



Socio-psychological factors, tax complexity, and turnover tax compliance: Evidence from SMEs in Kamukunji sub-county, Nairobi, Kenya

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Abstract

Taxation plays a pivotal role in sustainable development, and Kenya's turnover tax (TOT) system was established to expand the tax base by targeting small and medium enterprises (SMEs). Despite this initiative, compliance levels remain below expectations. This study examined the influence of socio-psychological factors—tax awareness, tax morale, taxpayer egoism, and national pride—on turnover tax compliance among SMEs in Kamukunji Sub-County, Nairobi, with tax complexity as a moderating variable. An explanatory research design was adopted, targeting 3,217 registered SMEs. A stratified random sample of 356 enterprises was selected, and data were collected through structured questionnaires. Out of these, 271 valid responses were analyzed using descriptive statistics, correlation, and hierarchical multiple regression to test both direct and moderating effects. The results revealed that tax awareness, tax morale, and national pride had positive and significant effects on turnover tax compliance, while taxpayer egoism had a negative effect. Tax complexity significantly moderated these relationships by weakening the positive effects and amplifying the negative one. The model explained 53.8% of the variance in compliance ($R^2 = 0.538$), underscoring the importance of both intrinsic and contextual factors in influencing taxpayer behavior. The study concludes that compliance is not solely driven by enforcement but also by taxpayers' moral orientation, civic responsibility, and perceptions of fairness. It recommends simplifying tax procedures, enhancing transparency, and integrating national pride into tax education programs to strengthen voluntary compliance and promote sustainable revenue mobilization.

Keywords:

National pride
Tax awareness
Tax complexity
Tax compliance
Tax morale
Taxpayer Egoism.

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1. Introduction

Taxation is a critical instrument for economic growth and social development, enabling governments to mobilize domestic revenue to finance public goods and services. Effective tax systems enhance fiscal

sustainability and strengthen the social contract between governments and citizens. However, achieving voluntary compliance remains a global challenge, particularly among small and medium enterprises (SMEs), which constitute the backbone of most economies. According to the [World Bank \(2024\)](#) SMEs account for over 90 percent of businesses and nearly 50 percent of employment globally, yet their tax compliance rates remain disproportionately low due to behavioral, structural, and administrative factors.

In Kenya, the government introduced the turnover tax (TOT) system in 2007 under Section 12(C) of the Income Tax Act (CAP 470) to simplify taxation for small businesses and expand the tax base. The tax applies to enterprises with an annual gross turnover between Kshs. 1 million and Kshs. 25 million, charged at one and a half percent of monthly sales, and payable by the 20th day of the subsequent month. Despite this simplified regime, compliance remains suboptimal. [Kenya Revenue Authority \(2024\)](#) reported that SMEs contributed only Kshs. 397 million against a projected Kshs. 487 million in TOT collections for the 2024/2025 fiscal year, representing an 81.5 percent performance level.

Persistent non-compliance among SMEs raises concerns about the effectiveness of Kenya's simplified tax regimes. Previous studies have primarily focused on economic and administrative determinants such as audit intensity, tax rates, and enforcement, overlooking the socio-psychological dimensions that shape taxpayer behavior. Emerging evidence suggests that intrinsic factors such as tax awareness, moral obligation, egoism, and national pride significantly influence compliance decisions. These behavioral factors interact with tax system complexity, which may either facilitate or constrain compliance depending on how taxpayers perceive fairness, transparency, and ease of filing.

Accordingly, this study examined the effect of tax awareness, tax morale, taxpayer egoism, and national pride on turnover tax compliance among SMEs in Kamukunji Sub-County, with tax complexity as a moderating variable.

2. Literature Review

2.1. Empirical Literature Review

Turnover tax (TOT) represents a simplified taxation framework aimed at expanding the tax base and reducing compliance costs for small and medium-sized enterprises (SMEs). In Kenya, it applies to firms with annual gross turnover between one and twenty-five million Kenya shillings, taxed at one-and-a-half percent of monthly sales and payable by the twentieth day of the following month. Despite its simplicity, compliance has remained below expectations, largely due to behavioral, informational, and administrative constraints. This has prompted increasing scholarly attention toward the socio-psychological and structural factors shaping voluntary tax compliance among SMEs.

