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Enforcement Measures and Tax Compliance: The Case of Small and Medium Enterprises (SMEs) in Mavoko Sub- County, Machakos County, Kenya

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Abstract

Purpose: The primary objective of this study was to find out how tax enforcement measures affected the level of tax compliance among Small and Medium Enterprises (SMEs) operating in Mavoko Sub-County, Machakos County, Kenya. The study further sought to establish the moderating role of government policy on the relationship between enforcement measures and tax compliance among the selected group of SMEs.

Methodology: Led by the positivism philosophy, the researchers employed an explanatory and descriptive survey research design to collect primary data from a sample of 376 respondents drawn from a target population of 18,000 SMEs. The data, collected through a structured questionnaire, was analyzed using descriptive statistics to obtain arithmetic means and standard deviations, and through the inferential statistical method of multiple linear regression analysis. The researchers used the Statistical Packages for Social Sciences (SPSS) version 29 software when analyzing the data.

Findings: The study established that the tax enforcement measures of tax audits, tax penalties, and publicity of enforcement actions had a statistically significant effect on tax compliance among the identified SMEs. In addition, government policy was found to have a significant moderating role on the relationship between tax enforcement measures and tax compliance.

Unique Contribution to Theory, Policy and Practice: The study provides practical recommendations to SMEs on the importance of record keeping and bookkeeping practices for ease and convenience in making tax returns. Secondly, the study presents recommendations to the Kenya Revenue Authority (KRA) that are aimed at enhancing tax compliance among SMEs. In addition, the study offers valuable policy insights for the government of Kenya to encourage voluntary tax compliance in the formal and informal sectors of the economy.

Keywords: *Tax Compliance, Tax Penalty, Tax Audit, Tax Fines, Publicity of Enforcement Actions*

1. Introduction

Tax compliance is a major problem in many developing countries such as Kenya, partly due to tax fraud, evasion, and avoidance in the informal sector. The persistent problem of tax fraud, evasion and avoidance undermine the economic progress of many developing countries, Kenya included. In addition, these challenges hinder revenue collection, leading to inefficiencies in government spending, and limiting the state's ability to mobilize the domestic resources necessary for investing in critical investments and providing public services (Braithwaite, 2020; Slemrod and Weber, 2019). According to Dellas *et al.* (2024), tax income decreases when producers and households fail to disclose their economic activities. Additionally, Putri, Kusumastuti, and Ripa'I (2025) observed that inadequate record-keeping, high compliance costs, and limited awareness of tax obligations were major obstacles to enhancing compliance in the informal sector.

Enforcement measures are legal steps and regulations established to ensure that tax payers honor their tax obligations. The aim of enforcement measures is to ensure that all tax compliance regulations are strictly followed, from accurate and timely filing to paying taxes on time. Yahaya (2025) asserts that enforcement measures promote compliance and curb tax avoidance and tax evasion. The persistent challenge of tax evasion and tax avoidance among SMEs operating in the informal sector partially explains the reason for KRA to implement various enforcement measures aimed at enhancing compliance and broadening the national tax base.

Globally, the informal sector presents a challenge to effective tax assessment, as many enterprises operating in this segment, also known as the Hard to Tax sector (HTT), intentionally obscure their business activities and often remain unregistered with tax authorities (Medina & Schneider, 2021). Regionally, the informal sector operating outside formal legal tax system constitutes a significant portion of the economy. Aina (2025) notes the administrative, structural, and socio-cultural obstacles encountered when taxing the informal sector, including low morale, lax enforcement, and inadequate record keeping.

In Kenya, the tax collection authority, Kenya Revenue Authority (KRA), generally places greater emphasis on the formal sector of the economy. Consequently, the informal sector often ends up being overlooked, which in turn contributes to budget deficits. Wanzala and Obokoh (2025) observed that the informal sector in Kenya consists largely of self-employed individuals involved in various small-scale and casual economic activities, highlighting its unregistered and unregulated nature. The informal sector in Kenya makes up approximately 83.5 percent of the nation's workforce (Statista, 2023), implying that a large number of people and businesses operate in the sector.

