was not covered, and the depth or breadth of the research. To prevent confusion and to make sure that the research is manageable and viable given the available resources and time constraints, it is critical to explicitly define the scope of a study (Creswell, 2014). Geographically, the study covered SMEs in the Kariokor market in Nairobi, Kenya. The unit of analysis were SMEs operating in Kariokor market and data was collected from 1382 TOT registered SMEs within that area. The study covered one year period of the financial year 2022/2023.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter covers the literature review, the conceptual framework, empirical literature review, summary of literature and research gaps.

2.1 Conceptual Review

This section presents a discussion of concepts and variables in this study, the section focused on compliance cost, taxpayer knowledge, System automation, social norms and turnover tax compliance.

2.1.1 Turnover tax Compliance

Turnover Tax is a tax charged on businesses whose gross turnover is more than Kshs. 1,000,000 but does not exceed or is not expected to exceed Kshs. 25, 000,000 during any year of Income. TOT is chargeable under Section 12 (C) of the Income Tax Act (CAP 470). Many scholars have defined tax compliance in various ways. Ayuba, Saad and Ariffin (2016) described tax compliance as adherence of citizens to laid tax laws and principles which are put in place by their government. Sania and Yudianto (2018) define it as a fulfillment of obligations in relation to taxation voluntarily as required by the law. It is also determined by the power of authorities and taxpayers' trust in the authority (Adhiambo, 2019).

Hashmi and Governatori (2018) categorizes compliance in two namely; administrative compliance and technical compliance. Administrative rules imply filing and making payments and ensuring that the due dates are adhered to and the procedures also followed whereas the technical aspect refers to the computation of the correct taxes. In addition, it refers to voluntary computation, payment of the tax due and payable within the stipulated time lines. Tax compliance can be well-described by considering three distinctive types of compliance which are; reporting, filing and payment compliance (Muthinji, 2022).

In Latvia, the turnover tax is known as the enterprise Tax (MET). It is a more straightforward tax system intended for small companies with yearly revenue under a particular cap. The purpose of the MET is to simplify tax compliance for small enterprises and promote entrepreneurship. Under the MET, eligible microenterprises have the option to pay a fixed tax rate based on their turnover instead of the regular corporate income tax. The amount of turnover determines the tax rate. The cap was lowered to EUR 25,000 in 2021 from EUR 40,000 in a calendar year. The appropriate tax rate is now 40% over this level, and it was formerly 25% below it. A microenterprise must meet two requirements in order to elect to pay the microenterprise tax: first, its anticipated turnover cannot exceed the EUR 40,000 VAT registration threshold; second, it must not be a registered VAT payer and has no intention of doing so until the EUR 40,000 threshold is reached. A microenterprise shall no longer be considered a microenterprise taxpayer beginning with the following taxation period if it is required by the Value Added Tax Law to register as a VAT payer (KMPG,2023).

In Pakistan, when SMEs are filing their tax returns, they can opt to be taxed under the Final Tax Regime (FTR) for an irrevocable period of three years. Two categories are available depending on their annual turnover, those with turnover not exceeding PKR 100 million are taxed at a rate of 0.25% of the gross turnover while the other category is for those who have a gross turnover of between PKR 100 million and not exceeding 250 million taxed at a rate of 0.25 % of the gross turnover. According to the Finance Act of 2022, there is a minimum penalty of PKR 50,000 and a maximum penalty of

200% of the tax payable for not filing or filing returns after the deadline. The penalty is equivalent to 0.1% of the tax payable for each day of default or PKR 1,000 per day.

Kenyan micro and small enterprises with an annual revenue of KES 500,000 to KES $25 million are subject to the Turnover Tax (TOT). The registration is done online through Itax. TOT was introduced in Kenya in the year 2007 through the Finance act 2007 under section 12C. It was suspended in 2018 and presumptive tax was introduced. Turnover tax was introduced as a simple tax to bring, small and medium enterprises into the tax net (Kanyinga, 2018).

In 2019, it was reintroduced through the Finance Act 2019. This tax targeted the SMEs which consist of the Jua kali sector and other small traders. A Trader whose turnover was more than one million and less than five million were required to register for TOT the rate was at 3% of the gross turnover but in the year 2020, the rate was reduced to 1% and the maximum threshold was also increased to fifty million. In 2024, the rate was changed to rate to 3% of the gross turnover and the minimum threshold reduced to five hundred thousand and the maximum to be fifteen million shillings. The following month's 20th should be the deadline for filing and paying this tax. Income exempts from TOT include persons with business turnover below one million and above fifty million, employment income, rental income, management and professional services and any income subject to final withholding tax (Income tax Cap 470, 2022).

Additionally, TOT is final tax, and one is not required to file annual income tax returns. The penalty for failing to submit a return on time is Ksh. 1,000 per month as per section 89 of TPA, late payment a penalty of 5% as of tax payable and 1% interest per month as provided by section 38 of the TPA. It was aimed at reducing the tax burden, but the government has not been able to collect enough revenue from this tax.

2.1.2 Compliance cost

Compliance cost refers to the expenses that businesses and individuals incur to comply with tax laws and regulations. Tax compliance costs can arise from various activities, such as record-keeping, tax return preparation, tax planning, and communication with tax authorities. Tax compliance cost includes both direct and indirect expenses. Direct costs include fees paid to tax professionals for advice or assistance, expenses incurred in preparing and filing tax returns, and costs associated with tax audits or disputes. Indirect costs include the time and effort required to collect and organize tax-related information, as well as the opportunity costs associated with diverting resources away from productive activities to focus on tax compliance (Eichfelder & Hechtner,2018).

Tax compliance costs can be significant, particularly for small businesses and low-income individuals who may lack the resources to hire tax professionals or invest in tax compliance technology (Evans et al, 2021). Reducing tax compliance costs can benefit the economy by freeing up resources for more productive activities, reducing administrative burden, and improving taxpayer compliance (OECD, 2018). Governments can help reduce tax compliance costs by simplifying tax codes, providing clear and consistent guidance, and leveraging technology to streamline tax filing and payment processes.

According to World Bank (2018), Kenya's tax compliance costs were comparatively high, particularly for small and medium-sized businesses (SMEs). According to the report, Kenyan SMEs' tax compliance expenses amounted to almost 48% of the total amount of taxes paid, which is substantially more than the average of 29% for other African nations. In order to lower the cost of tax compliance in Kenya, the KRA has also been putting several initiatives into place. These include streamlining tax forms and procedures and introducing online tax filing and payment systems.

2.1.3 Taxpayer Knowledge

Taxpayer knowledge is the degree to which a taxpayer is aware of and comprehends the tax laws, rules, and regulations that are relevant to them. This includes knowledge of their tax obligations, such as how to file tax returns, the applicable tax rates, deductions, credits, and exemptions that may be available to them, and any tax planning strategies that may be useful. Oktaviani et al. (2020) in his study in Indonesia showed that taxpayer knowledge and taxation socialization have a substantial effect on taxpayer compliance, both directly and indirectly through taxpayer awareness. This suggests that improving taxpayers' knowledge and socialization about taxation can increase their compliance behavior, which in turn can contribute to the development of the Indonesian economy.

Oladipo (2022) examined the effects of taxpayer behavior among small and medium-sized firms in Nigeria using a survey research design. The results showed that tax knowledge has a favorable and significant impact on tax compliance. Thus, the study shows that having an understanding of taxes increases the likelihood of encouraging tax compliance. It is imperative for small and medium-sized business owners to enhance their comprehension and expertise in taxation to the mutual advantage of the government and the broader public. Prasetyarini, Rusmana, and Putri's (2019) conclusion that tax knowledge affects the efficacy of self-assessment system deployment provided support for this study.

The Kenya Revenue Authority has also put attention on SMEs by ensuring that tax law procedures are simplified. KRA has also ensured that SMEs form associations and taxpayers appreciation day (Mwangi, 2019). Since many SMEs are informal, it is opined that non-compliance may be unintentional as the taxpayers may not have reliable knowledge on the existing tax obligations. Consequently, it is anticipated that tax education will increase adequate knowledge of all tax rules and processes and foster an atmosphere that encourages SMEs to comply (Mararia, 2020).

2.1.4 System Automation

The role that information technology plays in tax compliance has been the subject of numerous studies both locally and globally. Amitabhet al. (2019), for example, conducted research on the factors that lead to young professionals in India completing their income taxes electronically. This study looked at young Indian professionals' opinions and practices around submitting tax returns online or paperless in an effort to increase compliance. According to a regression analysis, young Indian professionals' antecedents included the perceived ease of the tax system, individual IT innovation, relative advantage, filing service performance, and compatibility. The results of this study suggest that accessibility, ease of use, and innovation are necessary for any online system to be successful, regardless of the taxpayer category—small, medium, or large.

Generally speaking, the more criteria that are set down by tax legislation, the more complex the tax system should be. According to Adimassu & Jerene (2016), there has been a correlation between increased tax underreporting and the complexity of the tax system. Mittone (2018) discovers that intricacy has a big impact on the choice of tax compliance.

2.1.5 Social Norms

According to Cialdini et al. (1991), injunctive norms are normative guidelines for tax compliance or, on the other hand, the normative acceptability of non-adherence. Similarly, societal norms—that is, the belief that tax evasion is practiced or supported, among other things—have also been said to have an effect on tax compliance (Wenzel, 2004). Social standards, if internalized, should reduce the perceived structure of opportunities and, as said before, the motivation to submit fake tax returns. According to Alm et al. (1995), social norms are naturally vary amongst different cultural or subcultural groups. Alternatively, according to De Juan et al. (1994), Porcano (1988), and Webley et al. (2001), social norms are the perception of tax evasion's prevalence or acceptance among a reference group. In either scenario, the evidence is just correlational, and it is unclear if social norms are meant to explain tax-paying behavior or if they have a direct effect on it.

Social norms, on the other hand, imply that people will comply if they believe that doing so is widespread and, consequently, the social norm that is accepted (Alm et al., 2016). According to Webley et al. (2019), social norms are typically defined as the perceived frequency or acceptance of tax evasion within a reference group; alternatively, they can be defined as the inherent differences between various cultural or subcultural groups (Sanchez at el, 2017).

According to Paler (2013), generalized state-society reciprocity is defined as “a continuing relationship of exchange that involves mutual expectations that a benefit granted now should be repaid in the future, but that is unrequited or imbalanced at any given time.” Taxes, therefore, are crucial in establishing norms of this type.

2.2 Theoretical Review

The ideas that make an effort to explain the variables influencing turnover tax compliance are reviewed in this section. Expected Utility Theory (EUT), Cost-of-Service Theory, Social Learning Theory, and Unified Theory of Acceptance and Use of Technology Behavioral Theory are the theories that are discussed. These theories combined explain the interrelation among the study variables which is used to address the problem of tax noncompliance among the SMEs.

2.2.1 Expected Utility Theory (EUT)

In 1972, Allingham and Sandmo invented EUT. The two academics used the Expected Utility Theory (EUT) to address the issue of tax evasion. They concluded that, on the assumption that taxpayers are rational, they will only evade taxes if the benefits of doing so outweigh the costs of filing taxes. What they referred to as anticipated utility was the entire utility of all possible outcomes, weighted by the probability that each will occur. The amount of the tax savings plus the costs of being found and punished, both of which are weighed by the probability of being caught, is the expected utility of tax evasion. The value of following the law, weighted by the likelihood of avoiding detection, is the predicted benefit of paying taxes.

Allingham and Sandmo argued that the level of tax evasion will depend on the relatively expected utilities of compliance and evasion. Tax evasion is more likely to occur when the expected benefit of doing so exceeds the expected utility of complying with the law. On the other hand, taxpayers are more inclined to pay taxes if the expected utility of compliance exceeds the expected utility of evasion.

Undergraduate students were the subjects of a lab experiment on tax compliance by Jackson and Milliron (1986). Researchers discovered that estimated likelihood of detection played a crucial role on compliance behavior, as did the severity of punishments for noncompliance. Additionally, Feld and Frey (2002) used a poll of 5,000 taxpayers to undertake a research on tax compliance in Switzerland. They discovered that if taxpayers thought the tax system was fair and that there was a high degree of enforcement, they were more likely to abide by the law. Furthermore, Torgler

(2003) used survey data to analyze tax compliance in the US, Australia, and Switzerland. He discovered that one of the best indicators of tax compliance was tax morale, or the fundamental drive to pay taxes. These studies show the applicability of EUT theory to the study of turnover tax compliance and offer empirical support for the theory's central claims. This study was hence used to anchor the wholes study. This is by explaining the relationship between all the study variables.

2.2.2 The Cost-of-Service Theory

Myers is credited with developing the cost-of-service theory (1984). He contends that the cost of services delivered equals the payment for public service, based on the way this approach is handled. According to some economists, taxing equity or justice will be satisfied if the government only collects what it truly costs for the services that citizens provide. Without a doubt, the cost-of-service theory can be used to some extent in situations where the services are provided at a fixed price and are fairly simple to calculate, such as in the case of postal, railroad, and energy supply services. However, the majority of governmental expenses are not fixed for each individual since certain costs, such those associated with the police, armed forces, and court, cannot be precisely calculated for each individual. Dalton has also disproved this notion, arguing that a tax has no benefits in exchange for its imposition (Kaplow, 2010). Alm (2004) further argued that the theory can be too complex and difficult to implement in practice, which may lead to confusion and noncompliance among taxpayers. Additionally, it may require significant investment in accounting and financial systems to accurately determine the cost of government services, which may not be feasible for all countries or regions.

This theory supports the compliance cost variable. The taxpayer expects that the compliance cost is fair and that the benefits derived from paying the tax exceed the costs, then the taxpayer in this case the SME owner will comply to the tax.

2.2.3 The Social Learning Theory

The Social Learning Theory was developed by psychologist Albert Bandura in 1977. Social Learning Theory posits that individuals learn through observation, modeling, and reinforcement from their social environment, including family, peers, and other influential figures. Because of this, taxpayers are more inclined to abide by tax laws if they see others doing so and believe that doing so has social consequences for breaking the law.

The Social Learning Theory also highlights the significance of self-efficacy, or the conviction that one can carry out a particular behavior. Regarding tax compliance, those who have faith in their capacity to comprehend tax laws and accurately fill out tax forms are more likely to adhere to tax rules. In their study on the Effect of Education on Tax Compliance in Belgium, (De Neve & Nys, 2017) employed Social Learning Theory to boost taxpayer education program compliance with local taxes. The study found that taxpayers who received the education program were more likely to comply with local tax laws than those who did not. Furthermore, Kogler et. At (2013) suggested that taxpayer education programs should focus on building taxpayers' confidence in their ability to comply with tax regulations.

The theory is applicable to taxpayer knowledge variable. Taxpayes specifically SME owners gain tax knowledge from learning through training when the taxpayer has adequate understanding of the tax and its benefits, they will be able to comply.

2.2.4 Unified Theory of Acceptance and use of Technology

Venkatesh et al. (2003) developed this hypothesis. The objective was to elucidate the objectives of users when utilizing an information system and the ensuing usage patterns. According to the idea, performance expectancy, effort expectancy, social influence, and facilitating conditions are the four primary aspects that will affect how a new information system is used. The targeted user's age, experience, gender, and voluntariness all serve as moderators on the four factors. For instance, a young user with experience in information technology is more likely to find a new system to be very helpful in carrying out their duties, simple to use because they are already technically proficient, and they will probably persuade their peers to use the same information system.

The aforementioned model is one of eight previous models whose concepts were reviewed and combined to create the theory. among others, the Technology Acceptance Model. Many scholars have employed the model in their study, but it has also drawn criticism from a variety of sources because it is frequently compared to the theory of technology adoption model (Venkatesh, & Zhang, 2010).

The Unified Theory of Acceptance and Use of Technology, which considers the economic environment, internal organizational structure, and industry structures, is one of the most important components for the growth and development of the business. The unified theory calls for switching from manual labor to computerized technology, which expedites and simplifies work. The management of the company introduces the information system based on the several duties that must be effectively completed in an automated manner. A notable example of automation is the shift that most organizations have made from using manual systems to modern information systems (Venkatesh, 2016).

The phases of the business's growth are introduction, growth, peak, and decline, which are the stages that follow in the growth cycle. When information technology is introduced to do various tasks, these steps are also employed. During the growth stage, capital increases, but during the peak stage, it stays constant. During the fall stage, capital starts to decrease, and most businesses are forced to close during this time. When capital and output both grow at the same rate, expenses also rise. Business information systems, which process data and generate output, are among the information systems utilized in contemporary technology (Venkatesh, 2016).

The notion of technology adoption and use has previously been demonstrated by other scholars who carried out extra research to support their findings. It illustrates how small businesses begin and grow into large corporations with higher growth in capital, output, and expenditure due to the utilization of advanced technology through computerized systems. The company's market share is growing as it produces more goods and raises labor expenses, all of which are signs of the company's rise within the sector. By employing various methods to achieve the goals, the company works as a single union to achieve the organization's objectives (Gupta, 2008).

The business's founders begin with an idea, organize it, and put it into action. This allows the business to launch and grow as the idea develops, which was the primary goal of the entrepreneur, leading to success. Since they are the ones who came up with the business concept and the company development procedures, entrepreneurs ought to welcome criticism. The organization is impacted by the introduction of information systems, primarily in a good way (Gupta, 2011).

This notion is applicable to the automation of systems variable. Automation of the tax payment system will make it easier for a taxpayer that is SME owner to get through the process of complying easily.

2.2.5 Behavioral Theory

Skinner established the idea in 1967, and it is based on psychological and sociological factors. Taxpayers are now viewed as human people driven to pay taxes based on various attitudes, conventions, beliefs, perceptions, feelings, social features, and cultural backgrounds such as age, gender, and religion, rather than as self-centered utility maximizers (Schmolders, 1960; Mumford, 2001; Wenzel, 2003; Wenzel, 2004a; Wenzel, 2004b; Wenzel, 2005a; Wenzel, 2005b; Fishbein and Ajzen, 1975; Meier and Johnson, 1977; Lewis, 1978; Jackson and Milliron, 1986; Ajzen, 1997; Frey 1997).