2.2. Socio-Psychological Factors and Turnover Tax Compliance

Empirical studies highlight that awareness of tax laws, moral orientation, self-interest, and national identification substantially influence compliance behavior. Tax awareness enhances understanding of filing obligations and deadlines, thereby improving voluntary compliance. [Barros \(2021\)](#) found that taxpayers with adequate knowledge of tax obligations were more likely to comply willingly, while [Tirimba, Muturi, and Sifunjo \(2016\)](#) observed that SMEs exposed to regular sensitization by the Kenya Revenue Authority (KRA) demonstrated higher filing accuracy and punctuality. Inadequate awareness, conversely, leads to unintentional errors and persistent non-compliance, emphasizing the role of continuous taxpayer education.

Tax morale, defined as intrinsic motivation to pay taxes, also emerges as a crucial determinant. [Mas'ud, Aliyu, and Gambo \(2022\)](#) reported that moral obligation and trust in government significantly increased compliance among Nigerian SMEs. Similarly, [Waweru \(2022\)](#) found that low confidence in public institutions and corruption perceptions discouraged compliance among Kenyan taxpayers. These findings echo [Muita, \(2011\)](#) who emphasized that moral and ethical considerations underpin voluntary compliance, particularly when enforcement capacity is weak.

Conversely, taxpayer egoism—a self-centered tendency to maximize personal gain—has been negatively associated with compliance. [Modugu and Anyaduba \(2021\)](#) found that egoistic attitudes promote evasion and under-reporting, while [Okoye and Ezejiofor \(2014\)](#) observed that profit-driven firms often conceal income to minimize liability. This underscores the need for ethical re-orientation in taxpayer education to counter self-interest motives.

Finally, national pride or patriotic sentiment can strengthen taxpayers' willingness to contribute to collective welfare. [Luttmer and Singhal \(2018\)](#) found that patriotic identification enhances compliance when citizens perceive government as accountable and legitimate. In Kenya, associating tax payment with national progress and visible development outcomes may reinforce voluntary compliance among SMEs.

2.3. Tax Complexity as a Moderating Variable

Tax complexity remains a major structural deterrent to compliance. When tax procedures are viewed as cumbersome or ambiguous, voluntary compliance declines. [Aga \(2020\)](#) argued that excessive complexity increases compliance costs and discourages participation in formal taxation systems. [Kirchler, Hoelzl, and Wahl \(2008\)](#) further showed that complex regimes erode transparency and weaken trust in tax authorities, making

enforcement less effective. Within Kenya's TOT framework, unclear guidelines, frequent legislative changes, and limited digital literacy amplify the perceived difficulty of compliance, thereby moderating the strength of socio-psychological drivers such as awareness and morale.

Overall, empirical evidence affirms that socio-psychological factors—tax awareness, morale, egoism, and national pride—shape taxpayers' compliance behavior, while structural aspects such as tax complexity influence how these relationships manifest. However, limited research in Kenya has examined these factors collectively or analyzed the moderating effect of tax complexity under the turnover-tax regime. This study therefore seeks to bridge this empirical gap by assessing how socio-psychological determinants and tax complexity jointly influence turnover-tax compliance among SMEs in Kamukunji Sub-County, Nairobi County.

2.4. Conceptual Framework

Figure 1 presents the conceptual framework showing the relationship between socio-psychological factors and turnover tax compliance and the moderating role of tax complexity.

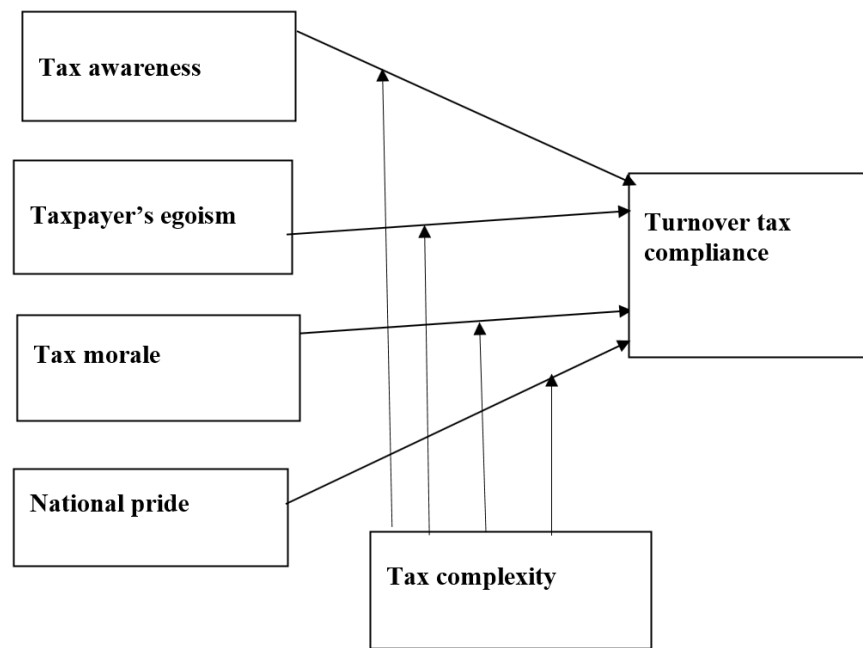


Figure 1. Conceptual Framework.