Machakos County is one of the 47 counties found in Kenya, and it is close to Nairobi City County which is the capital of Kenya. Owing to its strategic location and infrastructural development, the county has attracted investors in various sectors that include agriculture, finance, tourism, technology, trade, and manufacturing. The investors operate in both the formal and informal sectors of the economy. Nevertheless, many of the SMEs operating in the county are largely untaxed, which limits the revenues collected from the county. On its part, Mavoko-Subcounty borders Nairobi City County, and it is home to a large number of formal and informal enterprises, again driven by its proximity to the Kenyan capital, expanding infrastructure, and a readily available workforce.

Several studies investigated how the tax bracket in Kenya could be expanded. For instance, Cherop (2020) sought to find out the factors that led to low tax collection in Machakos County and found them to be lack of tax awareness, underreporting of revenues generated, increased compliance costs, and perceived unfairness of the taxation system. Similarly, Munyua and Njiru (2020) established that the difficulty involved in tracking SMEs and the low levels of tax awareness limited the ability of KRA to enforce tax compliance. However, the researchers did not find any studies that sought to determine the effects of tax enforcement measures on tax compliance in Mavoko Sub-County, Machakos County, moderated by government policy. Unless this problem of tax compliance is solved, the SMEs will continue to evade taxation, and the revenues collected by KRA will remain low. Therefore, this research sought to establish the effectiveness of the enforcement measures of tax audits, penalties, and publicity of enforcement actions as used by KRA to enhance tax compliance among SMEs in Mavoko Sub-County, Machakos County, Kenya. The research also sought to establish the moderating role of government policy on the relationship between tax enforcement measures and tax compliance.

2. Literature Review

This section reviews literature on the theories that informed the study. It also reviews empirical literature related to enforcement measures, government policy, and tax compliance.

2.1 Theoretical Framework

This study was grounded on three theories that explained the relationships between enforcement measures and tax compliance. The first theory is the deterrence theory, and it is the work of Becker (1968). It explains deterrence as being the effect of penalties and enforcement efforts in reducing the likelihood of illegal behavior occurring. The theory holds that when people believe that non-compliant or illegal behavior leads to punishments or fines far greater than the associated rewards, they tend to not engage in such behaviors. Therefore, in order to ensure tax compliance, there is need to adopt deterrence mechanisms that include tax enforcements, penalties, and audits, so as to motivate more people to comply and honor their tax obligations (Boukaz, 2025). This theory informed the independent variables of tax audits and penalties as well as the dependent variable of tax compliance.

The theory of planned behavior was proposed by Ajzen (1991) and it holds that the actions of individuals are driven by their intentions, which in turn are influenced by their attitudes, subjective norms, and perceived behavioral control. Compliance to taxation, in line with this theory, is influenced by an individual’s attitude, perceived behavioral control, subjective norm, and intentions to abide by the tax laws of his or her country. A tax payers' ethical convictions and moral principles are key aspects of this theory. Therefore, this theory primarily emphasizes the taxpayer's moral principles and ethical beliefs. The theory informed the moderating variable of government policy and the independent variables of tax audit and fines.

The social contract theory holds that individuals form collective agreements, either explicitly or implicitly, to establish governing bodies with the power to enforce laws, maintain social order, and regulate behavior (Hobbes, 1651). On its part, the governing authority has a duty to safeguard the assets of the society and to provide the society's welfare. This theory partially explains the incentives for abiding by and supporting the values, norms, laws, and key institutions of any given society. Led by this theory, SMEs would pay taxes to enable their governments to provide essential services, and to avoid being compelled to do so. The social contract theory informed the moderating variable of government policy.

2.2 Empirical Review

While empirical studies have confirmed that robust enforcement measures like tax penalties, audits, and publicity of enforcement actions taken result into higher compliance levels in both the formal sector, the role of these measures on the SME sector is still unclear. This section examines some of the studies conducted in relation to enforcement measures and compliance in both the formal and informal sector, globally and in Kenya.

Utaminingtyas and Fauzi (2023) studied the effects of tax audits, tax collection, and tax compliance among corporate tax payers in Indonesia. They found tax audits to play a significant positive role on corporate tax payment. However, the study was limited by its reliance on secondary data and its focus on the formal sector. Similarly, Muhwa and Achoki (2023) did research to determine how tax audits affected tax compliance among SMEs in Nairobi City County, Kenya. They concluded that tax audits significantly influenced tax compliance. Olaoye *et al.* (2019) study was done in Nigeria to determine the effects of tax audits on tax compliance. The study found that tax audits, especially field audits, significantly affected the level of compliance and the amount of money remitted, implying that tax audits were effective tools for enhancing tax compliance.