The "slippery slope" behavioral model of tax compliance proposed by Kiechler, Hoelzl, and Wahl (2008) takes these sociopsychological elements into account. According to the "slippery slope" theory, trust and authority power have a major impact on tax compliance. Larson and Maag (2016) define "power of authorities" as "taxpayers' perception of the potential of tax officers to notice criminal tax dodging and to penalize tax dodging." "The general opinion of individuals and social groups that the tax authorities are benevolent and work beneficially for the common good" is the definition of trust in authorities. Authority power and trust both raise the amount and quality of tax compliance; however, more voluntary tax compliance is produced by the former, while more enforced tax compliance is produced by the latter.

Moore et al. (2018) used Skinner's behavioral theory to evaluate the effectiveness of different tax compliance strategies. The authors conducted an experiment in Minnesota, where they evaluated different messages and reminders to encourage tax compliance.

Also, Williams and Martinez (2017) in their study on exploring tax evasion in Spain used Skinner's behavioral theory to investigate tax evasion in Spain. The authors used a combination of rational choice theory and the behavioral theory of crime to analyze the factors that influence tax evasion behavior. Finally, Gbadamosi & Oni (2015) examined the impact of behavioral factors on tax compliance in Nigeria. It used Skinner's reinforcement theory to analyze the role of rewards and punishments in influencing tax compliance behavior.

System automation is explained by behavioral theory, which acknowledges that it is impacted by a range of socio-psychological factors, including authority power and trust. Comprehending these variables can aid legislators in crafting tax laws and outreach tactics that encourage adherence to tax laws. Since the theory describes taxpayers' attitudes toward compliance or non-compliance, it is pertinent to this investigation. This implies that an individual's attitude and views determine their propensity to comply with tax regulations.

The relationship between Turnover tax compliance and social norms is supported by the hypothesis. The taxpayer that is the SME owner will comply to the tax since they know that there are consequences of not. In the case the taxpayer lacks the knowledge; they will seek to know in order to ensure that they comply. Similarly, the taxpayer will not mind the compliance costs since they understand the consequences of noncompliance will outweigh the compliance cost.

2.3 Empirical Review

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

2.3.1 Turnover Tax Compliance

Wankio (2016) sought to identify the factors that influence tax compliance in Kenya, specifically focusing on SME's operating within Migori County. Migori, Ombo, Oruba Area. The research was a descriptive survey. Given the population of 680 registered taxpayers in Migori, Oruba, Ombo area, a sample size of 68 was picked as representative, to be the focus of this study. Data was collected using self -administered questionnaires. The collected data was consequently analyzed using chi-square the findings of the research presented using tables. The findings of the study revealed that with regard to lack of readily available information relating to tax matters accounted to a great percent as a reason for non-compliance. The findings of this study further revealed that 58.3% of the SMEs interviewed incur more than Ksh.50, 000 monthly, as costs of tax compliance. Some of these costs include bookkeeping, installation of software and internet costs, additional cost of hiring professional staff such as auditors and tax experts, accounting for the largest proportion of these costs. The findings of the study further revealed that the respondents feel that their attitude to tax affect compliance to a great extent.

The goal of Murray's (2019) study was to look into how Indonesian small and medium-sized businesses (SMEs) handled tax compliance. Data from 100 SME owners were gathered for the study using a quantitative research approach and a questionnaire survey. The study's conclusions demonstrated that, with a compliance percentage of just 52.8%, SMEs in Indonesia have a comparatively low degree of tax compliance. The survey also discovered that perceived fairness of the tax system, perceived likelihood of detection, and tax expertise are the primary determinants influencing tax compliance behavior among SMEs. Additionally, the study discovered that tax education significantly improves tax compliance behavior, meaning that SMEs who know more about taxes are more likely to follow the law. The study indicated that SMEs' opinions of the tax system's unfairness or their beliefs of the risk of discovery being low have a significant negative impact on their tax compliance behavior. As a result, SMEs may be less likely to comply with tax legislation. The study, however, only includes 100 SME owners in its sample, which may limit the applicability of its conclusions to the larger SME community in Indonesia. Furthermore, because the study only uses the SME owners' self-reported data, flaws including response bias and social desirability bias may be introduced into the data.

The purpose of Moreno and Moya's (2018) research was to identify the factors affecting tax compliance in small and medium-sized enterprises in North Central Nigeria. The study's conclusions demonstrated that important variables influencing tax compliance among SMEs in North Central Nigeria include tax awareness, tax justice, tax penalties, and faith in the tax authority. According to the report, SMEs that have greater tax knowledge and confidence in the tax authorities are more likely to abide by tax regulations. On the other hand, SMEs are less inclined to abide by tax laws if they feel that the tax system is unfair or that they would face larger tax penalties. Additionally, the survey discovered that SMEs are more likely to abide by tax laws if they have access to expert tax advice and believe that taxes are collected in an open and effective manner. The study also discovered that SMEs' tax compliance behavior is not significantly impacted by demographic variables like age, education level, or company size.

Muthinji (2022) analyzed factors affecting Turnover Tax Compliance in micro, small and medium enterprises (MSMEs) sector in Roysambu area in Nairobi. The study was guided by three objectives namely; to determine the effects of economic factors, political factors and psychological factors on Turnover Tax Compliance in Roysambu area. The study adopted the descriptive and explanatory survey design. The target population was 11,501 respondents. The study collected primary data from a sample of 386 taxpayers which were selected through random sampling. Economic factors, political factors and psychological factors were found to have significant effect on Turnover Tax Compliance.

2.3.2 Compliance cost and Turnover tax Compliance

Research has indicated that there is a noteworthy correlation between compliance expenses and tax compliance. Yaseen and Nawaz (2020) looked at how tax compliance costs affected Pakistani small businesses' tax compliance. According to the study, the cost of compliance has a major detrimental impact on taxpayer compliance. Reducing compliance costs and improving compliance may be accomplished through taxpayer education and the simplification of tax procedures. In a study, Kim and Lee (2021) looked at the connection between tax compliance expenses and tax compliance among Korean small and medium-sized enterprises (SMEs). According to the report, SMEs with poorer financial performance are more vulnerable to compliance costs, which have a considerable detrimental impact on tax compliance. Carayannis and associates. (2021) looked into how tax compliance expenses affected Greece's small and medium-sized businesses (SMEs)

The study found that tax compliance costs are a significant burden for SMEs and that reducing these costs could lead to increased compliance and higher tax revenues for the government. A study by Okpeyo Et. al., (2019) on the determinants of tax compliance in Ghana, it was found that tax compliance costs was the most influencing factor on tax compliance which differed with the study done previously in Kenya by Chepkuri et al. (2014) and where compliance cost was rated average. Mascagni and McEntee (2015) found similar results when examining compliance expenses among small businesses in developing countries and found that they provide a significant barrier to tax compliance. The study suggested that simplifying tax procedures and providing taxpayer education could be effective strategies for reducing compliance cost and enhancing compliance among small businesses. The study only focused on SMEs in Greece, and it would be interesting to see whether the findings could be generalized to other countries or regions. Different tax systems, cultural norms, and economic conditions could affect the compliance costs and challenges faced by SMEs in different contexts.

In the Philippines, numerous research on the costs of tax compliance have been conducted. For example, a study conducted in 2018 by Cuaresma et al. discovered that tax compliance costs were substantial for small enterprises in the Philippines and that these costs changed based on the complexity of the tax code and the accessibility of tax services. Although the studies listed above supported the assumption that compliance cost had a negative affect on tax compliance, Pomeranz (2015) found that when taxpayers were more likely to be noncompliant with tax obligations when compliance cost exceeded a certain level. This shows that while a certain amount of compliance costs might be required to encourage tax compliance, going overboard with compliance costs might backfire. Cost is still a problem for taxpayers because of expenses like gathering and organizing data, maintaining records, hiring tax professionals, purchasing stationery and other materials for filing, and the time it takes to calculate and file taxes (Kasiva, 2021). Deogratius (2017) corroborated this claim, stating that high tax compliance costs discourage many SMEs from filing their taxes.

Regression analysis showed a significant positive correlation between compliance cost and turnover tax compliance, according to Timothy (2022)'s research on the factors influencing turnover tax compliance among small and medium-sized businesses in Nairobi, Kenya's Westland Area. Consistent with Kalama's (2020) research on the subject, the study indicated a substantial positive and very significant association ($r = 0.655$, $P < 0.05$) between tax compliance cost and turnover tax compliance among small size firms in Kilifi County.

2.3.3 Taxpayer Knowledge and Turnover tax Compliance

There are two primary categories of taxpayer knowledge: knowledge about the possibility of tax evasion and knowledge gained through formal or ordinary education (Groenland & Veldhoven 1983). The term "ordinary" or "official education received" describes the formal education that a taxpayer has received, including their degree of literacy and numeracy and their comprehension of tax rules and regulations. Studies have found that individuals with higher levels of education are more likely to comply with tax laws and regulations than those with lower levels of education (Kirchler et al., 2008). Knowledge towards the opportunity to evade tax refers to a taxpayer's understanding of the benefits and risks associated with evading tax. Tax rules are more likely to be followed by people who believe there is a greater chance they will be discovered dodging taxes (Alm et al., 1995). Conversely, people who believe there is less chance of being discovered for tax cheating are more likely to do it.

Turnover tax compliance has been found to be significantly impacted by taxpayer understanding. This is due to the fact that well-informed taxpayers are more likely to accurately record their income, claim all applicable deductions and credits, and stay clear of errors that could lead to an audit or other enforcement action. Tax knowledge is positively associated with tax compliance behavior, and that this relationship was stronger for taxpayers with more complex tax situations (Lee, Jung, & Chung, 2016). A related study indicated that tax education increased the likelihood of taxpayer compliance (Slemrod & Yitzhaki, 2002). Taxpayer knowledge and tax compliance have a positive and significant relationship, according to Ghani et al.'s 2020 study on taxpayer knowledge and tax performance among self-employed individuals in Malaysia. Similarly, an investigation by Pastory (2022) on factors that influence TOT compliance among SMEs in Ilala municipality, Tanzania, found that tax knowledge were significant determinants of TOT compliance.

Also, Aniefo (2018) found out that taxpayer knowledge about turnover tax was positively related to turnover tax compliance. Similarly, Mamo & Gashaw (2019) found that businesses that received tax education were more likely to comply with turnover tax regulations. The above studies agreed with the findings done in Kenya which showed that SMEs face numerous challenges in complying with tax regulations, including a lack of knowledge and awareness about tax laws and regulations (Mwangi & Githinji, 2018). The study suggested that improving taxpayer knowledge and awareness through tax education programs could be an effective way to enhance compliance among small businesses.

Nelson (2020) looked at the variables influencing SMEs compliance with turnover taxes in Kenya. She found that taxpayer awareness has a positive and substantial link with SMEs' tax compliance in Nairobi County. According to the research, it is critical to raise public awareness of tax laws, the structure and administration of the tax system, less complex tax laws that are easy for non-professionals to understand, and easily accessible tax information in order to promote tax compliance.

2.3.4 System automation and Turnover tax Compliance

The effectiveness and efficiency of revenue mobilization must be increased by the adoption of system automation. There is little doubt that the traditional paper forms will remain an essential part of the framework for tax administration (UNCTAD, 2008). By reducing instances of tax avoidance and evasion, technological adoption will help tax collection agencies meet their revenue collection targets. The Public Administration portion of the tax law includes technology, with the aim of boosting production and viability at both local and national levels. In the current policy discourse, electronic tax collection in developing countries has gained increasing attention. For instance, Nisar (2013) argued that the advancements in public taxes today highlight the need for an online system for tax assessment and collection.

This can be explained by a number of factors, including the potential benefits of taxation for state building, independence from foreign aid, the fiscal effects of trade liberalization, the debt and financial crises in the West, and the urgent need for money in developing countries. Because of the substantial challenges governments in underdeveloped countries face in collecting tax revenues, there is a gap between what they could and do collect. Investing in modern technologies, such information and communication technology (ICT), is essential to automating the revenue collection system and enhancing it to achieve information interchange and integration, which will raise the efficacy and efficiency of the system. The County sectors should put in place a productive and successful revenue collection system within a monitoring framework that ensures adequate oversight of the projects' operations and planned programs in order to increase accountability and resource absorption (Amin, 2013).

Using contemporary technology, such as ICT, to automate revenue collecting processes and structures is essential to streamlining and optimizing tax administration. (2018) conducted an empirical study with the primary objective of determining the impact of technology adoption on revenue mobilization in India. An unbiased sample of 20 municipal governments nationwide was subjected to regression analysis. The study's findings demonstrated that in order for the government to implement policies that are similar to those of its constituents in terms of development and desires, it must significantly enhance its financial profundity without incurred large costs.

Chandler (2020) used 120 questionnaires given to Malaysian revenue employees in his study on the use of technology in tax collection. He went on to say that automation of processes has been considered as a suitable means of introducing larger efficiency to the gathering of street parking fees, which can increase revenue. Ensuring the successful collection of street parking fees requires the implementation of technical solutions that contribute to the government's essential goals.

Aamir (2021) carried out a survey in Malaysia concerning the incorporation of ICT skills and tax software into tax education. The study's respondents were tax professionals who aimed to ascertain the skills required by taxpayers to effectively use an online tax system. According to the report, a taxpayer needs to be proficient in three areas in order to work with a technology-based tax system: word processing, spreadsheet, and email. The findings of this study are relevant to the current investigation because they support the idea that while assessing the effectiveness of an electronic filing system, users' required skill sets should not be overlooked. Maede (2022) asserts that the system's goal might not be achieved if these abilities are ignored. He confirmed that even though the Malaysian tax administration had made significant investments in the new online system, only 20% of the targeted taxpayers could still use it after three years of implementation. Taxpayer behavior was a contributing issue, but computer literacy and other fundamental user abilities were the main cause of this.

Teera (2021) examined taxation and economic development by contrasting the situations of Brazil and Japan. Japan's example showed that a nation does not have to wait to make significant changes to its tax structure until it reaches a high level of growth. Instead, a contemporary system can boost the home market and encourage economic growth. According to Chipeta’s (2020) study on the automation of system procedures of the GRA and the effectiveness of revenue collection, the Ghana Revenue Authority (GRA) adopted the fully integrated and comprehensive tax clearance process through the use of the UNCTAD-developed Automated System for Customs Data and Management. The system manages trade data production for statistical and economic analysis, accounting processes, transit and other suspense procedures, and customs declarations. When the system was implemented in its second year, income collection improved by almost 20%.

Numerous research on technology and tax compliance—more especially, tax filing—have been carried out in Kenya, mostly by the Kenya Revenue Authority. The Muita and Makanga of 2020. Makanga (2020) carried out research on the application of technology as a tactical tool to enhance tax compliance in Kenya. The case study concentrated on major taxpayers, which included government agencies, enterprises, and companies with annual sales of at least Kshs. 750 million. The goal of the project was to evaluate how technology might help Kenyan high-income individuals comply with tax laws. In the quickly changing corporate climate, technology is now a crucial part of any organization's growth, according to the research. It is imperative that KRA or Large Taxpayers adopt contemporary technologies in order to optimize tax compliance efficiency.

Macharia (2022) conducted a related study on the variables influencing Kenya's large taxpayers' acceptance and usage of the e-filing system. The research examined the requisite technology, the competencies required of e-filing users, and the preparedness of the tax authority to promote the utilization of technology in relation to tax compliance. The study came to the conclusion that for e-filing to be successful in Kenya, infrastructure, skills, and a positive business climate are required.

2.3.5 Social Norms and Turnover tax compliance

Hechter and Opp (2020) distinguish between two conceptions of social norms: norms of oughtness, or moral obligations, and less restrictive behavioral regularities, which are grounded in observable conduct. Under this interpretation, standards that are injunctive, subjective, and personal would all be considered oughtness norms. Conversely, behavioral regularity is what is observed and constitutes descriptive standards.

However, the logic of the moral/social actor approach states that social norms should influence tax-paying behavior when they are internalized through a process of identification with the proper social group (Wenzel, 2021). Stated differently, perceived social norms have a direct impact on tax compliance when taxpayers identify with the group that these standards are assigned to. A mediating aspect in the causal effect will be the taxpayer's internalization of societal norms, which enables them to become an integral part of their individual identity. However, from a sociological standpoint, it is frequently believed that social norms have a significant influence on how people behave. This can occasionally incorporate both tax and other economic activity (Etzioni, 2022).

It is stated in this literature that societal tax norms that are in place play a significant role in determining tax compliance or evasion. For example, McClelland @ el (2019) use social norms of tax compliance to explain why underreporting is not more common than it is, given that most nations have lax penalties for tax evasion and little chance of detection. In their social-psychological model of taxpaying behavior, Smith & Kinsey

(2020) place a strong emphasis on normative expectations. In 2019, Lewis adopts a similar stance. According to Wentworth & Rickel (2021), norm commitment might play a significant role in determining whether or not someone chooses to pay the taxes that are required by law.

Mohd (2018) provides experimental support for this claim. Using the approach of unobserved variables, they found a substantial relationship between their measure of tax morality and the size of the hidden economy. In Edlund & Åberg's 2019 analysis, taxpayers exhibit reciprocity. Because they see the value in a linked government function, they are therefore less opposed to designated taxes. Another illustration of how norms influence tax compliance is the finding that people are more likely to comply with the law when they believe other taxpayers are doing the same (Cummings et al., 2021). For instance, even when they would maximize their individual return by not giving, people often give to public goods when they believe that others do. To date, there has been little empirical research on the process of norm development and moral values in relation to tax behavior, and the claims made by Hessing et al. (2019) that norms have a significant impact on tax behavior are not entirely persuasive. The authors raise more concerns about the ability of social tax standards to influence taxpayer behavior.

2.4 Conceptual Framework

Creswell (2021) defines a conceptual framework as a structure that sets out the key concepts, definitions, assumptions, relationships, and methodology that underlie a research study. According to Johnson & Onwuegbuzie (2019), a conceptual framework is a collection of connected ideas that aid in the explanation, prediction, and management of a phenomenon. Figure 2.1 depicts the conceptual framework for the research. The study's independent variables included taxpayer knowledge, which was assessed using information on tax calculation, tax rate, due date, and penalties; system automation, which was assessed using information on online tax payment, online filing, and online registration; and compliance cost, which was measured using costs associated with preparing returns, consulting fees, and computer and internet connectivity.