3. Theoretical Review

This study is anchored on three major theories that explain turnover tax compliance through behavioral, moral, and economic perspectives—namely, the Theory of Planned Behavior (Ajzen, 1991), Psychological Egoism Theory (Hobbes, 1651) and Economic Deterrence Theory (Becker, 1975). Together, these frameworks offer a multidimensional understanding of how individual beliefs, ethical dispositions, and perceived costs shape compliance decisions among small and medium enterprise (SME) taxpayers.

The Theory of Planned Behavior (TPB) posits that individuals' intentions to act are shaped by their attitudes, perceived social expectations, and sense of control over the behavior. In taxation, this suggests that compliance depends on taxpayers' attitudes toward paying taxes, their perception of social norms, and their confidence in meeting obligations. When taxpayers believe that paying taxes is both morally right and socially expected, they are more inclined to comply voluntarily. The theory therefore supports the role of tax awareness, tax morale, and national pride in promoting turnover tax compliance.

In contrast, the Psychological Egoism Theory assumes that individuals are primarily driven by self-interest. People tend to act in ways that maximize personal gain and minimize potential loss. Applied to tax behavior, this implies that taxpayers may evade taxes if they perceive the benefits of evasion to outweigh the risks. This theoretical lens explains taxpayer egoism as a socio-psychological factor influencing compliance, where self-centered motives undermine collective responsibility and weaken voluntary compliance.

The Economic Deterrence Theory complements these perspectives by introducing an enforcement dimension. It argues that taxpayers make rational decisions based on a cost–benefit analysis of compliance versus evasion, influenced by audit probability, penalty severity, and perceived fairness of the system. Tax complexity may moderate this relationship by reducing the perceived certainty of detection or increasing administrative burden, thereby diminishing deterrence effectiveness.

Collectively, these theories demonstrate that turnover tax compliance among SMEs arises from the interaction of moral obligation, self-interest, and perceived system fairness. While behavioral and ethical factors

drive intrinsic motivation to comply, structural and regulatory conditions determine whether this motivation translates into actual compliance. This integrated theoretical view provides the foundation for examining how socio-psychological factors and tax complexity jointly influence turnover tax compliance in Kenya.

4. Research Methodology

The study adopted an explanatory research design to establish the causal relationships between socio-psychological factors and turnover tax compliance among small and medium enterprise (SME) owners. This design was suitable because it facilitated hypothesis testing and identification of the influence of independent variables and the moderating role of tax complexity.

The target population comprised 3,217 SMEs registered under the Nairobi City County Government operating within Kamukunji Sub-County. These enterprises were selected because they represent a significant segment of Nairobi's informal manufacturing and trading sector that falls within the turnover tax bracket. A stratified random sampling technique was applied to ensure representation across various business categories, including wholesale, retail, and service enterprises. The sample size of 356 SMEs was determined using Yamane (1967) formula as shown below.

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

Where: **n** = Sample size; **N** = Total population size; **e** = The error of Sampling (0.05).

$$n = \frac{3217}{1+3217(0.05^2)} = 356 \text{ SMEs}$$

The Primary data was collected using structured questionnaires comprising both closed and Likert-scale items designed to measure each construct. The instrument captured the five key variables; tax awareness, tax morale, taxpayer egoism, national pride, and turnover tax compliance while incorporating tax complexity as a moderating variable. Questionnaires were administered to SME owners and managers who were registered for turnover tax and actively engaged in business operations.

4.1. Reliability and Validity

Instrument reliability was assessed using Cronbach's Alpha, with coefficients above 0.70 considered acceptable for internal consistency (George & Mallery, 2016). The results indicated strong reliability across all constructs: tax awareness ($\alpha = 0.873$), tax morale ($\alpha = 0.802$), taxpayer egoism ($\alpha = 0.841$), national pride ($\alpha = 0.794$), and turnover tax compliance ($\alpha = 0.900$). Content and construct validity were confirmed through expert review and pilot testing involving 35 SMEs in Kiambu Town Sub-County, which shares similar business characteristics with Kamukunji.