Oladipupo and Obazee (2016) established a strong positive relationship between the imposition of fines and improved tax compliance among SMEs in Nigeria, implying that tax fines were an important tool for enhancing tax compliance. In the same vein, Odongo (2025) investigated the factors influencing tax compliance among SMEs in Kenya. The study revealed that fines and penalties had a significant positive effect on compliance, particularly when the compliance costs were high. Belahouaoui (2025) established that the taxpayers' perception of the fairness of a tax system influenced their willingness to adopt voluntary compliance measures.

Omary and Pastory (2022) investigated factors influencing tax compliance among SMEs in Tanzania and their findings revealed that tax audits significantly and positively affected tax

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compliance within the informal sector. Additionally, Mwangi (2019) assessed the effectiveness of tax enforcement in Nairobi's informal sector and found that, in spite of the entrepreneurs in Nairobi's informal sector being aware of the penalties associated with tax evasion, many perceived enforcement measures to be irregular. In addition, Young *et al.* (2016) did a study in Kenya and found that media campaigns and effective communication measures had a relationship with tax compliance. The implication of this study was that KRA needed to enhance its communication mechanisms in order to attract more tax payers.

Ng'ang'a and Wamuyu (2020) investigated how legal frameworks affected tax compliance in Kenya. They found a positive correlation between tax compliance and consistent and transparent legal structures. The role of government policy in enhancing tax compliance in Kenya was investigated by Odhiambo and Munyiri (2021). They found that tax compliance was affected by the transparency, clarity, and consistency of the government policy. Njihia, Tenai, and Biamwera (2025) established low tax compliance among SMEs in Kenya could be attributed to lack of adequate information on the role played by taxes.

Although the researchers identified several studies relating to tax enforcement and tax compliance, most of these studies focused on a single enforcement measure, such as tax audit. Moreover, most of the studies were done in contexts that differed from the informal sector in Mavoko Sub-County, Machakos County, Kenya. For instance, most studies focused on the formal sector. This prompted the researcher to undertake this study to address the identified gaps.

3. Research Methodology

This research was guided by the positivism philosophy which holds that the truth, or what requires to be found out, is there for anybody to find out (Crotty, 2020). This philosophy is mainly used for studies of a quantitative nature, and it relies mainly on quantitative data collected through surveys. Since the philosophy advocates for objective relationships between researchers and the respondents, the values of the researchers and those of the respondents are ignored (Saunders, Lewis, & Thornhill, 2019). This study was quantitative in nature; hence the positivism paradigm was deemed suitable for achieving the objectives of the research.

The investigators used both explanatory and descriptive survey research designs, because the study involved describing how the tax enforcement measures affected tax compliance, and explaining the role played by government policy in the relationship between tax enforcement measures and tax compliance among the identified SMEs. The target population for the study were all the SMEs operating in Mavoko Sub-County, and information obtained from the County offices indicated these to be 18,000 as of June 2025. These SMEs were in various sectors, such as tourism and hospitality, irrigation and agriculture, building and construction, retail and wholesale, and professional services. From the target population of 18,000 respondents, the researchers used stratified random sampling to obtain 376 informants, guided by Krejcie and Morgan's (1970) formular.

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The researchers used a structured questionnaire to collect data from the respondents, with the assistance of two research assistants. The questionnaire items were gauged on a 5-point Likert scale, with 1 indicating strongly disagree, 2 standing for disagree, 3 being for neutral, 4 being for agree, and 5 representing strongly agree. Pilot testing of the questionnaire was done with 38 respondents drawn from Machakos Municipality in order to determine its validity and reliability. The Confirmatory Factor Analysis results indicated that the questionnaire was valid, since the loadings for all the factors was in excess of 0.04. Similarly, the Cronbach's alpha coefficient scores obtained were 0.866, 0.893, 0.792, 0.854, and 0.886 for tax audits, tax fines and penalties, publicity of enforcement actions, government policy, and tax compliance. Since all the values were in excess of 0.7, the researchers concluded that the questionnaire was reliable for data collection (Cronbach, 1951).