The dependent variable for the study was Turnover tax compliance which was using tax registration, filing and payment while the moderator was social norms which was measured by Descriptive Norms and Persuasive Norm.

The study expected that the independent variables compliance costs, tax knowledge and system automation would have a direct effect on turnover tax compliance. The study also expected that social norms would have moderating effect on the relationship between compliance costs, tax knowledge, system automation and turnover tax compliance. However, other factors such as firm size and firm age may affect the relationship.

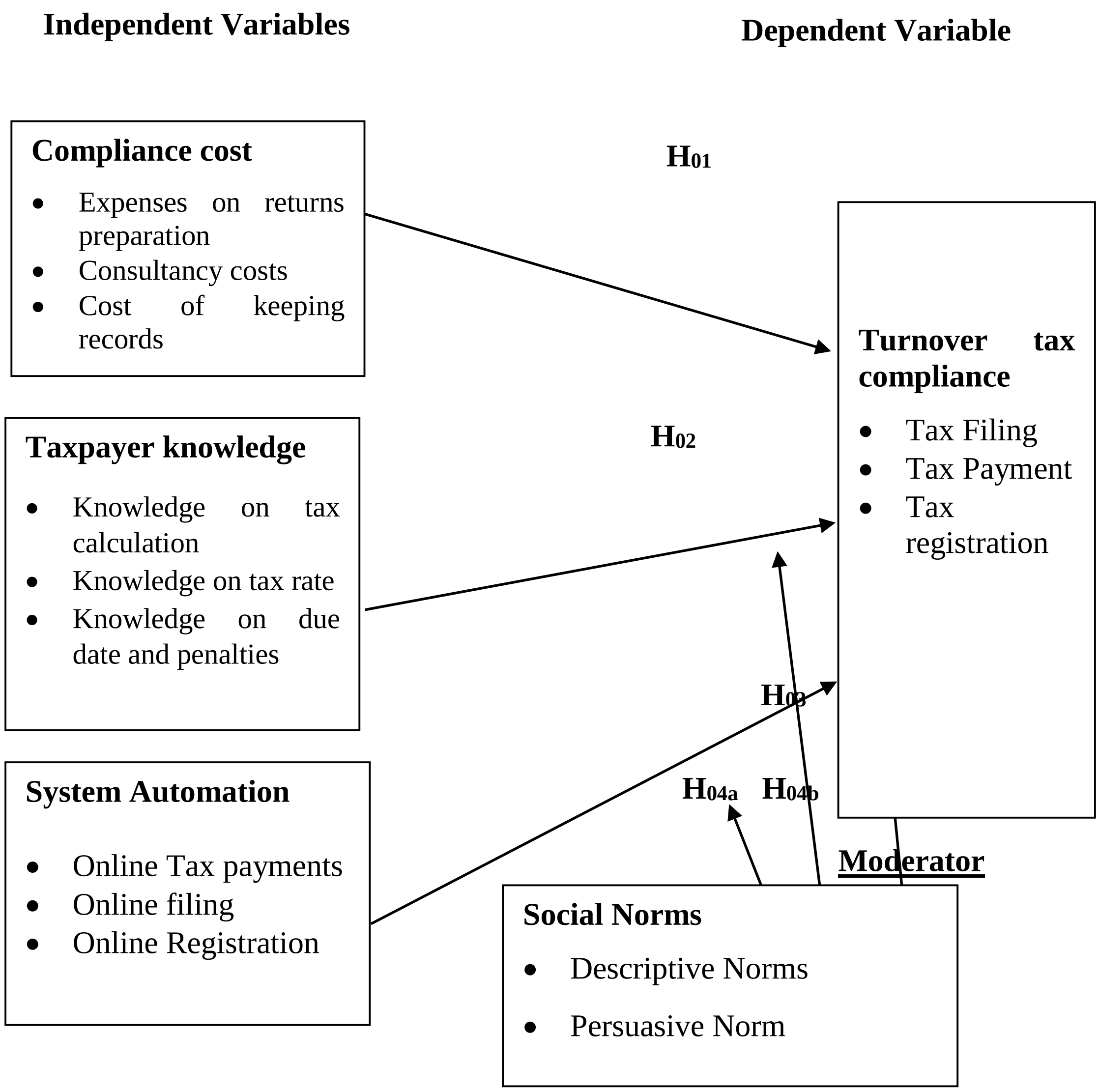

Figure 2.1: Conceptual Framework

Source: Research Data (2024)

2.5 Summary of Literature and Research Gaps

Pastory (2022) investigated the factors that influence tax compliance among SMEs in Ilala municipality, Tanzania. The study discovered that important factors influencing TOT compliance included tax knowledge, the perception of the tax system's fairness, trust in the tax authorities, and the severity of penalties. This study closes the conceptual gap by adding compliance cost as a new variable that was not considered in the study. Similar to this, Popoola's (2022) study on the variables influencing small and medium-sized enterprises' (SMEs') tax compliance behavior in Nigeria's Kwara State found that SMEs are more likely to abide by the law if they have a higher level of tax knowledge and confidence in the tax authorities. There is a conceptual mismatch between the two studies because the former concentrated on corporate tax performance and the latter on turnover tax compliance. The current study additionally includes social norms as a moderating variable.

Aamir (2021) has out a survey in Malaysia regarding the incorporation of ICT skills and tax software into tax education. The results of this study have relevance for the current study in that the mandatory skills that users of the system must possess should not be overlooked when evaluating the efficacy of an electronic filing system. The study conducted by Ghani and Shamsuddin (2020) examined the relationship between self-employed taxpayers' morale toward tax compliance, compliance costs, and complexity. The results indicated that taxpayer knowledge had a considerable favorable impact on tax compliance. The current study introduces System automation and social norms as different variables and also its id done in Kenya. This breaks the contextual and conceptual gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The study's methodology is explained in this chapter. It covers sample size, sampling technique, target population, and research design. Along with data collection techniques, it also covers piloting, data processing, ethical considerations, variable presentation, and measurement.

3.1 Research Design

A research design, according to Creswell (2014), is the framework, approach, and plan of inquiry developed to find solutions to research problems or questions. Creswell further argued that research design is critical to the success of a study because it provides a roadmap that ensures that the research is well planned, structured and executed. This minimizes risk of bias, increases the validity and reliability of findings, and draw more accurate and meaningful conclusions. In this study, an explanatory research design was employed. An explanatory research design, according to Apuke (2017), makes use of the causal relationship between variables to ascertain how one variable affects another. This design was therefore appropriate for this study since the study sought to determine the effect of the factors on turnover tax compliance hence establishing the causal effect.

3.2 Target Population

A population is described as a collection of people, things, or occurrences from which a sample is taken and from which conclusions are sought (Mugenda, 2012). The target population for study was 1382 Turnover Tax registered SMEs in Kariokor Market in Nairobi (KRA, 2022).

3.3 Sample size and Sampling Technique

The sample size must be taken into account in any empirical investigation when the goal is to derive conclusions about the population from a sample. Stratified random sampling was used in the investigation. According to Kothari (2004), this technique preserves statistical regularity and guarantees that the sample chosen represents the population's composition and characteristics in a comparable way, making it suitable for classification as a representative sample. Using Yamane's formula, the sample size for the registered SMEs in Nairobi's Kariokor Market was determined (Yamane, 1967).

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

N = 1382

$$n = \frac{1382}{1 + 1382(0.05^2)}$$

n = 311

Based on a population of 1382 SMEs in Nairobi's Kariokor Market, Yamane's formula for sample size with an error margin of 5% at a confidence coefficient of 95% (Yamane, 1967) yields a sample size of 311 SMEs.

Table 3.1: The Sample Frame

Strata		**Population**	**Sample**
Leather, basket and Curio dealers	(284/1382*311)	284	64
Motor spares dealers and mechanics	(237/1382*311)	237	53
food stuff dealers	(482/1382*311)	482	109
Secondhand items dealers	(379/1382*311)	379	85
Total		**1382**	**311**

Source: Research Data (2024)

3.4 Data Collection

Bailey (2014) describes a data collection instrument as a structured tool or method for collecting data, such as a questionnaire, survey, or interview schedule. For this study, primary data will be gathered via a standardized questionnaire. As per Saunders et al. (2009), a questionnaire is a method of gathering data wherein participants are asked to furnish identical responses to a sequence of inquiries. According to Cooper and Schindler (2012), standardized questions that one can be sure all respondents would interpret the same way are the ideal kind for surveys. In addition, research that aims to explain or describe anything uses questionnaires the most. A closed-ended, five-point Likert scale questionnaire was used for the study, and the questions were designed to elicit succinct, targeted responses from the participants. The questionnaire was prepared and organized in line with the research objectives. The questionnaire consisted of six sections. The first section consisted on the demographic characteristics, the second section was on compliance cost to help respond to the first objective and research question. The third part consisted of statements on tax knowledge which aimed at responding to the second objective and research question. Par four consisted on statements on system automation which was used to respond to the third objective and research question. Section five consisted of statements on social norms which was aimed on addressing the fourth objective while the last part consisted of statements on the dependent variable.

3.5 Data Collection Procedures

In order to address research questions, test hypotheses, and assess results, data collection is the methodical process of obtaining and measuring information on variables of interest in a predetermined, systematic manner (Creswel, 2016). Before beginning the data collection process, the researcher gathered the necessary documentation, such as an introduction letter from the institution and approval from the National Commission for Science, Technology, and Innovation (NACOSTI). With the help of study assistants, the researcher delivered the surveys to the respondents at their workstation after obtaining clearance. For those respondents who needed help in filling in the questionnaire, the researcher and assistants read and helped them fill in the responses. The data filling exercise took two weeks which enabled the researcher to have adequate time to fill in the questionnaires. After giving the responders some time to complete their responses, the filled in questionnaires were collected. This method of data collection was appropriate for this study since the objectives sought to establish a relationship. The data being filled in using the Likert scale would hence be the most appropriate.

3.6 Pilot Testing

A pilot test is frequently conducted prior to the primary data collection activity to make sure that important study components about the instruments utilized for data collection were not missed (Cooper & Schindler, 2013). Depending on the sample size, a pilot test should have a 1% to 10% sample size range (Coops & Schchilder, 2013). To ascertain a questionnaire's dependability, a pilot test was conducted. Pilot study was done on 31 SMEs in Kajiado market in Kajiado county and the respondents were randomly selected**.** Kajiado market was selected since the commodities sold in the market are similar to those sold in Kariokor Market. The pilot test took part before the actual study was conducted. The researcher administered the questionnaires to the selected sample respondents and allowed them to fill in the questionnaires. The filled in questionnaires were then collected data subjected to analysis to assess the reliability and validity of the questionnaire using Cronbach,s alpha for reliability test and factor analysis for validity test. All items were found to be reliable and also the questionnaires validity was upheld hence all the items were retained.

3.6.1 Reliability Test

A questionnaire's reliability is determined by its consistency, stability, and whether any questions have been repeated (Jack & Clarke, 1998). According to Amin (2005), a study's reliability serves as a gauge for how consistent a research tool is. When a research tool yields consistent results after repeated use, it is considered dependable (Kothari, 2014). Cronbach Alpha was employed in the study to gauge dependability. A questionnaire's stability and reliability are evaluated using Cronbach Alpha. Reliability is defined as a Cronbach alpha of 0.7 (Creswel, 2014).

3.6.2 Validity Test

Validity, according to Creswell (2014), is the process by which a research tool measures what is intended to be measured. The supervisor thoroughly examined the questionnaire and sought professional guidance in order to ensure face and content validity (Mugenda & Mugenda, 2013). Additionally, the survey was split into four sections to ensure the validity of each section. Factor analysis was employed in the study to assess the questionnaire's construct validity.

3.7 Tests for Assumptions of Regression

Kombo and Tromp (2009) suggest that diagnostic tests are designed to address potential biases that may occur in a study and are crucial for verifying the assumptions underlying regression models. The study conducted diagnostic tests to verify the validity and precision of the conclusions before beginning data processing. When the alpha level is 0.05 and the p-value is less than 0.05, the null hypothesis is rejected using the Shapiro-Wilk Test. However, when the p-value is greater than 0.05, the null hypothesis is not rejected, suggesting that the data originate from a regularly distributed population. Three diagnostic tests—the multicollinearity, heteroscedasticity, and normalcy tests—were conducted in this investigation.

3.7.1 Normality Test

A normality test is a statistical technique used to ascertain if a set of data is normally distributed, according to Cooper and Schindler (2013). Cooper and Schindler further suggest that normality tests may be influenced by outliers or extreme values in the data. Therefore, it is important to examine the data for outliers and determine whether they should be removed or transformed prior to conducting a normality test. The Shapiro-Wilk test was used because it is the best normality test (Razali et al., 2011). The results of variables over 0.05 (P>0.05) support the data's normality. In a similar manner, the Kolmogorov-Smirnov test was carried out.

3.7.2 Multicollinearity Test

When there is a strong correlation between the independent variables, the situation is referred to as multicollinearity (Kothari, 2012). The multicollinearity test is used to evaluate the degree of correlation between independent variables in the regression model, which could cause problems with interpretation and regression coefficient estimation. The Variance Inflation Factor (VIF) was used to measure multicollinearity. Multicollinearity is typically present when the VIF value is greater than 10 (Sheather, 2009).

3.7.3 Heteroscedasticity Test

Heteroscedasticity is the term used to describe a regression model's error term variability that is not constant across all levels of the independent variables (Wooldridge, 2015). In this study, the Breusch-Pagan Test was used. The link between the independent variables and the squared residuals is investigated in this test. Heteroscedasticity may be present if the test is statistically significant. At the 5% level, the outcomes are regarded as statistically significant. The null hypothesis is rejected and heteroscedasticity is evident if the p-value is less than 0.05.

3.8 Data Analysis and Presentation

Data analysis is the process of systematically examining and interpreting data using statistical and/or computational techniques to gain insights, make predictions, or inform decisions (Cooper & Schindler, 2013). Hair et al. (2019) defines data analysis as the systematic application of logical and/or statistical processes for the goals of describing and illuminating, condensing and summarizing, and assessing data.

Descriptive statistics such as frequency, mean, and standard deviation will be used to provide an interpretation of the data. Inferential statistics: correlation and multiple regression analyses (Multivariate linear regression) was also be conducted.

The study will utilize a multiple linear regression model below.

3.9 Model Specification

A unique type of multiple linear regression analysis that allows for the addition of new variables to the model in stages is the hierarchical regression model. This is frequently done to find out if the variables' addition significantly enhances the model's prediction of the criterion variable or to look into a variable's moderating influence.

Before Moderation

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e.$

After Moderation

$Y == \beta 0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4M + e.$

$Y = \beta 0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4M + \beta_5X_1*M + e.$

$Y = \beta 0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4M + \beta_5X_1*M + \beta_6X_2*M + e.$

$Y = \beta 0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4M + \beta_5X_1*M + \beta_6X_2*M + \beta_7X_3*M + e.$

Where:

Y = Turnover Tax Compliance

β0 = Constant

X_1 = Compliance Cost

X_2= Taxpayer Knowledge

X_3 = System automation

M = Social norms

ε = Error term

M= Social norms as a moderator

X_1M = Compliance Cost * Social norms

X_2M = Taxpayer Knowledge * Social norms

X_3M = System automation * Social norms

ε = error term

3.10 Measurement of Variables

Table 3.2 provides an illustration of how the study's variables were measured. The variables measured in a Turnover Tax compliance study are shown in Table 3.2. The dependent variable, "Turnover Tax compliance," is derived from KRA (2022) and is quantified using a 5-point Likert scale. Indicators such as registration, tax filing, and payment are included. The analysis for this variable involves regression and correlation analysis. The independent variables, which encompass "Compliance cost," are sourced from Kimungu and Kileva (2007) and measured using a Likert scale. The analysis includes correlation and multivariate linear regression. "Taxpayer knowledge" indicators are sourced from Newman and Mwandambira (2018) and analyzed similarly. The moderator, "System automation," and "Social Norms" are also measured through questionnaires and analyzed using regression and correlation analysis.

Table 3.2: Measurement of Variables

Variable	Operational Indicator	Source/ author	Data collection & measurement	Types of Analysis
Variables				
Dependent variable Turnover Tax compliance	• Registration • Tax Filing • Tax Payment	KRA (2022)	Questionnaire 5point Likert	Regression Analysis Correlation Analysis multivariate linear regression
Independent variables Compliance cost	• Expenses on returns preparation • Consultancy costs • Cost of keeping records	Kimungu and Kileva (2007)	Questionnaire 5point Likert	Regression Analysis Correlation Analysis multivariate linear regression
Taxpayer knowledge	• Knowledge on tax calculation • Knowledge on tax Rate • Due date and penalties	Newman W. and Mwandambira N. (2018)	Questionnaire 5point Likert	Regression Analysis Correlation Analysis multivariate linear regression
System automation	• Online Taxpayments • Online filing • Online Registration	Usman A. (2019, Berk Et.al (2015)	Questionnaire 5point Likert	Regression Analysis Correlation Analysis multivariate linear regression
Moderator Social Norms	Descriptive norms Persuasive norms	Alm *et al.*, (2019)	Questionnaire 5point Likert	Regression Analysis Correlation Analysis multivariate linear regression

Source: Author (2023)

3.11 Ethical Consideration

The American Psychological Association (2017) proposed ethical principles, which include getting participants' informed consent, safeguarding participants' privacy and confidentiality, making sure the research is planned and carried out in a way that minimizes any potential risks or harm to participants, and making sure the research is carried out in a fair and unbiased manner, were adhered to in order to ensure ethical standards. In addition, the research was carried out with integrity and transparency, and any prospective benefits were maximized. The respondents were informed of the purpose of the study, and both the institution and the National Commission for Science, Technology & Innovation (NACOSTI) granted permission to carry it out.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This segment of the report delineates the linkage between the findings derived from the study participants and the research's aims and hypotheses. It encompasses both descriptive and inferential statistical data from the respondents, along with their perspectives on the moderating effect of social norms on the relationship between tax determinants and turnover tax compliance among, small and medium enterprises in Kariokor market in Nairobi, Kenya.