4.2. Measurement of Variables

All study variables were measured using structured questionnaire items adapted from prior empirical studies and rated on a five-point Likert scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree. Turnover tax compliance was measured through items assessing voluntary filing, timely payment, and accuracy in declarations. Tax awareness captured knowledge of turnover tax laws and filing procedures, while taxpayer egoism reflected self-interest and profit-oriented attitudes. Tax morale assessed honesty, moral obligation, and perceived fairness in taxation, whereas national pride measured civic duty and commitment to national development. The moderating variable, tax complexity, evaluated clarity, simplicity, and administrative ease of turnover tax procedures. Composite mean scores were computed for each construct, and Cronbach's Alpha coefficients exceeded 0.70, confirming internal consistency and reliability of the measurement scales.

4.3. Regression Models

Regression analysis was conducted to examine the influence of socio-psychological factors on turnover tax compliance and to test the moderating effect of tax complexity. The models were estimated hierarchically, with the first model assessing the combined effect of tax awareness, taxpayer egoism, tax morale, and national pride on turnover tax compliance. Subsequent models introduced the moderating variable, tax complexity, and its interaction terms to evaluate how complexity altered the strength and direction of these relationships. The regression models were expressed as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad (1)$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 M + \varepsilon \quad (2)$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 M + \beta_6 M * X_1 + \varepsilon \quad (3)$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 M + \beta_6 M * X_1 + \beta_7 M * X_2 + \varepsilon \quad (4)$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 M + \beta_6 M * X_1 + \beta_7 M * X_2 + \beta_8 M * X_3 + \varepsilon \quad (5)$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 M + \beta_6 M * X_1 + \beta_7 M * X_2 + \beta_8 M * X_3 + \beta_9 M * X_4 + \varepsilon \quad (6)$$

Where;

Y = Turnover Tax Compliance; β_0 = Constant (Coefficient of intercept); X_1 = Tax awareness; X_2 = Taxpayer egoism; X_3 = Tax morale; X_4 = National pride; $M X_1$ = Tax awareness * Tax complexity; $M X_2$ = Taxpayer egoism * Tax complexity; $M X_3$ = Tax Morale * Tax complexity; $M X_4$ = National Pride * Tax complexity; ε = Error Term; β_1, \dots, β_4 = Regression coefficient.

5. Results

Table 1 presents the means, standard deviations, and correlations among all variables in the study. The results indicate significant positive relationships between turnover tax compliance and three socio-psychological factors: tax awareness ($r = 0.599$, $p < 0.01$), tax morale ($r = 0.612$, $p < 0.01$), and national pride ($r = 0.729$, $p < 0.01$), suggesting that informed, morally guided, and patriotic taxpayers are more likely to comply voluntarily. Conversely, taxpayer egoism correlates negatively with compliance ($r = -0.646$, $p < 0.01$), implying that self-interest undermines civic responsibility. Tax complexity also shows a significant negative correlation with compliance ($r = -0.539$, $p < 0.01$), underscoring how cumbersome filing procedures can discourage compliance among SMEs.

Table 1. Descriptive statistics and correlation matrix.

Variables	1	2	3	4	5	6	Mean	SD
Turnover tax compliance	1						3.96	0.53
Awareness	0.599**	1					4.02	0.75
Egoism	-0.646**	-0.218**	1				1.80	0.31
Morale	0.612**	0.043	-0.237**	1			3.95	0.50
National pride	0.729**	0.351**	-0.155*	0.118	1		4.00	0.78
Tax complexity	-0.539**	-0.118	0.139*	-0.120*	-0.062	1	4.04	0.62

Note: *. Correlation is significant at the 0.05 level (2-tailed). $N = 271$

5.1. Testing of Hypotheses

Table 2 presents the hierarchical regression results testing the hypothesized relationships between socio-psychological factors and turnover tax compliance, and the moderating role of tax complexity. The findings showed that tax awareness ($\beta = 0.166$, $p < 0.05$), tax morale ($\beta = 0.436$, $p < 0.05$), and national pride ($\beta = 0.023$, $p < 0.05$) positively and significantly influenced turnover tax compliance, while taxpayer egoism ($\beta = -0.155$, $p < 0.05$) had a negative and significant effect. Consequently, hypotheses H_1 – H_4 were rejected, confirming that greater awareness, stronger moral obligation, and patriotic sentiment enhance compliance, whereas self-interest undermines it. Among the predictors, tax morale exerted the strongest positive effect, highlighting the role of ethical commitment and intrinsic motivation. The model explained 53.8% of the variance ($R^2 = 0.538$), demonstrating strong explanatory power consistent with behavioral tax theory.

Further analysis examined the moderating role of tax complexity (H_{05a} – H_{05d}). Results indicated significant negative moderating effects across all four relationships: between tax awareness ($\beta = -0.710$, $p = 0.043$), taxpayer egoism ($\beta = -0.032$, $p = 0.003$), tax morale ($\beta = -0.687$, $p = 0.013$), and national pride ($\beta = -0.390$, $p = 0.000$) with turnover tax compliance. These findings imply that increased tax complexity weakens the positive effects of awareness, morale, and pride while amplifying the negative influence of egoism. Overall, the results confirm that simplifying tax systems can strengthen voluntary compliance among SMEs by mitigating the adverse effects of complexity.

Table 2. Regression results.

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
(Constant)	1.426 (0.000)**	2.532 (0.000)**	3.127 (0.000)**	3.203 (0.000)**	2.958 (0.000)**	2.898 (0.000)**
TA	0.407 (0.000)**	0.399 (0.000)**	0.081 (0.020)**	0.081 (0.001)**	0.081 (0.020)**	0.166 (0.000)**
EGO	-0.157 (0.001)**	-0.142 (0.003)**	-0.126 (0.004)**	-0.194 (0.016)**	-0.166 (0.024)**	-0.155 (0.002)**
TMOR	0.343 (0.000)**	0.354 (0.000)**	0.334 (0.000)**	0.331 (0.000)**	0.409 (0.000)**	0.436 (0.000)**
NATP	0.122 (0.015)**	0.178 (0.000)**	0.146 (0.000)**	0.146 (0.000)**	0.147 (0.000)**	0.023 (0.039)**
TC		-0.118 (0.010)**	-0.070 (0.000)**	-0.156 (0.000)**	-0.607 (0.012)**	-0.455 (0.004)**
TA* TC			-0.036 (0.000)**	-0.030 (0.000)	-0.048 (0.000)	-0.710 (0.043)
EGO * TC				-0.124 (0.003)**	-0.055 (0.016)**	-0.032 (0.003)**
TMOR * TC					-0.515 (0.000)**	-0.687 (0.013)**
NATP * TC						-0.390 (0.000)**
R	0.713	0.722	0.775	0.776	0.778	0.779
R ²	0.508	0.522	0.601	0.603	0.605	0.607
R ² Δ	0.508	0.014	0.080	0.002	0.002	0.003
F-value	68.663	57.879	66.276	57.067	50.161	44.791
ANOVA Sig.	0.000	0.000	0.000	0.000	0.000	0.000

Note: a. Dependent Variable: turnover tax compliance
Significant at 0.05 level (**) **

Building on the regression findings, the moderation analysis explored how tax complexity alters the strength of relationships between socio-psychological factors and turnover tax compliance among SMEs in Kamukunji Sub-County. Consistent with behavioral tax research (Hayes, 2022; Mascagni & Santoro, 2021) complex tax systems were found to weaken the positive effects of tax awareness, morale, and national pride while amplifying the negative influence of taxpayer egoism. Moderation graphs were generated to visualize these interactions, revealing how higher tax complexity dampens the beneficial effects of pro-compliance attitudes and intensifies the impact of egoistic behavior. Figures 2 to V illustrate these conditional relationships, underscoring the constraining role of administrative burdens on voluntary tax compliance.