4.2 Reliability Test

Table 4.1 Indicates that the variables 'Compliance costs'α=0.789, Taxpayer knowledge = α=0.901, 'System automation' α=0.877 'Social norms' α=0.810, and 'Turn over tax compliance' α=0.788 have Cronbach's Alpha values close to 0.8, suggesting that they have good internal consistency. Each variable was measured using multiple items (questions or statements). The number of items used for each variable is indicated in the 'N of Items' column.

Table 4.1: Reliability test

Variable	Cronbach's Alpha	N of Items
Compliance costs	0.789	4
Taxpayer knowledge	0.901	5
system automation	0.877	5
social norms	0.810	5
turn over tax compliance	0.788	4

Source: Research Data (2024)

4.3 Response Rate

In the context of analyzing questionnaire data, the response rate signifies the proportion of individuals who not only participated but also completed a survey or questionnaire. This metric is essential to research since it directly affects the quality of the data and how closely the sample represents the population Mugenda & Mugenda (2003). According to Baruch (2004), a satisfactory response rate, typically above 60%, enhances the reliability and relevance of research findings. To uphold transparency and affirm the robustness of data collection, it is incumbent upon researchers to reveal response rates. Figure 4.1 indicates a response rate of 79%. since 245 out of 311 were correctly filled and returned.

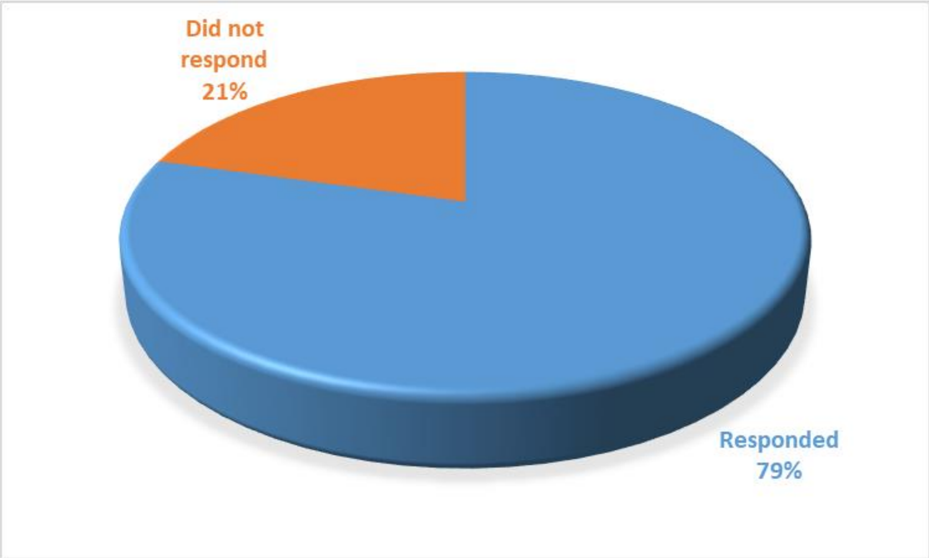

Figure 4.1: Response rate

4.4 Demographics data

Demographic data was collected and analyze in order to understand the characteristics of the study population. This would be helpful in understanding how such factors connect to the SME ownership in the market. Data on level of education would also be useful in understanding if the respondents were able to understand and respond well to the questionnaire hence determining the validity of the data collected.

Demographics data on table 4.2 shows demographics data representing Gender: The sample consisted of 311 participants with respondents of 245 out of which 122 (49.8%) were female and 123 (50.2%) were male.

Educational Level: In terms of education, 97 (39.6%) participants had a degree level education, 68 (27.8%) had a diploma level education, and 80 (32.7%) had a master's degree.

Business Operation Duration: When asked about the duration of their business operation, 50 (20.4%) participants reported that their business has been in operation for 2 to 5 years, 68 (27.8%) reported 6 to 7 years, 47 (19.2%) reported less than 1 year, and 80 (32.7%) reported more than 7 years.

Main Business Activity: The main business activities were reported as follows: food stuff dealing by 64 (26.1%) participants, leather, basket and curio dealing by 58 (23.7%), motor spares dealing and mechanics by 49 (20.0%), and secondhand items dealing by 74 (30.2%).

Size of Business in Terms of Employees: The size of the businesses varied with 63 (25.7%) having between 0 to 9 employees, 63 (25.7%) having between 10 to 49 employees, 70 (28.6%) having between 50 to 99 employees, and 49(20.0%) having over 100 employees.

Table 4.2: Demographics data

Gender		
	Frequency	Percent
Female	122	49.8
Male	123	50.2
Educational Level		
Degree Level	97	39.6
Diploma Level	68	27.8
master's degree	80	32.7
Period of operation		
2 to 5 years	50	20.4
6 to 7 years	68	27.8
Less than 1 year	47	19.2
More than 7 years	80	32.7
What is your main business activity?		
Food stuff dealers	64	26.1
Leather, basket and curio dealers	58	23.7
Motor spares dealers and mechanics	49	20.0
Secondhand items dealers	74	30.2
Number of employees		
0 to 9	63	25.7
10 to 49	63	25.7
50 to 99	70	28.6
over 100	49	20.0
Total	**245**	**100**

Source: Research Data (2024)

4.5 Descriptive Statistics

The descriptive statistics segment provides a succinct summary of key statistical findings. It typically includes measures of central tendency means and variability standard deviations; This section offers a clear overview of the data's characteristics, aiding readers in understanding the dataset's central values and dispersion. It serves as a basis for rendering inferential statistics and drawing inferences from the data.

4.5.1 Descriptive statistics on Compliance costs

Results from table 4.3 indicate the Likert scale used in the study ranged from 5 (Strongly agree) to 1 (Strongly Disagree), where higher values indicate stronger agreement with the statements.

that; "The statement "I incur tax expert costs during the filing of my returns" has a 0.819 standard deviation and a mean of 3.897. This indicates that responders generally seem to agree with this statement. The statement "I incur costs in accessing the internet and computer to file my returns" has a standard deviation of 0.714 and a mean of 4.160. Once more, this shows that respondents are in accord. The mean and standard deviation of the statement "Cost of keeping records is too high for the majority of SMEs" are 2.058 and 0.897, respectively. This indicates a marginally reduced degree of concurrence in contrast to the preceding items. The mean of the statement "Compliance costs affect tax compliance" is 4.082, while the standard deviation is 0.710. Additionally, this phrase shows that the respondents are in accord. Overall, the mean on the Likert scale items suggest that the respondents agree with the statements, indicating that they perceive compliance costs as a significant issue.

Table 4.3: Descriptive on Compliance costs

Items	Mean	Std.Dev
I have to pay for tax advice when I file my returns.	3.897	0.819
I have to pay for internet and computer use in order to file my returns.	4.160	0.714
For most SMEs, maintaining records comes at too high of a cost.	2.058	0.897
Compliance costs affects tax compliance	4.082	0.701

Source: Research Data (2024)

4.5.2 Descriptive statistics on Taxpayer knowledge

The items in table 4.4 refer to various aspects of tax knowledge, and the Mean and Standard Deviation (Std. Dev) values are provided to indicate the central tendency and variability of responses. Participants reported their level of agreement with the following statements:

I have knowledge of the Turnover tax calculation rate to apply: On average, participants reported a relatively high level of knowledge with a mean of 4.672 (SD = 0.471).

I am aware of the implications of non-compliance: The mean score for this statement was 4.695 (SD = 0.462), suggesting a high level of awareness regarding the consequences of non-compliance with tax regulations.

I am aware of tax return deadlines and penalties: Participants, on average, reported a good understanding of tax return deadlines and penalties, with a mean score of 4.638 (SD = 0.482).

I am aware that I need to file my taxes monthly: The mean score for this item was 4.649 (SD = 0.479), indicating a high level of awareness about the frequency of tax filing.

High levels of tax knowledge encourage tax compliance: Participants, on average, agreed that a strong understanding of taxation encourages tax compliance, with a mean score of 4.649 (SD = 0.479).

These findings suggest that the sample of taxpayers generally possesses a high level of tax knowledge, which could potentially contribute to tax compliance. However, it's important to consider that individual responses may vary, as indicated by the standard deviation values.

Table 4.4: Descriptive on Taxpayer knowledge

Items	Mean	Std.Dev
I am aware of the applicable turnover tax calculation rate.	4.672	0.471
I am aware of the implications of non-compliance	4.695	0.462
I am aware of tax return deadlines and penalties	4.638	0.482
I am aware that I have a monthly tax filing deadline.	4.649	0.479
High levels of tax knowledge encourage tax compliance	4.649	0.479

Source: Research Data (2024)

4.5.3 Descriptive statistics on system automation

Table 4.5 provides descriptive statistics related to system automation in the context of tax compliance among a sample of 245 respondents. The table includes mean and standard deviation values for five items designed to measure the impact of system automation on turnover tax compliance.

My Turnover tax compliance has improved as a result of using mobile money to pay taxes (Mean = 4.741, Std. Dev. = 0.439): The respondents' high mean score suggests that using mobile money to pay taxes has much increased their Turnover tax compliance. The low standard deviation suggests a relatively consistent agreement among respondents on this item.

The ease of use of the electronic tax system encourages me to abide by tax laws (Mean = 2.655, Std. Dev. = 0.671): Respondents generally said it was difficult to use the electronic tax system. The standard deviation indicates some variation in responses, though generally positive.

Since it allows me to track tax returns and payments at a minimal cost (Mean = 4.667, Std. Dev. = 0.473), retrieving tax records from itax is essential: Respondents emphasized the importance of being able to retrieve tax records from itax, as it aids in tracking tax returns and payments while keeping costs low. The standard deviation indicates relatively consistent agreement among respondents.

I can determine when taxes are due since online tax payments are simple to track (Mean = 4.626, Std. Dev. = 0.485): Respondents noted the ease of tracking online remittances of taxes, which enables them to stay informed about their tax due dates. The standard deviation suggests some variability in responses but generally positive sentiments.

I am motivated to continue complying since using an internet-enabled tax system has decreased the cost of compliance (Mean = 3.638, Std. Dev. = 0.582): The adoption of an internet-enabled tax system, according to respondents, has lowered the cost of tax compliance, which encourages compliance. The standard deviation indicates a moderate level of agreement among respondents.

In summary, the findings from Table 4.5 suggest that system automation, such as mobile money payments and electronic tax systems, has a positive impact on tax compliance, with respondents generally favoring these automation features. The standard deviations reflect some variation in responses but indicate a noteworthy level of agreement among the sample.

Table 4.5: Descriptive on system automation

Items	Mean	Std.Dev
My Turnover tax compliance has improved since I started paying taxes with mobile money.	4.741	0.439
The ease of use of the electronic tax system encourages me to abide by tax laws.	2.655	0.671
Since it allows me to track tax returns and payments at a minimal cost, retrieving tax records from itax is essential.	4.667	0.473
Because online tax remittances are simple to track, I can determine when my taxes are due.	4.626	0.485
Utilizing a tax system with internet access has lowered the cost of compliance, which encourages me to continue complying.	3.638	0.582
N=245		

Source: Research Data (2024)

4.5.4 Descriptive statistics on social norms

Table 4.6 provides descriptive statistics for various items related to social norms concerning tax compliance in SMEs. The table includes the mean (M) and standard deviation (SD) for each item. The sample size for this analysis is N = 245.

" I am aware that the company pays taxes because other SMEs that are comparable to it do the same" received a mean score of 3.155 (SD = 0.752). This suggests that participants, on average, perceive that the firm's tax compliance is influenced by the behavior of other similar SMEs.

" I think the company pays taxes because there isn't much tax avoidance going on among other SMEs" obtained a mean score of 3.626 (SD = 0.785). This item indicates that participants tend to believe the firm's tax payments are motivated by the low prevalence of tax evasion among other SMEs in the area.

"I do not pay tax because most of the business owners in the area do not pay" received an average score of 4.672 (SD = 0.471). This item suggests that respondents, on average, consider the tax compliance of business owners in the area as a determinant of their own taxpaying behavior.

" In my opinion, the company pays taxes because it is the moral thing to do, even when there are consequences for non-compliance." had a mean score of 4.615 (SD = 0.488). This indicates that participants generally believe that the firm's tax compliance is influenced by moral considerations, regardless of the presence of penalties for non-compliance.

"I know that the firm pays taxes to avoid penalties" received an average score of 4.609 (SD = 0.489). This item suggests that participants are aware of the firm's tax payments as a means to avoid potential penalties for non-compliance.

Table 4.6: Descriptive on social norms

Items	Mean	Std.Dev
Because other SMEs that are comparable to this one are compliant, I am aware that the company pays taxes.	3.155	0.752
Because there is less tax avoidance among other SMEs, I think the company pays taxes.	3.626	0.785
I do not pay tax because most of the business owners in the area do not pay	4.672	0.471
In my opinion, the company pays taxes because it is the right thing to do, even when there are consequences for non-compliance.	4.615	0.488
I am aware that the company pays taxes to stay out of trouble.	4.609	0.489
N=245		

Source: Research Data (2024)

4.5.5 Descriptive statistics on turnover tax compliance

Table 4.7 provides information on several items measuring the level of compliance with turnover tax compliance. Each item is rated on a scale from 1 (strongly disagree) to 5 (strongly agree).

I am aware of the significance of having a valid taxpayer registration in the KRA iTax system Mean: 4.626 Standard Deviation: 0.485

Participants, on average, reported a high level of understanding regarding the importance of being registered as a taxpayer in the Kenya Revenue Authority (KRA) iTax system (M = 4.626, SD = 0.485).

I Pay the Tax Liability That Arises from My TOT Obligation Without Failure Mean: 4.655 Standard Deviation: 0.477 Respondents indicated a high degree of compliance with paying their tax liabilities arising from TOT obligations, with a mean score of 4.655 and a standard deviation of 0.477.

I always Make Correct Tax Declarations Mean: 4.649 Standard Deviation: 0.479 Participants tend to consistently make accurate tax declarations, as reflected in the mean score of 4.649 and a standard deviation of 0.479.

I am aware of the due dates for Filing My Tax Returns Mean: 4.638 Standard Deviation: 0.482 On average, respondents reported a high level of awareness regarding the due dates for filing their tax returns, with a mean score of 4.638 and a standard deviation of 0.482.

Table 4.7: Descriptive on turnover tax compliance

Items	Mean	Std.Dev
I Know the importance of being registered as a taxpayer in the KRA Itax system	4.626	0.485
I pay the tax liability that arise from my TOT obligation without failure	4.655	0.477
I always make correct tax declaration	4.649	0.479
I am aware of the due dates for filing my tax returns.	4.638	0.482
N=245		

Source: Research Data (2024)

4.6 Factor Analysis

The two primary uses of factor analysis are summarization and data reduction. It allows us to take a large set of data and make it more interpretable. The purpose of factor analysis in this study was to determine if the items in each variable of the study correlated well.

4.6.1 Factor analysis

Factor analysis suitability is determined using the Kaiser-Meyer-Olkin (KMO) test and Bartlett's test. According to Kaiser (1974), the KMO statistic, typically computed through statistical software, is employed for this purpose. It ranges from 0 to 1, with values exceeding 0.7 signifying data suitability.

The data correlation matrix's identity matrix null hypothesis is tested using Bartlett's test, which was first presented by Bartlett (1950). The data may be suitable for factor analysis if the result is statistically significant ($p < 0.05$). In order to guarantee the reliability of factor analysis, both tests are essential.

In this study, the KMO and Bartlett's test were conducted as per table 4.8, revealing KMO statistics exceeding 0.5 and Bartlett's test of sphericity with p-values less than 0.05. These results indicate that all the variables are suitable for factor analysis.

Table 4.8: KMO and Bartlett's test

	Compliance costs	**Taxpayer knowledge**	**system automation**	**social norms**	**turnover tax compliance**
KMO	0.513	0.534	0.508	0.486	0.596
Bartlett's Test of Sphericity	0.030	0.000	0.005	0.007	0.019

Source: Research Data (2024)

4.6.2 Exploratory Factor Analysis (EFA)

In the context of exploratory factor analysis (EFA), factor loadings play a crucial role in elucidating the characteristics and orientations of connections existing between variables and latent factors. According to Mayer (2006) Factor loadings surpassing the 0.5 threshold suggest the aptitude of a variable for dimension reduction, signifying robust associations. Conversely, when factor loadings are lower, they indicate more tenuous relationships. EFA offers researchers a valuable tool for streamlining complex datasets by identifying and retaining variables that exert the most pronounced influence on the underlying constructs. According to Table 4.9, factor loadings show how strongly and in which direction each item and the factors are related. Greater factor loadings signify a more robust correlation with the factor. Factor loadings were extracted from principal components of each of the questionnaire items represented in each variable, factor loadings range from -1 to +1 factor analysis was selected according to Khosla (2006) to perform dimension reduction by selecting items with highest factors in order to reduce data dimensionality and to establish viable variables in order to conduct a regression.

Compliance Costs (COC); COC1, COC3, and COC4 exhibit high factor loadings of 0.738, 0.772, and 0.552, respectively. This suggests that these items strongly load on a factor related to compliance costs. COC2 has a relatively high factor loading of 0.614, indicating a moderate association with the compliance cost factor.

Taxpayer Knowledge (TPK) TPK4 has the highest factor loading of 0.712, indicating a strong association with a factor related to taxpayer knowledge.

TPK3 also has a substantial factor loading of 0.592, suggesting a moderate association with the same factor. TPK1 and TPK2 exhibit factor loadings of 0.545 and 0.540, respectively, showing a weaker, but still noteworthy, connection to the taxpayer knowledge factor.

System Automation (SA); SA4 has the highest factor loading of 0.606, indicating a strong association with a factor related to system automation. SA2 and SA5 show moderate factor loadings of 0.548 and 0.549, respectively. SA1 and SA3 have factor loadings of 0.524 and 0.533, respectively, suggesting a weaker relationship with the system automation factor.