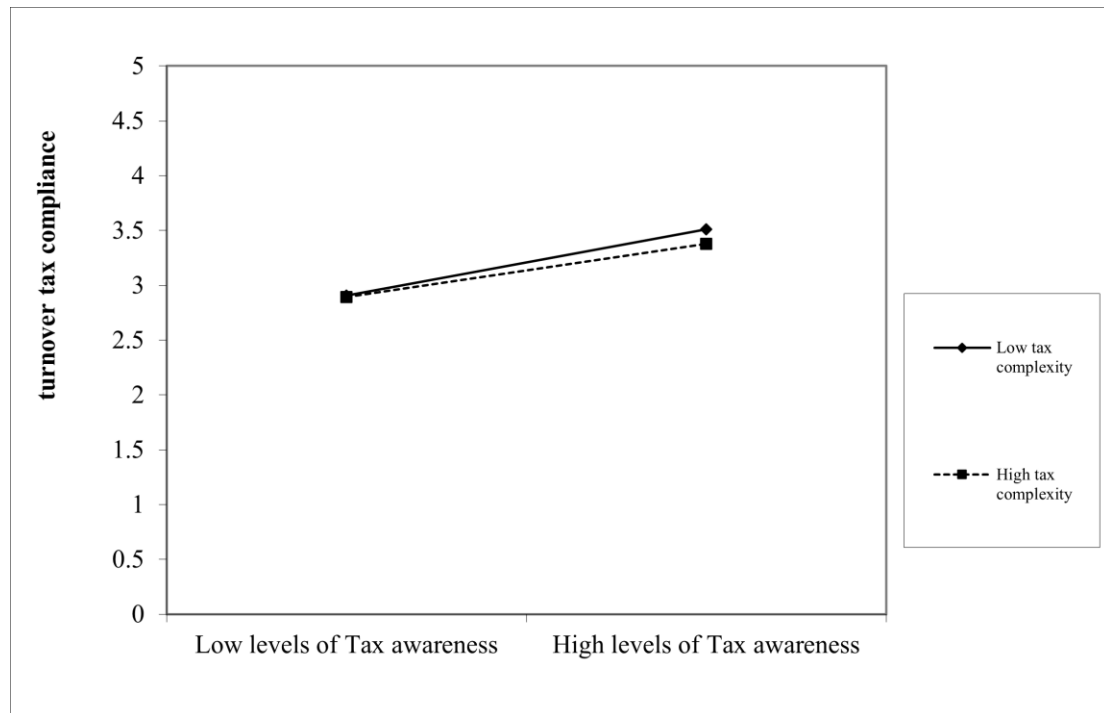


Figure 2. Moderating of effect of tax complexity on the relationship between tax awareness and turnover tax compliance.

5.2. Tax Awareness and Tax Complexity

Figure 2 illustrates that turnover tax compliance increases with higher tax awareness, but the effect is stronger when tax complexity is low. Under high complexity, the slope flattens, showing that intricate procedures weaken the influence of awareness on compliance. This suggests that simplified systems enhance the effectiveness of tax education and awareness initiatives.

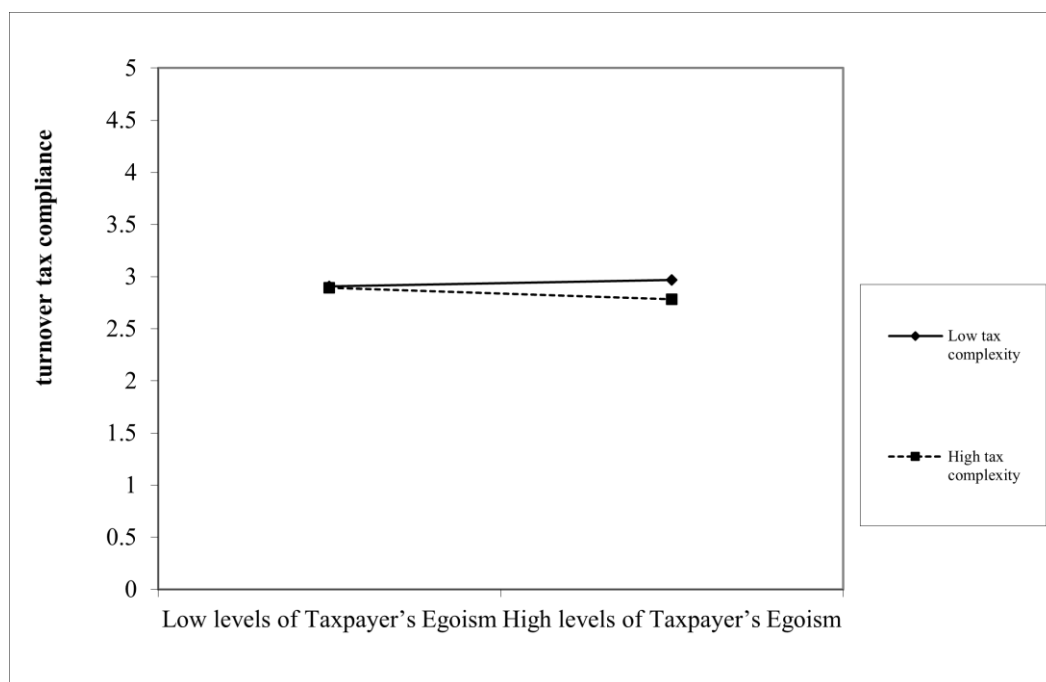


Figure 3. Moderating effect of tax complexity on the relationship between taxpayer egoism and turnover tax compliance.