Social Norms (SN); SN1 and SN2 exhibit high factor loadings of 0.741 and 0.727, respectively, indicating a strong association with a factor related to social norms. SN3, SN4, and SN5 also show notable factor loadings, ranging from 0.571 to 0.636. Turnover Tax Compliance (TOT); TOT1, TOT2, TOT3, and TOT4 have factor loadings of 0.563, 0.571, 0.576, and 0.531, respectively. These factor loadings suggest that these items are moderately associated with a factor related to turnover tax compliance.

The factor analysis reveals that items within each of the five categories (compliance costs, taxpayer knowledge, system automation, social norms, and turnover tax compliance) have varying levels of association with their respective factors. This analysis provides insights into the underlying dimensions that explain the relationships among these variables, which can be valuable for understanding and addressing compliance-related issues.

Table 4.9: Factor Analysis

	Compliance costs	**Taxpayer knowledge**	**system automation**	**social norms**	**turnover tax compliance**
COC1	0.738				
COC2	0.614				
COC3	0.772				
COC4	0.552				
TPK1		0.545			
TPK2		0.540			
TPK3		0.592			
TPK4		0.712			
TPK3		0.524			
SA1			0.524		
SA2			0.548		
SA3			0.533		
SA4			0.606		
SA5			0.549		
SN1				0.741	
SN2				0.727	
SN3				0.636	
SN4				0.616	
SN5				0.571	
TOT1					0.563
TOT2					0.571
TOT3					0.576
TOT4					0.531

Source: Research Data (2024)

4.7 Statistical Assumptions

Regression analysis relies on a set of fundamental statistical assumptions, each of which plays a crucial role in ensuring the reliability of regression outcomes. These assumptions encompass linearity, independence of errors, homoscedasticity, which pertains to the uniform variance of errors, and normally distributed residuals. Any deviations from these assumptions can undermine the validity of regression results. The independence of errors asserts that residuals should not display any correlation. Homoscedasticity implies that the dispersion of residuals should remain constant. The expectation for normally distributed residuals is that they should adhere to a normal distribution. According to Williams (2013) adherence to these assumptions is paramount for achieving precise and dependable regression analysis.

4.7.1 Normality test

A test for normality using the Shapiro-Wilk was conducted. With assumption that the data does not significantly deviate from a normal distribution $p>0.05$. Table 4.10 presents the results of tests of normality for four variables: Compliance Cost, Taxpayer Knowledge, System Automation, and Social Norms. Two different normality tests, the Kolmogorov-Smirnov and Shapiro-Wilk tests, were conducted for each variable.

For Compliance Cost, the Kolmogorov-Smirnov test yielded a statistic of .122 with 245 degrees of freedom, resulting in a p-value of .562. Similarly, the Shapiro-Wilk test produced a statistic of .963 with 245 degrees of freedom, and the p-value was .132. Both tests suggest that the Compliance Cost variable follows a normal distribution.

In the case of Taxpayer Knowledge, the Kolmogorov-Smirnov test revealed a statistic of .189 with 245 degrees of freedom, resulting in a p-value of .775. The Shapiro-Wilk test indicated a statistic of .909 with 245 degrees of freedom, and the p-value was .051.

These results suggest that the Taxpayer Knowledge variable is normally distributed according to both tests.

For System Automation, the Kolmogorov-Smirnov test produced a statistic of .216 with 245 degrees of freedom and a p-value of .881. The Shapiro-Wilk test showed a statistic of .904 with 245 degrees of freedom, resulting in a p-value of .062. The results of both tests indicate that the System Automation variable is approximately normally distributed.

Finally, the Social Norms variable underwent the same tests. The Kolmogorov-Smirnov test showed a statistic of .191 with 245 degrees of freedom, resulting in a high p-value of .991. The Shapiro-Wilk test yielded a statistic of .915 with 245 degrees of freedom, and the p-value was .055. Both tests suggest that the Social Norms variable follows a normal distribution.

These findings indicate that Compliance Cost, Taxpayer Knowledge, System Automation, and Social Norms are all reasonably normally distributed, which is a crucial assumption for various statistical analyses and tests.

Table 4.10: Tests of Normality

	Kolmogorov-Smirnov[a]			**Shapiro-Wilk**		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig.**
Compliance Cost	.122	245	.562	.963	245	.132
Taxpayer Knowledge	.189	245	.775	.909	245	.051
System Automation	.216	245	.881	.904	245	.062
Social Norms	.191	245	.991	.915	245	.055

Source: Research Data (2024)

4.7.2 Heteroscedasticity test

A Breusch-Pagan / Cook-Weisberg test for heteroskedasticity was conducted through table 4.11 to examine the presence of heteroskedasticity, which is a condition where the variance of the error terms is not constant across observations. The null hypothesis (H_O) posits that there is constant variance in the residuals.

The analysis was performed using a chi-squared test statistic with 1 degree of freedom (chi2(1)). The results of the test are as follows: chi2(1) = 0.01, Prob > chi2 = 0.9296

The chi-squared test statistic, chi2(1), yielded a value of 0.01, indicating the test's statistic value. The probability associated with this statistic, Prob > chi2, was found to be 0.9296.

DOPT...Based on the results of the Breusch-Pagan / Cook-Weisberg test, we fail to reject the null hypothesis (Ho: Constant variance) as the p-value (0.9296) is larger than the significance level of 0.05. This implies that there is no significant evidence of heteroskedasticity in the residuals, implying that the assumption of constant variance is valid.

These findings indicate that the assumption of constant variance in the residuals is not violated, providing confidence in the validity of the regression analysis.

Table 4.11: Heteroscedasticity test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity Ho: Constant variance Variables: residuals		
chi2(1)	=	0.01
Prob > chi2	=	0.9296

Source: Research Data (2024)

4.7.3 Multicollinearity test

Table 4.12; shows that the predictor variable "Compliance Cost" exhibits a tolerance of .981 and a VIF of 1.020. A tolerance close to 1 and a VIF close to 1 indicate that this variable is not highly correlated with other predictor variables, suggesting that multicollinearity is not a significant concern for this variable.

Taxpayer Knowledge" has a tolerance of .943 and a VIF of 1.060. While the tolerance is below 1, the VIF is only slightly above 1. This suggests a low level of multicollinearity, which should not substantially affect the reliability of regression coefficients for this variable.

System Automation displays a tolerance of .973 and a VIF of 1.028. these values indicate a low degree of multicollinearity for this variable, making it unlikely to cause issues in the regression analysis.

Social Norms shows a tolerance of .954 and a VIF of 1.048. These statistics also indicate relatively low multicollinearity, suggesting that this variable is not substantially correlated with other predictors in the model.

The multicollinearity test results indicate that the predictor variables in the regression model have tolerances close to 1 and VIF values close to 1. This suggests that there is no substantial multicollinearity among these variables, and their relationships can be assessed reliably in the regression analysis.

Table 4.12: Multicollinearity test

	Tolerance (1/VIF)	VIF
Compliance cost	.981	1.020
Taxpayer Knowledge	.943	1.060
System automation	.973	1.028
Social norms	.954	1.048

Source: Research Data (2024)

4.7.4 Autocorrelation test

To determine if there was serial correlation in the data, the Durbin-Watson statistic was developed. The Durbin-Watson statistic that was found is 1.960 in Table 4.13.

A Durbin-Watson statistic falls within the range of 0 to 4, where a value of 2 suggests no serial correlation, while values closer to 0 indicate positive serial correlation, and values close to 4 indicate negative serial correlation. The Durbin-Watson statistic is approximately 1.960, which is close to the ideal value of 2. This result suggests that there is no strong evidence of serial correlation in the data. Therefore, based on the Durbin-Watson statistic of 1.960, it is reasonable to conclude that serial correlation is not a major concern in this dataset.

Table 4.13: Durbin Watson test

Durbin-Watson
1.960

Source: Research Data (2024)

4.8 Correlation Analysis

Researchers typically employ Pearson's correlation coefficient (r) or Spearman's rank correlation coefficient (ρ) to measure the strength and direction of the relationship between variables. Pearson's correlation coefficient is used when the data is continuous and normally distributed, while Spearman's rank correlation coefficient is used when dealing with ordinal or non-normally distributed data. According to Drukker (2003), the coefficient is a number between -1 and 1, where a perfect negative correlation is represented by a value of 1, a perfect positive correlation by a value of 1, and no correlation between the variables by a value of 0.

Table 4.14 displays the Pearson correlation coefficients and significance levels (two-tailed) between variables: Dependent variable Turn Over Tax Compliance (TOT), and independent variables Compliance Cost (COC), Tax Payer Knowledge (TPK), System Automation (SA), and moderator Social Norms (SN). The correlation between Turn Over Tax Compliance and Compliance Cost was found to be negative and statistically significant ($r = -.101$, $p = .006$, $N = 245$). There was a strong positive correlation between Turn over Tax Compliance and Tax Payer Knowledge ($r = .620$, $p = .004$, $N = 245$). A strong positive correlation was observed between Turn Over Tax Compliance and System Automation ($r = .701$, $p = .008$, N 245). Turn over Tax Compliance showed a positive correlation with Social Norms ($r = .661$, $p = .022$, $N = 245$).

Table 4.14: Correlation Matrix

		TOT	COC	TPK	SA	SN
Turn Over Tax Compliance	Pearson Correlation	1				
	N	245				
Compliancecost	Pearson Correlation	-.101	1			
	Sig. (2-tailed)	.006				
	N	245				
Taxpayer Knowledge	Pearson Correlation	.620	.083	1		
	Sig. (2-tailed)	.004	.279			
	N	245				
System Automation	Pearson Correlation	.701	.049	.156	1	
	Sig. (2-tailed)	.008	.520	.040		
	N	245				
Social Norms	Pearson Correlation	.661	.120	.182	.068	1
	Sig. (2-tailed)	.022	.115	.016	.376	
	N	245				

Correlation is significant at the 0.05 level (2-tailed).

Source: Research Data (2024)

4.9 Regression Analysis

Regression analysis was used to clarify the study's primary goal, which was to determine how social norms moderated the link between turnover tax compliance and determinants among small and medium-sized businesses in Nairobi, Kenya's Kariokor market. Regression modeling was used to assess the impact of the drivers on turnover tax compliance.

4.9.1 Model summary: effect of tax determinants on Turn Over Tax Compliance

Table 4.15 presents the model summary for a regression analysis examining the impact of tax determinants on Turn Over Tax Compliance.

The model's explanatory power, as indicated by the coefficient of determination (R-squared), is 0.437, meaning that approximately 43.7% of the variance in Turn Over Tax Compliance can be explained by the predictors included in the model. 56.3% of the variability remains unexplained by the model, indicating that other factors may also influence Turn Over Tax Compliance.

The adjusted R-squared value, which considers the number of predictors in the model, is 0.421. This adjusted value provides a more accurate estimate of the model's goodness-of-fit, accounting for the number of predictors included.

Table 4.15: Model summary: effect of tax determinants on Turn Over Tax Compliance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.661	0.437	0.421	0.24552

Source: Research Data (2024)

4.9.2 Analysis of variance: effect of tax determinants on Turn Over Tax Compliance

The ANOVA results from table 4.16 indicate that the model, which assesses the effect of tax determinants on Turn Over Tax Compliance, is statistically significant F (3, 241) = 58.412, p = 0.000). This implies that Turn Over Tax Compliance is highly influenced by at least one of the independent variables in the model.

Table 4.16: ANOVA: effect of tax determinants on Turn Over Tax Compliance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.754	3	1.585	58.412	0.000
	Residual	6.538	241	0.027		
	Total	11.292	244			

Source: Research Data (2024)

4.9.3 Effect of determinants of Turn Over Tax Compliance

The resulting equation was $Y = 2.812 – 0.126X_1 + 0.203X_2 + 0.176X_3$

Table 4.17 shows that the Indicates that at a constant of 2.812 a unit change in compliance cost causes a statistically significant decrease in turn over tax compliance β=-0.126 p=0.018. Taxpayer Knowledge exhibited a positive influence on Turn Over Tax Compliance (β = 0.203, p = 0.007), indicating that as tax knowledge among taxpayers increases, their compliance with tax regulations also tends to increase. System Automation had a positive effect on Turn Over Tax Compliance as well (β = 0.176, p = 0.019), signifying that greater automation within tax systems correlates with improved compliance levels.

Table 4.17: Regression effect of tax Determinant on Turn Over Tax Compliance

Model		Standardized Beta	Std. Error	t	Sig.
1	(Constant)	2.812	0.508	5.535	0.000
	Compliancecost	-0.126	0.046	-2.739	0.018
	Taxpayer Knowledge	0.203	0.082	2.476	0.007
	System Automation	0.176	0.085	2.071	0.019

a Dependent Variable: Turn Over Tax Compliance

Source: Research Data (2024)

4.10 Moderating Effect of Social Norms on the Relationship between Determinants and Turnover Tax Compliance

According to Baron (1986) In order to implement the moderating effect of social norms on the relationship between determinants Compliance Cost, Taxpayer Knowledge, and System Automation and Turnover Tax Compliance using the Baron and Kenny approach, a path diagram is established to visualize these relationships. In this approach, it is essential to investigate whether social norms act as a moderator in strengthening or weakening the effects of these determinants on Turnover Tax Compliance.

The Baron and Kenny approach involves three steps:

Step 1: Regress the dependent variable on the independent variables. This is to establish that the IVs are correlated with the DV.

Step 2: Regress the moderating variable on the independent variables. This is to establish that the IVs are correlated with the MV.

Step 3: Regress the dependent variable on both the independent variables and the moderating variable. The interaction term between each independent variable and the moderating variable should be included in this regression. If the interaction term is significant, it indicates that social norms have a moderating effect on the relationship between the IV and DV.

Figure 4.2 indicates the path diagram

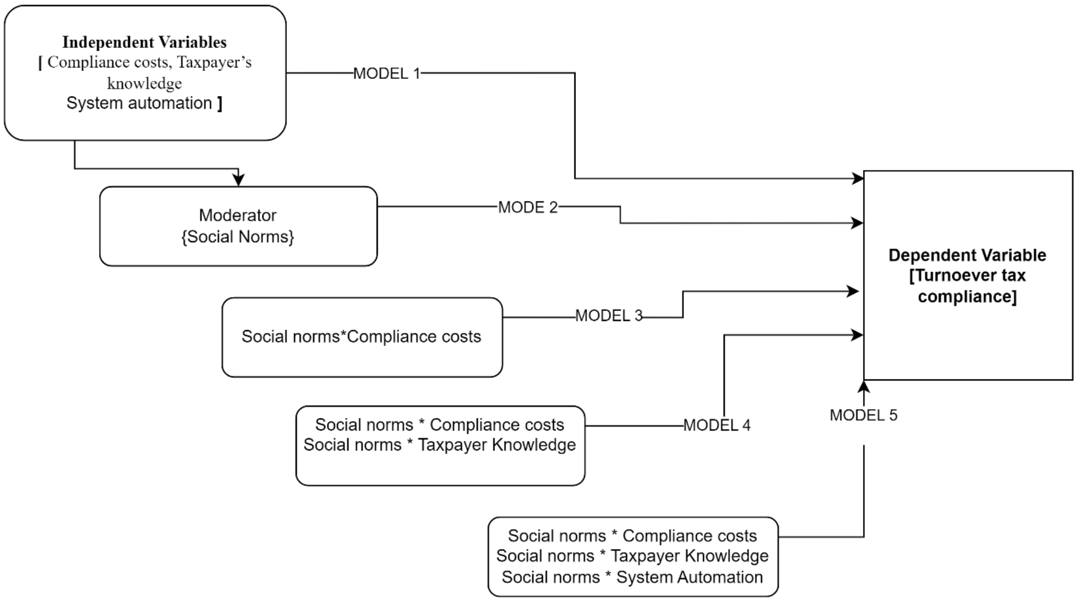

Figure 4.2: Path diagram

Source: Baron& Kenny 1986

4.10.1 Model summary: moderating effect of social norms on the relationship between tax determinants and turnover tax compliance

Table 4.18 indicates that in Model 1, the baseline model, the relationship between tax determinants and turnover tax compliance was explored. The R Square value of 0.437 indicates that 43.7% of the variance in turnover tax compliance can be explained by tax determinants.

social norms were introduced as a moderating variable. The R Square Change of 0.008 suggests that the addition of social norms as a moderator has a minimal effect on the overall variance explained in turnover tax compliance. As variance caused reduces to 42.9%.

The overall model after the interaction between social norms and the tax determinants The R Square Change of 0.005 indicates that, while still relatively small, the inclusion of interaction terms between relationship of tax determinants and turn over tax compliance contributes slightly to the explained variance in turn over tax compliance.

Table 4.18: Model Summary moderating effect of social norms on the relationship between tax determinants and turnover tax compliance

Model	R	R Square	Adjusted R Square	St. Error of the Estimate	R Square change
1	0.661	0.437	0.421	0.24552	
2	0.655	0.429	0.419	0.24613	0.002
3	0.654	0.428	0.415	0.24669	0.004
4	0.653	0.426	0.413	0.24740	0.002
3	0.652	0.425	0.414	0.24787	0.005

Source: Research Data (2024)

4.10.2 ANOVA: moderating effect of social norms on the relationship between tax determinants and turnover tax compliance

In the context of the moderator variable (social norms), these results suggest that as additional terms related to social norms are included in the model from Model 1 to Model 7 the relationship between tax determinants and turnover tax compliance remains significant. This implies that social norms may indeed have a moderating effect on this relationship. $F(7,237) = 23.920$ $p=0.000<0.05$.

Table 4.19: ANOVA: moderating effect of social norms on the relationship between tax determinants and turnover tax compliance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.754	3	1.585	58.412	0.000
	Residual	6.538	241	0.027		
	Total	11.292	244			
2	Regression	4.731	4	1.183	43.270	0.000
	Residual	6.561	240	0.027		
	Total	11.292	244			
3	Regression	4.686	5	0.937	33.909	0.000
	Residual	6.606	239	0.028		
	Total	11.292	244			
4	Regression	4.664	6	0.777	27.909	0.000
	Residual	6.628	238	0.028		
	Total	11.292	244			
5	Regression	4.675	7	0.668	23.920	0.000
	Residual	6.617	237	0.028		
	Total	11.292	244			

Source: Research Data (2024)

4.10.3 Overall regression moderating effect of social norms on the relationship between determinants and turnover tax compliance

The overall regression moderating effect equation can be summarized as

Model I; $Y = 2.812 – 0.126X_1 + 0.203X_2 + 0.176X_3$

Model II; $Y = 2.696 – 0.129X_1 + 0.198X_2 + 0.175X_3 + 0.029X_4$

Model III; $Y= 1.483 – 0.604X_1 + 0.155X_2 + 0.312X_3 + 0.171X_4 - 0.650X_5$

Model IV; $Y= 3.640– 0.578X_1 + 0.289X_2 + 0.315X_3 + 0.301X_4 - 0.620X_5 + 0.718X_6$

Model V; $Y = 4.694 – 0.870 * X_1 + 0.934 * X_2+ 0.741 * X_3 + 0.356 * X_4 + 0.781 * M1 – 1.122 * M2 + 1.351 * M3$

The overall model regression in table 4.20 indicates the moderating procedure after the introduction of the moderator variable social norms and the interaction terms.

In Model 3, the analysis incorporates interaction terms between the predictors (Compliance Cost, Taxpayer Knowledge, System Automation) and the moderator variable Social Norms) to understand how Social Norms moderates the relationship between these predictors and the dependent variable.

Compliance Cost: Compliance Cost has a standardized beta coefficient of -0.870. This shows that the turnover tax compliance falls by -0.870 units for every unit change in compliance cost, leaving all other factors equal. Because the association between compliance cost and Turn Over Tax compliance is statistically significant, the p-value of 0.000 is less than 0.05.

Taxpayer Knowledge: The standardized beta coefficient for Taxpayer Knowledge is 0.934. This suggests that a unit change in Taxpayer Knowledge, while keeping other factors constant, the turnover tax compliance increases by 0.934 units. The significant ($p = 0.016$) interaction with Social Norms suggests that Social Norms affect the link between Taxpayer Knowledge and turnover tax compliance. This means that the effect of Taxpayer Knowledge on the turnover tax compliance is influenced by the level of Social Norms.

System Automation: The standardized beta coefficient for System Automation is 0.741. This implies that a unit change in System Automation, controlling for other factors, the turnover tax compliance increases by 0.741 units. The interaction with Social Norms is also significant ($p = 0.000$), indicating that Social Norms moderates the relationship between System Automation and the dependent variable. The strength of the effect of System Automation on the dependent variable is influenced by the level of Social Norms.

Social Norms: The standardized beta coefficient for Social Norms is 0.356. This suggests that a unit change in Social Norms, with other variables held constant, the turnover tax compliance increases by 0.356 units. This is the main effect of Social Norms on the turnover tax compliance. Additionally, Social Norms moderates the relationships between Compliance Cost, Taxpayer Knowledge, System Automation and turnover tax compliance, as indicated by the significant interaction terms.

Interaction Terms illustrated as COC*SN, TPK*SN and SA*SN): The interaction terms in Model 3 represent the interaction effect between the respective predictors and Social Norms., COC*SN refers to the interaction between Compliance Cost and Social Norms. Based on the level of Social Norms, a substantial interaction term suggests that the correlation between the Compliance Cost and the turnover tax compliance. In Model 3, all these interaction terms are significant, indicating that Social Norms moderates the relationships between Compliance Cost, Taxpayer Knowledge, System Automation, and the turnover tax compliance turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya.

Table 4.20: Overall Regression

		Standardized. Beta	Std. Error	t	Sig.
1	(Constant)	2.812	0.508	5.535	0.000
	Compliancecost	-0.126	0.046	-2.739	0.018
	Taxpayer Knowledge	0.203	0.082	2.476	0.007
	System Automation	0.176	0.085	2.071	0.019
2	(Constant)	2.696	0.591	4.564	0.000
	Compliancecost	-0.129	0.046	-3.745	0.008
	Taxpayer Knowledge	0.198	0.083	2.622	0.010
	System Automation	0.175	0.085	2.352	0.020
	Social Norms	0.029	0.084	2.386	0.010
3	(Constant)	1.483	0.451	3.288	0.005
	Compliancecost	-0.604	0.108	-5.593	0.000
	Taxpayer Knowledge	0.155	0.067	2.313	0.009
	System Automation	0.312	0.068	4.588	0.000
	Social Norms	0.171	0.078	2.192	0.035
	COC*SN	-0.650	0.098	-6.633	0.000
4	(Constant)	3.640	0.988	3.684	0.001
	Compliancecost	-0.578	0.210	-2.752	0.006
	Taxpayer Knowledge	0.289	0.122	2.369	0.008
	System Automation	0.315	0.068	4.632	0.000
	Social Norms	0.301	0.116	2.595	0.005
	COC*SN	-0.620	0.126	-4.921	0.000
	TPK*SN	0.718	0.166	4.325	0.000
5	(Constant)	4.694	0.513	9.150	0.000
	Compliancecost	-0.870	0.196	-4.430	0.000
	Taxpayer Knowledge	0.934	0.185	5.049	0.000
	System Automation	0.741	0.339	2.186	0.025
	Social Norms	0.356	0.151	2.358	0.016
	COC*SN	0.781	0.208	3.755	0.000
	TPK*SN	1.122	0.387	2.899	0.015
	SA*SN	1.351	0.375	3.603	0.000

Source: Research Data (2024)

4.11 Hypotheses Tests

First, regarding H01, which posited that Compliance Cost has no significant effect on turnover tax compliance, the p-value is 0.000. This exceptionally low p-value indicates that Compliance Cost does indeed have a significant effect on turnover tax compliance, leading us to reject the null hypothesis. This means that compliance cost is a determinant of turnover tax compliance which implied that an SME owner will comply to turnover tax depending on the compliance costs.

Similarly, for H02, which suggested that Taxpayer Knowledge has no significant impact on turnover tax compliance, the p-value is 0.000. This low p-value suggests that Taxpayer Knowledge significantly influences turnover tax compliance, leading to the rejection of the null hypothesis. This means that taxpayer's knowledge is determinants of turnover tax compliance which implied that an SME owner will comply with turnover tax depending on the levels of knowledge they possess abut turnover tax.

Furthermore, for H03, examining whether System Automation does not significantly affect turnover tax compliance; the p-value is 0.025. This statistically significant result indicates that System Automation does have a significant effect on turnover tax compliance, prompting us to reject of the null hypothesis. This means that system automation is determinants of turnover tax compliance which implied that an SME owner will comply easily with turnover tax if the system is automated and is able to navigate through the process.

Moving on to the moderating effect of Social Norms, as stated in H04, the p-value is 0.000. This indicates that Social Norms does have a significant moderating effect on the relationship between Compliance Cost, Taxpayer Knowledge, System Automation, and turnover tax compliance. Consequently, we reject H04, affirming that Social Norms does play a significant moderating role. This means that social norms moderate the relationship between Compliance Cost, Taxpayer Knowledge, System Automation and turnover tax compliance. This implied that SME owner turnover tax compliance will be based on the social norms and this may not consider all other factors.

Within this context, the interaction terms further specify the moderating influence. For H04a, assessing the moderating effect of Social Norms on the relationship between Compliance Cost and turnover tax compliance, the interaction term's p-value is 0.000, demonstrating that Social Norms significantly moderates this relationship. The nature of the interaction between social norms and the relationship between compliance costs and turnover tax compliance is shown on Modi graph figure 4.3:

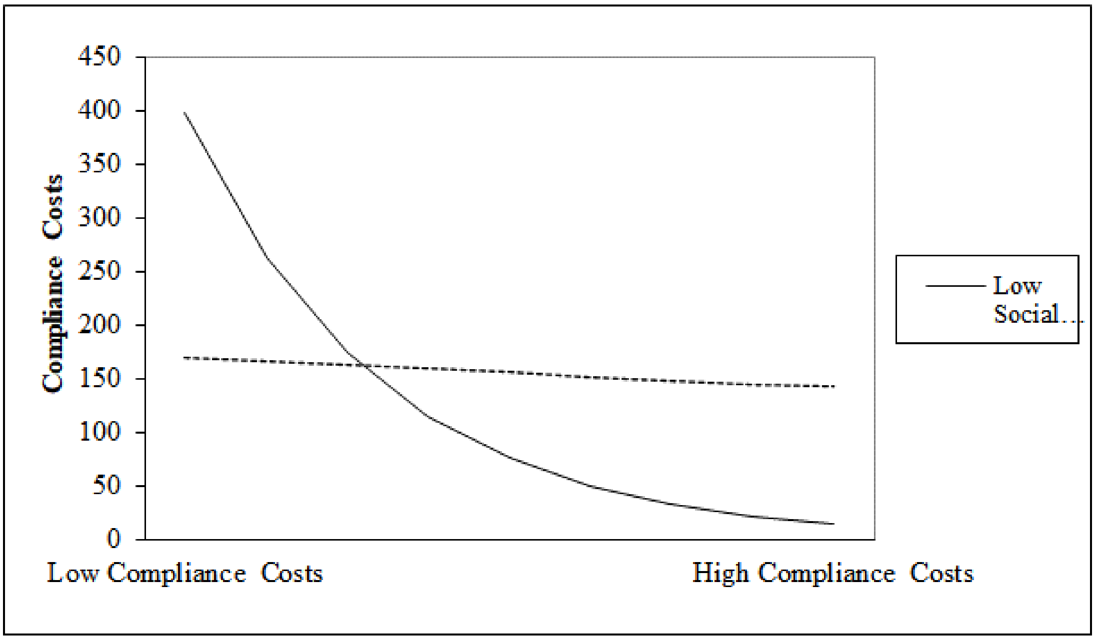

Figure 4.3: Modi graphs for the moderating effect of social norms on relationship between Compliance Costs and turnover tax compliance

Similarly, for H04b, which examines the moderating effect of Social Norms on the relationship between Taxpayer Knowledge and turnover tax compliance, the p-value is 0.015, signifying significant moderation.

Figure 4.4 indicates the nature of the interaction between the social norms on the relationship and between Taxpayer Knowledge and turnover tax compliance

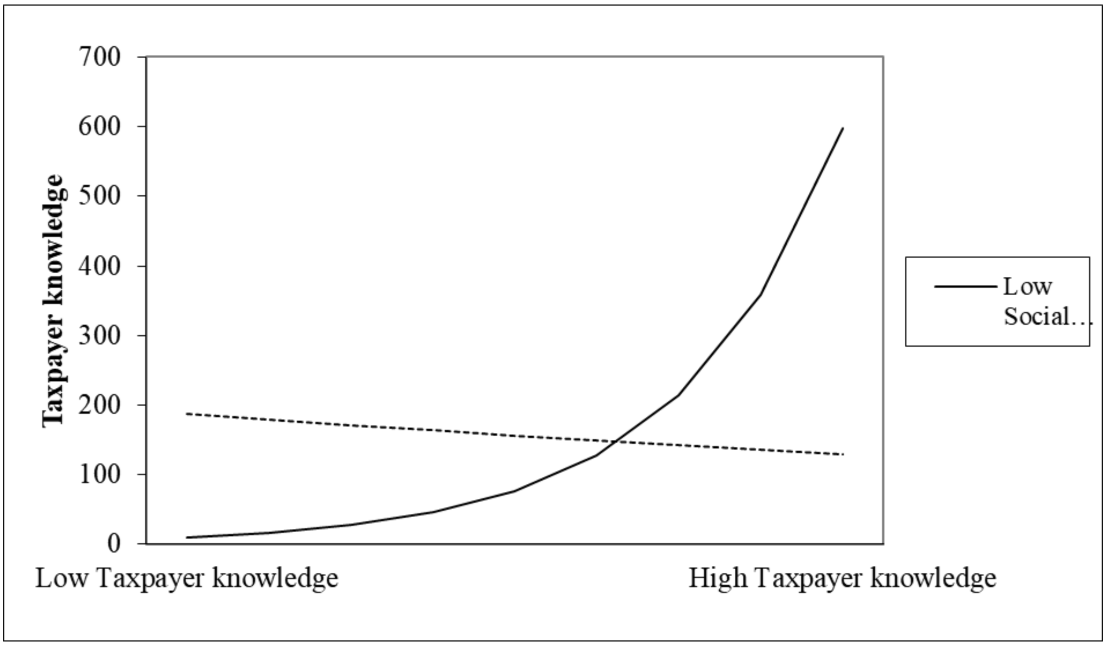

Figure 4.4: Modi graphs for the moderating effect of social norms on relationship between Taxpayer Knowledge and turnover tax compliance

Lastly, for H04c, focusing on the moderating effect of Social Norms on the relationship between System Automation and turnover tax compliance, the interaction term's p-value is 0.000, confirming significant moderation. The summarized hypotheses results were examined in table 4.21.

Lastly the Modi graphs in figure 4.5 indicates a significant moderating effect of social norms on relationship between system automation and turnover tax compliance.

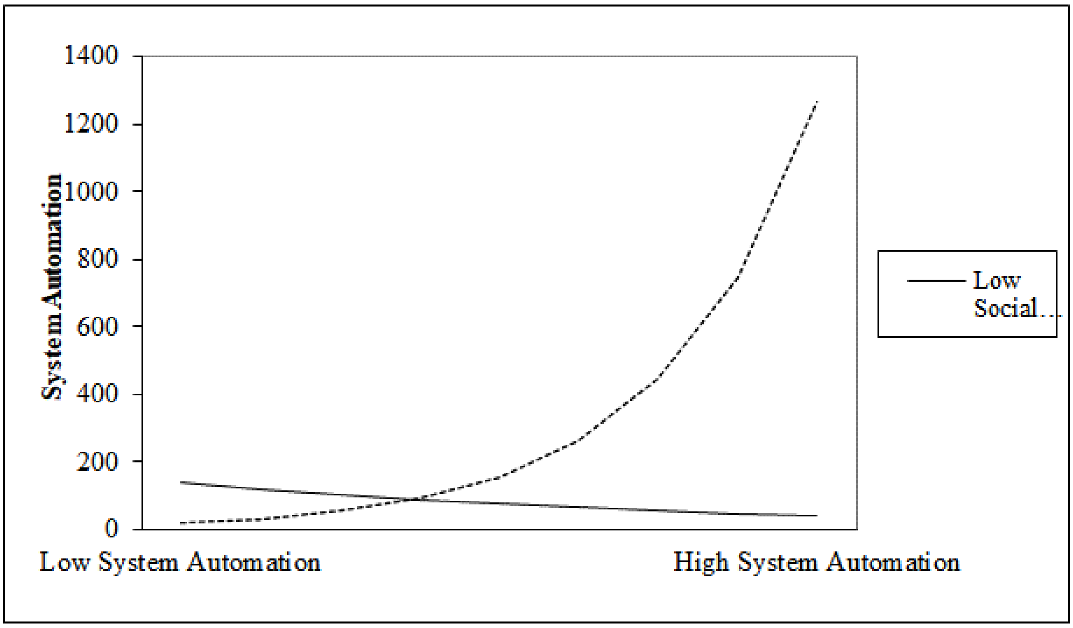

Figure 4.5: Modi graphs for the moderating effect of social norms relationship between system automation and turnover tax compliance

Table 4.21: Hypotheses test results

Hypothesis	Sig.	Verdict
H_{01}: Compliance cost has no significant effect on turnover tax compliance among SMEs in Kariokor market in Nairobi, Kenya.	0.000	Reject **H_{01}**
H_{02}: Taxpayer’s knowledge has no significant effect on turnover tax compliance among SMEs in Kariokor market in Nairobi, Kenya.	0.000	Reject **H_{02}**
H_{03}: System automation has no significant effect on turnover tax compliance among SMEs in Kariokor market in Nairobi, Kenya.	0.025	Reject **H_{03}**
H_{04}: Social norms has no moderating effect on the relationship between Compliance Costs, Taxpayers Knowledge and system automation and turnover tax compliance among , small and medium enterprises in Kariokor market in Nairobi, Kenya.	0.016	Reject **H_{04}**
H_{04a}: Social norms has no moderating effect on the relationship between Compliance Costs, and turnover tax compliance among , small and medium enterprises in Kariokor market in Nairobi, Kenya.	0.000	Reject **H_{04a}**
H_{04b}: Social norms has no moderating effect on the relationship between Taxpayer Knowledge and turnover tax compliance among , small and medium enterprises in Kariokor market in Nairobi, Kenya.	0.015	Reject **H_{04b}**
H_{04c}: Social norms has no moderating effect on the relationship between system automation and turnover tax compliance among , small and medium enterprises in Kariokor market in Nairobi, Kenya	0.000	Reject **H_{04c}**

Source: Research Data (2024)

4.12 Discussion of Findings

This section provides a discussion of findings.

4.12.1 Compliance costs on turnover tax compliance

The first specific objective was to establish effect of Compliance costs on turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya. The correlation matrix indicates a negative and statistically significant linear relationship between compliance costs and turn over tax compliance $r= -0.101$ $p= 0.006$. The regression model indicates that unit increases in compliance costs causes significant reduction in turn over tax compliance $\beta= -0.870$, $p=0.000$. the findings suggest that higher compliance costs are associated with lower turnover tax compliance among these enterprises. However, the correlation suggests that this relationship is weak. It's important to note that correlation does not imply causation, and other factors could also be influencing this relationship. Yaseen and Nawaz (2020) looked at how tax compliance costs affected Pakistani small businesses' tax compliance. According to the study, the cost of compliance has a major detrimental impact on taxpayer compliance. Reducing compliance costs and improving compliance may be accomplished through taxpayer education and the simplification of tax procedures. The relationship between tax compliance costs and tax compliance among Korean small and medium-sized firms (SMEs) was investigated in a study by Kim and Lee (2021). According to the report, SMEs with poorer financial performance are more vulnerable to compliance costs, which have a considerable detrimental impact on tax compliance.