5.3. Taxpayer's Egoism and Tax Complexity

As shown in [Figure 3](#) turnover tax compliance is generally higher under low complexity but declines sharply as egoism increases under high complexity. This interaction demonstrates that complex systems intensify the negative impact of self-interest, reducing taxpayers' willingness to comply voluntarily.

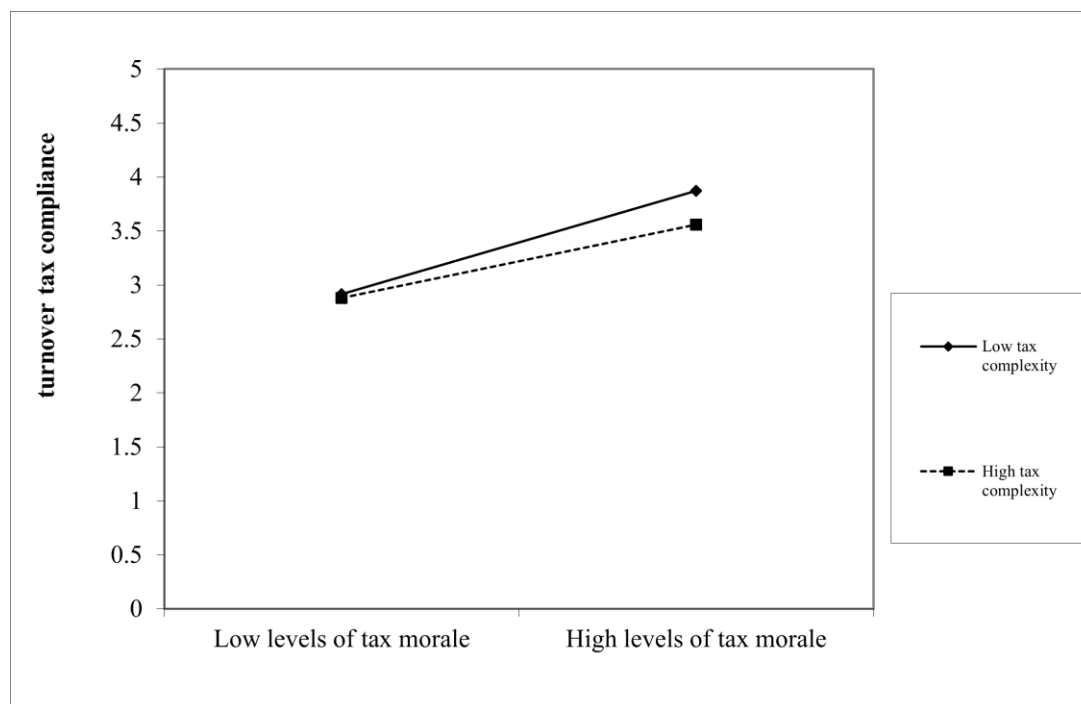


Figure 4. Moderating effect of tax complexity on the relationship between tax morale and turnover tax compliance.

5.4. Tax Morale and Tax Complexity

[Figure 4](#) shows that compliance improves with stronger tax morale across both conditions of tax complexity; however, the effect is much stronger when complexity is low. High tax complexity dampens the motivational power of moral obligation, suggesting that administrative simplicity reinforces ethical commitment to compliance.