4.12.2 Taxpayer knowledge on turnover tax compliance

The second specific objective was to establish effect of taxpayer knowledge on turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya. The correlation matrix indicates positive and statistically significant linear relationship between taxpayer knowledge and turn over tax compliance $r= 0.620$, $p= 0.004$. The regression model indicates that unit increases in taxpayer knowledge causes significant increase in turn over tax compliance $\beta= 0.934$, $p=0.000$. These results imply that raising taxpayer awareness may be a useful tactic for boosting small- and medium-sized businesses' compliance with turnover taxes in Nairobi, Kenya's Kariokor market. (Chung, Lee, & Jung, 2016). A related study indicated that tax education increased the likelihood of taxpayer compliance (Slemrod & Yitzhaki, 2002). Taxpayer knowledge and tax compliance have a positive and significant relationship, according to Ghani et al.'s 2020 study on taxpayer knowledge and tax performance among self-employed individuals in Malaysia. Similarly, tax awareness was found to be a strong predictor of TOT compliance in an analysis by Pastory (2022) on factors that influence TOT compliance among SMEs in Ilala municipality, Tanzania.

4.12.3 System automation on turnover tax compliance

The third specific objective was to establish the effect of system automation on turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya. The correlation matrix indicates positive and statistically significant linear relationship between system automation and turn over tax compliance $r= 0.701$, $p= 0.008$. The regression model indicates that unit increases in system automation causes significant increase in turn over tax compliance $\beta= 0.741$, $p=0.025$. Therefore, improving system automation could be an effective strategy for increasing turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya. This could involve providing businesses with access to affordable automated systems, training business owners and employees on how to use these systems, and promoting the benefits of system automation for tax compliance. In addition, Macharia (2017) conducted a relevant study for her MBA thesis on the variables influencing Kenya's large taxpayers' adoption and usage of the e-filing system. The study looked at the technology needed, the skills that e-filing users needed, and how ready the tax authority was to advance the use of technology based on tax compliance. The study concluded that skills, infrastructure, and a supportive business climate are necessary for e-filing to successfully take off in Kenya.

4.12.4 Social norms on the relationship between Compliance Costs, Taxpayers Knowledge and system automation and turnover tax compliance

The fourth specific objective was to establish the moderating effect of social norms on the relationship between Compliance Costs, Taxpayers Knowledge and system automation and turnover tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya. The correlation matrix indicates that there was positive and statistically significant linear relationship between social norms and turn over tax compliance $r= 0.661$, $p= 0.022$. The Beta coefficient from the regression model indicates that there is a significant positive impact caused by social norms on turn over tax compliance $\beta= 0.356$, $p=0.016$. suggest that improving social norms could greatly enhance tax compliance among, small, and medium enterprises in Kariokor market in Nairobi, Kenya. Interaction between compliance costs and social norms shows that there was positive significant moderating effect caused by social norms on the relationship between compliance cost and turn over tax compliance $\beta= 0.781$, $p=0.000$. indicates that as social norms improve, the negative impact of compliance costs on tax compliance could be mitigated. Interaction between tax payer knowledge and social norms shows that there was positive significant moderating effect caused by social norms on the relationship between taxpayer knowledge and turn over tax compliance $\beta = 1.122$, $p=0.015$. suggests that as social norms improve, the positive impact of taxpayer knowledge on tax compliance also increase. This could be because when social norms are strong, taxpayers may comply with tax laws regardless of their level of knowledge. Lastly Interaction between system automation and social norms shows that there was positive significant moderating effect caused by social norms on the relationship between system automation and turn over tax compliance $\beta = 1.351$, $p=0.000$. suggests that as social norms improve, the positive impact of system automation on tax compliance could be enhanced. Taxpayers possess a reciprocity sense, claim Edlund & Åberg (2016). Because of this, when individuals see the value in a linked government function, they are less opposed to designated taxes. More evidence that norms influence tax compliance comes from the finding that people are more likely to comply with a tax when they believe other taxpayers are doing so (Cummings et al., 2017).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this segment of the report, a concise recapitulation of the research outcomes, the drawing of conclusions, and the proposition of suggestions that align with the study's aims are presented. Additionally, this chapter proposes potential avenues for subsequent research explorations.

5.2 Summary of Findings

The summary of findings of the research are;

5.2.1 Compliance Costs on Turnover Tax Compliance

According to the study, turnover tax compliance and compliance costs have a negative and statistically significant linear relationship. For every unit increase in compliance costs, turnover tax compliance is greatly decreased. This suggests that higher compliance costs are associated with lower compliance among SMEs in the Kariokor sector. It's crucial to remember that the correlation does not necessarily indicate causality, and that this link may also be influenced by other factors. Similar results from earlier studies conducted in Pakistan by Yaseen and Nawaz (2020) imply that lowering compliance costs and streamlining tax processes may be useful tactics for improving small business compliance.

5.2.2 Taxpayer Knowledge on Turnover Tax Compliance

According to the study, turnover tax compliance and taxpayer knowledge have a positive and statistically significant linear relationship. A significant increase in turnover tax compliance is the outcome of greater taxpayer awareness. According to this research, raising taxpayer awareness may be a useful tactic for boosting SMEs' compliance in the Kariokor market. According to Slemrod and Yitzhaki's (2002) study, taxpayers who obtain tax education are more likely to comply with their tax obligations. This finding is consistent with the results of other research.

5.2.3 System Automation on Turnover Tax Compliance

System automation and turnover tax compliance were found to have a positive and statistically significant linear connection. Turnover tax compliance rises significantly with increased system automation. This implies that increasing system automation—including by offering reasonably priced automated systems and educating entrepreneurs and staff—might be a useful tactic for raising compliance among SMEs in the Kariokor sector. Macharia's (2017) study emphasizes the importance of skills, infrastructure, and a positive corporate environment in supporting the effective adoption of tax compliance-focused technologies.

5.2.4 Social Norms on Compliance Costs, Taxpayer Knowledge, and System Automation

The study looked at how social norms affected the relationship between taxpayer knowledge, system automation, compliance costs, and turnover tax compliance. The findings showed that turnover tax compliance is significantly improved by social norms. Enhancing social norms could significantly increase SMEs' tax compliance in the Kariokor market.

Furthermore, it was found that social norms considerably affected the relationship between compliance costs and turnover tax compliance. The detrimental effect of compliance costs on tax compliance may be lessened when societal norms improve. This suggests that even in the face of large compliance costs, strong social norms can promote compliance.

Social norms were found to have a positive moderating effect on taxpayer knowledge. The beneficial effect of taxpayer awareness on tax compliance rises as social norms improve. This implies that taxpayers may abide by tax regulations regardless of their degree of understanding in settings with strong social norms.

Lastly, the study demonstrated that the association between system automation and turnover tax compliance was positively mediated by social norms. System automation may have a greater beneficial effect on tax compliance as social norms increase. This highlights how crucial it is to have an atmosphere that incentivizes companies to implement automated systems for tax compliance.

5.3 Conclusions

The study revealed that there is a negative relationship between compliance costs and turnover tax compliance among SMEs. This led to the conclusion that the higher the compliance cost the higher the rate of turn over tax noncompliance. If SMEs find that the cost of registering, filling and paying the turnover tax s high, they will evade the process leading to tax noncompliance.

The research established that there is a positive connection between taxpayer knowledge and turnover tax compliance. When taxpayers possess greater knowledge of tax regulations and procedures, their compliance levels increase. SME taxpayers who possess high knowledge about turnover tax. Its benefits, implications of fling and the process of filling are at a higher possibility of complying with the tax than those who do not possess the knowledge.

The findings indicated a positive relationship between system automation and turnover tax compliance an improvement in system automation translates to higher compliances amongst tax payers. This implies that tax filing system makes it easier for SME taxpayers to register, file and pay the turnover tax returns. This can be explained through the elimination of some cost that would come with lack of automation. Also, using automated system would be less tedious.

It was discovered that social norms had a significant impact on turnover tax compliance. Tax compliance among SMEs can be greatly increased by enhancing social norms. It has also been demonstrated that the relationship between tax compliance and compliance costs is moderated by social norms. Strong social norms can promote compliance by reducing the detrimental effects of high compliance costs. Social norms have the potential to mitigate the impact of taxpayer knowledge on compliance, since individuals who reside in environments with robust social norms are more likely to comply with tax regulations, irrespective of their degree of knowledge. Finally, the relationship between system automation and tax compliance is positively influenced by social norms. Businesses can be encouraged to implement automated solutions for tax compliance by creating a positive social environment. The main conclusions show that the influence of Compliance costs was moderated by social norms. Taxpayer awareness and automation of systems for turnover tax compliance in Nairobi's Kariokor market among small and medium-sized businesses.

5.4 Recommendations

The KRA should consider simplifying tax procedures for SMEs, particularly those subject to turnover tax. Streamlining compliance requirements and reducing bureaucratic barriers can help alleviate compliance costs and encourage better adherence to tax regulations. KRA should invest in taxpayer education programs to improve knowledge and awareness among SMEs. This will empower business owners to navigate the tax system more effectively and ensure voluntary compliance.

KRA should encourage the adoption of automated tax compliance systems among SMEs. The treasury can offer incentives or subsidies to make these systems more affordable and provide training to ensure business owners and employees can use them efficiently.

The KRA should explore ways to foster positive social norms that encourage tax compliance. This may involve public awareness campaigns emphasizing the benefits of tax compliance for the community and society as a whole.

The researcher suggests that Kenya School of Revenue Administration (KESRA) should integrate practical tax compliance training: incorporate practical tax compliance training into academic curricula, particularly in courses relevant to business and finance.

The study also makes suggestions that KRA should come up with policies that will guide the SMEs on matters turnover tax compliance. They should make policies that will lead to reduction of compliance costs. KRA should also formulate policies that will guide training SMEs owners in gaining knowledge on tax compliance through training and other awareness campaigns. Further, polices that require all tax filing systems to be automate should be made.

The study also adds to the existing knowledge on the determinants of turnover tax compliance among SMEs. By doing so, the study makes support to the theories that have already been established to show this link. Moreover, the study findings support theories that support social norms as moderator for the relationship between the determinants of tax compliance and turnover tax compliance.

The study findings will be helpful in the field of tax compliance since it will be useful in helping the Kenya Revenue Authority in making proper decisions in order to improved turnover tax compliance among SMEs. The study findings would therefore be important in decision making among the management of KRA since they would put into consideration all these factors.

5.5 Suggestions for Further Research

It would be valuable to investigate how regional and industry-specific variations influence tax compliance. Different sectors and geographic locations may have unique factors like investigate the effect of social economic factors on turn over tax performance impacting SMEs' compliance behavior, which were not fully explored in the current study. This is based on the remainder of the variations in TOT compliance that the study observed not to be explained by the determinants included in the current study.

5.6 Limitations of Study

The research was constrained by the availability of participants who were too busy during business hours to finish the surveys. The researcher had to make a lot of phone calls to boost the response rate in order to solve this problem. Particularly after discovering that the study had to do with taxes, the participants were reluctant. Nevertheless, the researcher was able to allay respondents' worries by promising to utilize the data only for scholarly purposes and to protect confidentiality. As a result, fieldwork was carried out successfully, and an introduction letter from KESRA was included with the questionnaires to verify confidentiality.

REFERENCES

Adhiambo, O. J. (2019). Factors affecting tax compliance among small scale traders in Nakuru Town, Kenya. *Unpublished MBA Project, Kenyatta University*.

Adimassu, N. A., & Jerene, W. (2016). Determinants of voluntary tax compliance behavior in self-assessment system: Evidence from SNNPRS, Ethiopia. *International Journal of Science and Research*, *5*(12), 967-973.

Alejo, J., Montes-Rojas, G., & Sosa-Escudero, W. (2018). Testing for serial correlation in hierarchical linear models. *Journal of Multivariate Analysis*, 165(2), 101–116. https://doi.org/10.1016/j.jmva.2017.11.007

Alm, J., & McKee, M. (2004). Tax compliance as a coordination game. *Journal of Economic Behavior & Organization*, *54*(3), 297-312.

Alm, J., Schulze, W. D., Von Bose, C., & Yan, J. (2019). Appeals to social norms and taxpayer compliance. *Southern Economic Journal*, *86*(2), 638-666.

Aluoch, M. O. (2022). *A Survey of Factors Affecting Turnover Tax Compliance in Western Kenya* (Doctoral dissertation, University of Nairobi).

Aniefo, I. O. (2018). Effect of tax knowledge on tax compliance of small and medium scale enterprises in Nigeria. *International Journal of Economics, Commerce and Management*, 6(2), 91-105.

Anner, M., Pons-Vignon, N., & Rani, U. (2019). For a future of work with dignity: A critique of the World Bank Development Report, the changing nature of work. *Global Labour Journal*, *10*(1), 2-19.

Apuke, O. D. (2017). Quantitative research methods: A synopsis approach. *Kuwait Chapter of Arabian Journal of Business and Management Review*, *33*(5471), 1-8.

Awais, M., Khan, M. M. S., & Mushtaq, A. (2024). Musharakah for Small and Medium Enterprises as an Alternative Financing Mode. *Annals of Social Sciences and Perspective*, *5*(1), 189-204.

Ayuba, A., Saad, N., & Ariffin, Z. Z. (2016). Perceived service orientation, economic factors, psychological factors and tax compliance: evidence from Nigerian SMEs. *Malaysian Management Journal*, *20*, 41-57.

Babbie, E., & Mouton, J. (2016). *The practice of social research (14th ed*.). Oxford University Press.

Bailey, J. (2014). *First steps in research (2nd ed.).* Sage Publications.

Bandura, A. (1977). *Social Learning Theory*. Prentice-Hall

Baruch, J.W. 2004. Research design: *A concise introduction to mixed methods research*. SAGE publications.

Cahyonowati, N., Ratmono, D., & Juliarto, A. (2022). The Moderating Role of Social Norms on Tax Compliance Model: A Laboratory Experimental Evidence in Indonesia. *Contemporary Economics*, *16*(4).

Carayannis, G., Daskalakis, N., & Leventis, S. (2021). Tax compliance costs for small and medium-sized enterprises: The case of Greece. *Journal of Accounting and Public Policy*, 40(2), 106843.

Castro, L., & Scartascini, C. (2015). Tax compliance and enforcement in the pampas evidence from a field experiment. *Journal of Economic Behavior & Organization*, *116*, 65-82.

Central Statistical Agency (CSA). (2020). Annual Small and Medium Manufacturing Establishments Survey Report. Addis Ababa, Ethiopia.

Chandler, D. (2020). *Technological or Media Determinism.* Aberystwyth: Aberystwyth University.

Chipeta, C. (2020). Tax Reforms and Tax Yields in Malawi. *AERC Research Paper No 81*.

Chu,H.M., Kara, O., & Benzing, C. (2018). An empirical study of Nigerian entrepreneurs: success, motivations, problems, and stress. *International Journal of Business Research,* 8(2), 102-116

Code, A. E., & Psychologists, P. L. (2017). Ethical principles of Psychologist and code of conduct. *Published online.*

Cooper, D., & Schindler, P. (2013). *Business Research Method: 12th Edition*. McGraw-Hill Us Higher.

Creswell, J. W. (2014). *A concise introduction to mixed methods research,* (1st ed). New York: Sage Publications.

Creswell, W. (2009). Research Design: Qualitative and Quantitative Approaches. *Journal of Marketing Research*. 33(2), 252

Cuaresma, J., Badiola, J., & Lomboy, M. (2018). Tax compliance cost for SMEs in the Philippines. *Asia-Pacific Social Science Review,* 18(1), 17-27.

Deogratius, N. M. (2017). The impact of tax compliance costs on tax compliance behavior. *Journal of tax administration,* 3(1), 57-81.

Eichfelder, Sebastian, and Frank Hechtner. "Tax compliance costs: Cost burden and cost reliability." *Public Finance Review* 46, no. 5 (2018): 764-792.

Evans, C., Ritchie, K., Tran-Nam, B., and Walpole, M. (2021). *A report into taxpayer costs of compliance*. Commonwealth of Australia, Canberra.

Feld, L. P., & Frey, B. S. (2002). Trust breeds trust: How taxpayers are treated. *Economics of governance*, *3*, 87-99.

Gbadamosi, G. and Oni, O. (2015). The impact of behavioral factors on tax compliance in Nigeria. *Journal of Accounting and Taxation*, 7(5), 72-81

Ghani, H. H. A., Abd Hamid, N., Sanusi, S., & Shamsuddin, R. (2020). The effect of tax knowledge, compliance costs, complexity and morale towards tax compliance among self-employed in Malaysia. *Global Business and Management Research*, *12*(1), 18-32.

Górecki, M. A., & Letki, N. (2021). Social norms moderate the effect of tax system on tax evasion: Evidence from a large-scale survey experiment. *Journal of Business Ethics*, *172*, 727-746.

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2019). *Multivariate data analysis (8th ed.).* Cengage Learning.

Hashmi, M., & Governatori, G. (2018). Norms modeling constructs of business process compliance management frameworks: a conceptual evaluation. *Artificial Intelligence and Law*, *26*(3), 251-305.

Hoopes, J. L., Narayanamoorthy, G., & Sikes, S. A. (2020). Tax complexity and compliance costs for multinational corporations. *Journal of Accounting and Economics*, 69(1), 101370.

Hoopes, J. L., Reck, D., & Slemrod, J. (2015). Taxpayer search for information: Implications for rational attention. *American Economic Journal: Economic Policy*, 7(3), 177-208.

Inasius, F., Darijanto, G., Gani, E., & Soepriyanto, G. (2020). Tax compliance after the implementation of tax amnesty in Indonesia. *SAGE Open*, *10*(4), 2158244020968793.

International Finance Corporation (IFC). (2019). Small and Medium Enterprises in Ethiopia: Characteristics, Performance, and Challenges

Iordachi, V., & Timus, A. (2017). Role of Information Technology In Increasing Voluntary Compliance By Tax Payers. *Contemporary Economy Journal*, *2*(3), 88-96.

Jack, M. A., & Clarke, A. M. (1998). Reliability of the processes of checking consistency, if there are any questions that have been repeated, and stability of a questionnaire. In J. F. Gubrium & J. A. Holstein (Eds.), *Handbook of interview research: Context and method* (pp. 439-454). Sage Publications.

Jackson, B. R., & Milliron, V. C. (1986). Tax compliance research: Findings, problems, and prospects. *Journal of accounting literature*, *5*(1), 125-165.

Johnson, R. B., & Onwuegbuzie, A. J. (2004). Mixed methods research: A research paradigm whose time has come. *Educational researcher*, 33(7), 14-26.

Kahan, D. M. (2019). Social influence, social meaning, and deterrence. In *Criminal Law* (pp. 429-476). Routledge.

Kalama, A. N. (2020). *Determinants of turnover compliance among small scale enterprises in Kilifi County* (Unpublished).

Kasiva, E. (2022). *Determinants of Residential Monthly Rental Income Tax Compliance among Landlords in Masii Town in Machakos County, Kenya* (Doctoral dissertation).

Keraro, J. (2017). *Determinants of tax compliance among small and medium enterprises in Nakuru central business district, Kenya* (Doctoral dissertation, Kabarak University).

Kiiru, K. W., Njeru, A., & Wanjohi, A. W. (2021). Factors influencing turnover tax compliance among small and medium enterprises in Kenya. *International Journal of Business and Management,* 16(1), 154-167.

Kimungu, I., & Kileva, L. (2007). Taxation challenges facing the SMEs in Tanzania. A paper presented at the International Tax Dialogue. In Conference on the Taxation on the Challenges facing the SMEs in Developing Countries. Buenos Airies, Argentina.

Kirchler, E., Hoelzl, E., and Wahl, I. (2008). Enforced versus voluntary tax compliance: The "slippery slope" framework. *Journal of Economic Psychology*, 29(2), 210-225

Kleven, H. J., Knudsen, M. B., Kreiner, C. T., Pedersen, S., & Saez, E. (2011). Unwilling or unable to cheat? Evidence from a tax audit experiment in Denmark. *Econometrica*, 79(3), 651-692.

KNBS, G. (2019). Economic survey 2019. *Kenya national bureau of statistics*.

Kombo, D., & Tromp, D. (2009). *Proposal and Thesis Writing: An introduction. Nairobi:*

Kostis, P. C. (Ed.). (2020). *Bridging Microeconomics and Macroeconomics and the Effects on Economic Development and Growth*. IGI Global.

Lalisho, D. L., & Abuye, M. (2020). Determinants of Turnover Tax (ToT) Tax Collection Effectiveness in Ethiopia: The Case Hosanna Town. *American Journal of Theoretical and Applied Business*, *6*(3), 28-36.

Lee, Y. K., Jung, K. H., & Chung, H. (2016). The effects of tax knowledge and tax complexity on taxpayer compliance: Evidence from Korea. *Journal of Business Research*, 69(11), 4870-4876.

Macharia, M. (2017, November 4). *Caj News Africa*. Retrieved January 25, 2017, from Technology adoption to increase Kenya revenue inflows: http://cajnewsafrica.com/2016/11/04/technology-adoption-to-increasekenya-revenue-inflows/

Mamo, F., & Gashaw, T. (2019). Small business turnover tax compliance: The role of taxpayer education. *Journal of African Business*, 20(4), 442-457

Mararia, A. K. (2020). *The effect of integrated tax management system on tax compliance by small and medium sized enterprises in Nairobi central business district* (Doctoral dissertation, University of Nairobi)

Mascagni, G., & Gadenne, L. (2021). *Understanding taxpayer behaviour: From compliance to cooperative compliance*. Routledge.

Mascagni, G., & McEntee, J. (2015). Small business tax compliance costs in developing countries. ICTD Working Paper 27.

Mayega, J., Waiswa, R., Nabuyondo, J., & Nalukwago Isingoma, M. (2021). How Clean Are Our Taxpayer Returns? Data Management in Uganda Revenue Authority (No. 16557).

Ming Ling, L., & Hidayah Ahamad Nawawi, N. (2010). Integrating ICT skills and tax software in tax education: A survey of Malaysian tax practitioners' perspectives. *Campus-Wide Information Systems, 27*(5), 303-317.

Ministry of Cooperatives and SMEs Republic of Indonesia, Database from Ministry of Cooperatives and SMEs of The Republic of Indonesia

Mittone, L. (2018). *"*Dynamic behaviour in tax evasion: an experimental approach", *Journal of Socio-Economics, 35 (5) pp.* 813-835.,

Moreno-Moya, M., & Munuera-Aleman, J. L. (2016). The differential effect of development speed and launching speed on new product performance: An analysis in SMEs. *Journal of Small Business Management*, 54(2), 750-770.

Mugenda, O. M., & Mugenda, A. G. (2003). *Research methods: Quantitative & qualitative approaches* (Vol. 2, No. 2). Nairobi: Acts press.

Murray, J. (2019). Small Business Taxes http://biztaxlaw.about.com/od/taxprep process/a/*SmallBusiness-Income-Tax-Guide* Including-Llc-Partnership-Sole Proprietor.htm

Mutai, G. C., & Omwono, G. (2022). Analysis of Factors Affecting Tax Compliance in the Real Estate Sector in Kenya: A Case of Real Estates in Eldoret Town. *International Journal of Education, Business and Economics Research,* 2(2), 12-38.

Muthinji, J. (2022). Factors Affecting Turnover Tax Compliance Among Micro Small And Medium Enterprises In Roysambu, Nairobi. *African Tax And Customs Review*, *5*(2), 33-33.

Mutinda, Timothy. "Factors Influencing Turnover Tax Compliance among Micro, Small and Medium Enterprises Sector in Westland Area in Nairobi, Kenya." PhD diss., KESRA/JKUAT, 2022.

Mwangi, G., & Githinji, A. (2018). Determinants of small and medium enterprises tax compliance in Kenya: A case of Kisumu County. *African Journal of Economic Review*, 4(1), 94-110.

Ndirangu, Z. N., & Gitonga, L. N. (2019). Assessing the Impact of Tax Compliance Costs on Taxpayer Compliance Behaviour in Kenya. *International Journal of Economics, Commerce and Management,* 7(3), 62-76.

Newman, W., Mwandambira, N., Charity, M., & Ongayi, W. (2018). Literature review on the impact of tax knowledge on tax compliance among small medium enterprises in a developing country. *International Journal of Entrepreneurship,* 22(4), 1-15.

Novikasari, S. R., Ly, D. Q., & Gershaneck, K. (2021). Taxing Micro, Small and Medium Enterprises in Yogyakarta: Regulation and Compliance. *Bestuur, 9*, 43-52.

Oktaviani, R., Kurnia, H., Sunarto, S., & Udin, U. (2020). The effects of taxpayer knowledge and taxation socialization on taxpayer compliance: The role of taxpayer awareness in developing Indonesian economy. *Accounting*, *6*(2), 89-96.

Oladipo, O. A., Nwanji, T. I., Eluyela, F. D., Godo, B., & Adegboyegun, A. E. (2022). Impact of tax fairness and tax knowledge on tax compliance behavior of listed manufacturing companies in Nigeria. *Problems and Perspectives in Management*, *20*(1), 41-48.

Omondi, N. M. (2020). *Factors affecting turnover Tax Compliance among Small and Meduim Enterprises in Kenya* (Doctoral Dissertation)

Organization for Economic Co-operation and Development. (2018). Reducing the Compliance Costs of Taxpayers: OECD Tax Policy Studies, No. 24. OECD Publishing

Osman, M. N. H., & Turmin, S. Z. (2023). Factors Influencing The Individual Taxpayers' Voluntary Compliance. *International Journal of Academic Research in Business & Social Sciences*, 13(9), 213 – 225.

Palinkas, L. A., Horwitz, S. M., Green, C. A., Wisdom, J. P., Duan, N., & Hoagwood, K. (2015). Purposeful sampling for qualitative data collection and analysis in mixed method implementation research. *Administration and policy in mental health and mental health services research,* 42, 533-544.

Pastory, D. Determinants of Tax Compliance among Small and Medium Enterprises in Tanzania: Insights from Ilala Municipality. *East African Journal of Education and Social Sciences (EAJESS),* 3(3), 11-17.

Pastory, D. Determinants of Tax Compliance among Small and Medium Enterprises in Tanzania: Insights from Ilala Municipality. *East African Journal of Education and Social Sciences (EAJESS), 3*(3), 11-17.

Peck, G. (2018). *Embracing tax technology: The full perspective. Int'l Tax Rev., 29, 31.*

Popoola, D. J. (2022). *Determinants of Tax Compliance Behaviour Among Small and Medium Enterprises in Kwara State* (Doctoral dissertation, Kwara State University (Nigeria)).

Priyatno, D. (2017). Practical Guide to Data Processing Using SPSS. *Jakarta: Andi Publisher (2017*).

Razali, N. M., & Wah, Y. B. (2011). Power comparisons of shapiro-wilk, kolmogorov-smirnov, lilliefors and anderson-darling tests. *Journal of statistical modeling and analytics*, *2*(1), 21-33.

Sandmo, A. (2005). *The theory of tax evasion: A retrospective view. National Tax Journal*, 58(4), 643-663.

Sanford, C., Godwin, M., Hardwick, P. and Slemrod, J., (1989), *Administrative and compliance costs of taxation, fiscal publications, journal of economic literature*.

Sania, A. F., & Yudianto, I. (2018). Analysis of factors that influence taxpayers compliance in fulfilling taxation obligations. *Journal of Accounting Auditing and Business*, *1*(2), 17-27.

Schutte, D., Labuschagne, D., Georgescu, M. A., & Pop, C. (2019). An evaluation of the turnover tax system in South Africa. *Theoretical and Applied Economics*, *26*(3), 620.

Sheather, S.(2009) *A modern approach to regression with R*. Springer Science & Business Media.

Slemrod, J., & Yitzhaki, S. (2002). Tax avoidance, evasion, and administration. *Journal of Accounting and Public Policy*, 21(3), 221-230.

Sow, S., & Gebresilasse, M. (2020). Effect of VAT Adoption on Manufacturing Firms in Ethiopia. *International Journal of Economics and Finance, 12*(10), 1-75.

State Bank of Pakistan. (2020). Annual Report 2019 – 2020 The State Of Pakistan's Economy

State Bank of Pakistan's Annual Report 2019-2020 (page 114)

Sweeten, G. (2016). Lecture 8 : Heteroskedasticity Assumption MLR5 : Homoskedasticity. Class Lecture.

Teera, J. (2021). Tax Performance: A Comparative Study. *Working Paper 01-02, Center for Public of Economics*.

Temesgen, A. (2018). *Determinants of Turnover Tax Collection Effectiveness: The Case of West Gojiam* (Doctoral dissertation).

Thabani, M., & Richard, E. K. M. (2020). Factors that affect tax compliance among small and medium enterprises (SMEs) in Lusaka, Zambia. *Journal of Accounting*, *3*(1), 1-14.

Torgler, B. (2003). Tax morale, rule-governed behavior and trust. *Constitutional Political Economy,* 14, 119-140.

Utomo, A. S., Sari, R. P., & Alimudin, A. (2020). The Effect of Turnover Tax on Small and Medium Enterprises (SMEs) Performance in Indonesia. *Journal of Accounting and Investment*, *21(1), 102-114.*

Wambugu, G. W., Kihara, J. H., Njagi, L. W., & Mwaura, J. M. (2021). Influence of Taxpayer Education on Tax Compliance among Small and Medium Enterprises in Kenya. *International Journal of Economics, Commerce and Management*, 9(1), 123-139.

Wankio, M. (2016). Factors affecting turnover tax compliance among SMES in Kenya. A case study of SMES in Migori county.

Warundu, L. (2021). *Determinants of Tax Compliance Among Small and Medium Enterprises in Nairobi County, Kenya* (Doctoral dissertation, University of Nairobi).

Williams, C.C. and Martinez-Perez, A. (2014). Exploring tax evasion in Spain: An empirical analysis based on the rational choice theory and the behavioral theory of crime. *Journal of Money Laundering Control, 17(2), 232-244*

World Bank. (2017). *World development report 2017: Governance and the law*. The World Bank.

World Bank. (2018). *World development report 2019: The changing nature of work*. The World Bank.

Xie, C., & Xu, L. (2021). Tax compliance costs and tax avoidance: Evidence from Chinese listed firms. *Journal of International Accounting Research, 20(1), 1-18*.

Yaseen, A., & Nawaz, M. A. (2020). The impact of tax compliance cost on small business tax compliance: Evidence from Pakistan. *Journal of Business Research*, 112, 436-444.

APPENDICES

Appendix I: Letter of Introduction

Dear respondent,

I am a student at Kenya School of Revenue Administration conducting a study on the **MODERATING EFFECT OF SOCIAL NORMS ON THE DETERMINANTS OF TURNOVER TAX COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN KARIOKOR MARKET IN NAIROBI, KENYA.** In order to accomplish the study, I request you to complete this questionnaire.

Yours sincerely

………………………..

Victor Kipkosiom Kandagor

Appendix II: Questionnaire

Kindly respond to the questions in an honest and accurate manner. Your identity and the information you provide will be treated with a lot of confidentiality. Please do not write your name. Where choices are given, put a tick in the appropriate box provided.

Part 1: Demographic Information

1. Indicate your gender

   a) Male [ ] b) Female [ ]

2. Highest level of academic qualification

   a) Primary School Level [ ] b) Secondary School Level [ ] c) Diploma Level [ ] d) Degree Level [ ] e) master's degree [ ]

3. How long has your business been in operation?

   a. Less than 1 year [ ] b. 2 to 5 years [ ] c. 6 to 7 years [ ] d. More than 7 years [ ]

4. What is your main business activity?

Business Activity	Tick
Leather, basket and Curio dealers	
Motor spares dealers and mechanics	
Food stuff dealers	
Secondhand items dealers	
Other(specify)	

5. What is the size of business in terms of employees?

   0-9 ( ) 10-49 ( ) 50-99 ( ) over 100 ( )

Part 2: Compliance cost

The section focuses on the effect of compliance cost on turnover tax compliance by SMEs in the Kariokor market.

Compliance cost	**1**	**2**	**3**	**4**	**5**
I incur tax expert costs during the filing of my returns					
I have to pay for internet and computer use in order to file my returns.					
For most SMEs, maintaining records comes at too high of a cost.					
Compliance costs affects tax compliance					

Part 3: Taxpayer Knowledge

The section focuses on the effect of Taxpayer Knowledge on turnover tax compliance by SMEs in the Kariokor market.

Taxpayer Knowledge	**1**	**2**	**3**	**4**	**5**
I am aware of the applicable turnover tax calculation rate.					
I am aware of the implications of non-compliance					
I am aware of the due dates and penalties for tax returns.					
I am aware that I have a monthly tax filing deadline.					
High levels of tax knowledge encourage tax compliance					

Part 3: System automation

The section focuses on the effect of System automation on turnover tax compliance by SMEs in the Kariokor market.

System automation	1		3	4	5
My Turnover tax compliance has improved since I started paying taxes with mobile money.					
The ease of use of the electronic tax system encourages me to abide by tax laws.					
It is essential that I retrieve my tax information from itax since it allows me to track tax payments and returns at a little expense.					
Since it's simple to track online tax transfers, I can determine when my taxes are due.					
Utilizing a tax system with internet access has lowered the cost of compliance, which encourages me to continue complying.					

Part 4: MODERATOR

Social Norms

The section focuses on the moderating role of social norms on the determinants of turnover tax compliance by SMEs in the Kariokor market.

Social norms	**1**	**2**	**3**	**4**	**5**
I am aware that the company pays taxes because other SMEs that are comparable to it do the same.					
I think the company pays taxes because there isn't much tax dodging going on among other SMEs.					

I do not pay tax because most of the business owners in the area do not pay					
In my opinion, the company pays taxes because it is the right thing to do, even when there are consequences for non-compliance.					
I know that the firm pays taxes to avoid penalties					

Part 5: Turnover Tax Compliance

The section focuses on determining Turnover tax compliance among SMEs in the Kariokor market.

Turnover Tax Compliance	**1**	**2**	**3**	**4**	**5**
I am aware of the significance of having a valid taxpayer registration in the KRA Itax system.					
I pay the tax liability that arise from my TOT obligation without failure					
I always make correct tax declaration					
I am aware of when my tax returns are required to be filed.					

END

Appendix III: Authorization Letter from Moi University

KENYA REVENUE AUTHORITY

ISO 9001:2015 CERTIFIED

PUBLIC

KENYA SCHOOL OF REVENUE ADMINISTRATION

REF: KESRA/NBI/036

24th July 2023

TO: WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: REQUEST FOR ASSISTANCE TO VICTOR KIPKOSIOM KANDAGOR OF REGISTRATION NO.: KESRA105/0060/2021 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: "*Moderating effect of social norms on the determinants of Turnover Tax Compliance among Micro, Small and Medium Enterprises in Kariokor Market in Nairobi, Kenya.*"

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.

SCHOOL OF REVENUE ADMINISTRATION
DEAN OF STUDIES
ACADEMIC AFFAIRS DIVISION

Damacrine Masira
Manager Academic Research,
KESRA

Appendix IV: Research Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: 141477

Date of Issue: 26/October/2023

RESEARCH LICENSE

This is to Certify that Mr.. VICTOR KIPKOSIOM KANDAGOR of Kenya School of Revenue Administration, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: MODERATING EFFECT OF SOCIAL NORMS ON THE DETERMINANTS OF TURNOVER TAX COMPLIANCE AMONG MICRO, SMALL AND MEDIUM ENTERPRISES IN KARIOKOR MARKET IN NAIROBI, KENYA for the period ending : 26/October/2024.

License No: NACOSTI/P/23/30664

141477

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

See overleaf for conditions

Appendix III: Plagiarism Certificate

SR546

ISO 9001:2019 Certified Institution

THESIS WRITING COURSE

PLAGIARISM AWARENESS CERTIFICATE

This certificate is awarded to

VICTOR KIPKOSIOM KANDAGOR

KESRA105/0060/2021

In recognition for passing the University's plagiarism

Awareness test for Thesis **entitled: MODERATING EFFECT OF SOCIAL NORMS ON THE DETERMINANTS OF TURNOVER TAX COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN KARIOKOR MARKET IN NAIROBI, KENYA** with similarity index of 25% and striving to maintain academic integrity.

Word count: 23569

Awarded by

Prof. Anne Syomwene Kisilu

CERM-ESA Project Leader   Date: 10/06/2024