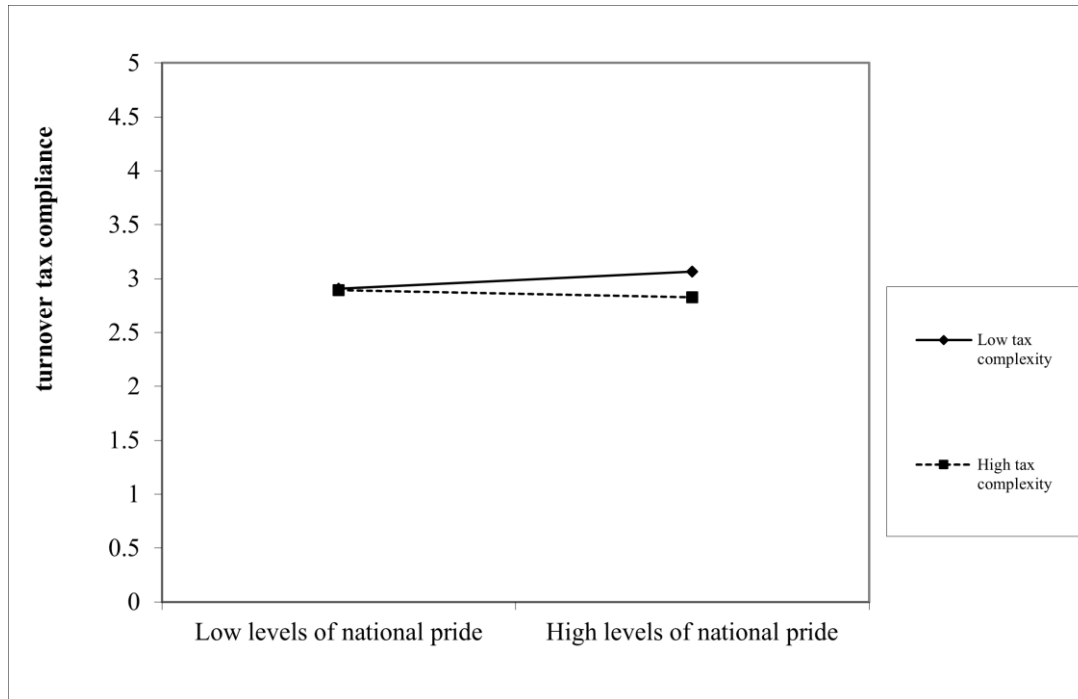


Figure 5. Moderating effect of tax complexity on the relationship between national pride and turnover tax compliance.

5.5. National Pride and Tax Complexity

Figure 5 reveals that national pride positively relates to turnover tax compliance, but this relationship weakens under higher complexity. When taxpayers face excessive procedures and unclear rules, their patriotic motivation to comply diminishes, suggesting that clear and transparent systems strengthen civic-driven compliance behavior.

6. Discussion

Overall, the study demonstrates that socio-psychological factors play a significant role in explaining turnover tax compliance among SMEs. The strong positive influence of tax morale suggests that intrinsic motivation, ethical obligation, and faith-based principles remain powerful determinants of compliance behavior. Similarly, tax awareness enhances compliance by reducing errors and informational gaps. National pride contributes modestly but meaningfully, showing that civic responsibility influences tax behavior when citizens perceive transparency and accountability in revenue utilization. Conversely, the negative effect of egoism highlights the challenge of aligning individual interests with collective welfare in taxation.

The moderating role of tax complexity underscores that structural and psychological dimensions of compliance are interdependent. Simplified tax procedures and transparent digital systems can enhance voluntary compliance by strengthening the positive influence of awareness, morality, and pride while mitigating egoistic tendencies. These results expand the behavioral tax framework by integrating both psychological and institutional perspectives in explaining compliance behavior among small enterprises.

7. Conclusion

The study examined the effect of socio-psychological factors—tax awareness, tax morale, taxpayer egoism, and national pride—on turnover tax compliance among small and medium enterprises (SMEs) in Kamukunji Sub-County, Nairobi, with tax complexity as a moderating variable.

The findings revealed that tax awareness, tax morale, and national pride positively influence turnover tax compliance, while taxpayer egoism exerts a negative effect. Moreover, tax complexity significantly moderates these relationships by weakening the positive effects of awareness, morale, and national pride, and amplifying the negative influence of egoism.

The study concludes that turnover tax compliance is not merely a product of enforcement but a reflection of taxpayers' psychological disposition and perceived fairness of the tax system. Socio-psychological factors—particularly tax morale and awareness—play a crucial role in promoting voluntary compliance when supported by clear and simplified tax procedures. The results validate behavioral tax theories, highlighting that intrinsic motivations, ethical obligations, and civic pride are vital in shaping compliance behavior within Kenya's SME sector.

From a policy standpoint, the study emphasizes the need for the Kenya Revenue Authority (KRA) to prioritize behavioral interventions alongside administrative reforms. Continuous taxpayer education and awareness campaigns should be institutionalized to enhance understanding of tax obligations. Simplification of

filing procedures through user-friendly digital platforms could reduce perceived complexity and compliance costs. Further, promoting transparency and accountability in the use of tax revenues may strengthen taxpayers' trust and moral commitment. Finally, embedding national pride in tax communication strategies—by linking compliance to visible development outcomes—could foster a stronger sense of civic duty among SME taxpayers.

The study contributes to behavioral tax literature by demonstrating that compliance among SMEs extends beyond deterrence to encompass moral, cognitive, and emotional dimensions. Future research could explore additional behavioral and institutional variables, such as trust in government, perceived service quality, and taxpayer optimism, to deepen understanding of voluntary compliance behavior in emerging economies.

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