The investigators used multiple linear regression analysis to establish the relationship between enforcement measures and tax compliance, while the moderating role of government policy on this relationship was tested at 5% significance level. The direct effects model that sort to determine the effects of the independent variables (tax audits, penalties, and publicity of enforcement measures) on tax compliance was expressed as follows:

$$\mathrm{Y} = \beta_0 + \beta_1 \mathrm{X}_1 + \beta_2 \mathrm{X}_2 + \beta_3 \mathrm{X}_3 + \varepsilon$$

Where:

Y= Tax compliance (Dependent Variable)

β_0= Intercept (Baseline level of Tax compliance when all independent variables are zero)

X_1= Tax Audit (Independent Variable)

X_2= Tax Penalties (Independent Variable)

X_3= Publicity of Enforcement Actions (Independent Variable)

$\beta_1, \beta_2, \beta_3,$ = Coefficients of the independent variables

ε = error term

Prior to performing the multiple linear regression analysis, the data was subjected to a number of diagnostic tests. Multicollinearity was tested using the Variance Inflation Factor (VIF), where the VIF scores were 1.182, 1.187, and 1.023 for tax audits, tax fines, and publicity of enforcement actions respectively. Since the VIF scores were below 5, the researchers concluded that multicollinearity did not occur hence the data could be subjected to further analysis (Bell, Harley, & Bryman, 2022). The study variables were also not correlated as indicated by the tolerance values that were below 0.2.

Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity were used to test for sample adequacy. The value obtained for KMO was 0.646, and it was above the recommended threshold

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of 0.6, while the Bartlett's Test of Sphericity indicated a p-value of 0.000<0.05, implying that the factors were suitable for further analysis (Hair *et al.,* 2023). The Breusch-Pagan (1980) test for homoscedasticity established that the variance of the residuals was constant given the p-values obtained were in excess of 0.05. These diagnostic tests ensured that the assumptions of ordinary least squares (OLS) were not violated.

4. Research Findings and Discussion

This research had four objectives. The first objective was to find out the effects of tax audits on tax compliance among the identified SMEs. Descriptive statistics indicated an aggregate mean score of 3.21 and a standard deviation of 1.33, implying that tax audits had a positive and significant influence on tax compliance among SMEs in Mavoko Sub-County, Machakos County. The ANOVA test indicated a p-value of .000 which was less than the cutoff point of 0.05, confirming that there was a statistically significant relationship between tax audits and tax compliance. This led the researchers to reject the null hypothesis that held that there was no significant relationship between tax audits and tax compliance. The findings of this study are in line with those of Muhwa and Achoki (2023), Utaminingtyas and Fauzi (2023), and Olaoye *et al.* (2019), who also established that tax audits significantly affected the level of compliance among tax payers in different countries.

The second objective was to establish the effects of tax penalties on tax compliance among the respondents. Descriptive statistical analysis found an aggregate mean score of 3.27 and a standard deviation of 1.36, meaning tax penalties positively influenced the extent of tax compliance. Additionally, ANOVA test yielded a p-value of 0.000<0.05 which indicated tax penalties had a substantial influence on tax compliance among SMEs. The findings agreed with those of Odongo (2025) who did his study in Kenya and Oladipupo and Obazee (2016) whose study was in Nigeria. These studies had established that penalties effectively motivated SMEs to fulfill their tax obligations, serving both as a deterrent and as a mechanism for fostering a culture of compliance. On this basis of these findings, the researchers rejected the second null hypothesis.

The third objective was to find out how publicity of enforcement actions influenced the level of tax compliance among the identified respondents. The results of the descriptive statistical analysis indicated an aggregate mean score of 3.86 with a standard deviation of 1.17. These results implied that publicity of enforcement measures positively influenced the level of tax compliance among the respondents. The ANOVA test yielded a p-value of 0.045<0.05 which led the researchers to establish that publicity of enforcement measures exerted a statistically significant influence on tax compliance. The findings derived in this study corroborated with those of Young *et al.* (2016) whose study done in Kenya emphasized the role of effective communication and media campaigns in enhancing tax compliance.

The fourth objective of the study was to determine the moderating role of government policy on the relationship between enforcement measures and tax compliance among the SMEs in Mavoko

Sub-County, Machakos County, Kenya. After conducting descriptive statistical analysis, the researchers found an aggregate mean score of 3.58 and a standard deviation of 1.21, which meant that government policy significantly moderated the relationship between enforcement measures and tax compliance among the selected SMEs. Results from inferential statistics indicated an ANOVA p-value of $0.000<0.05$, implying that government policy had a significant moderating effect on the relationship between enforcement measures and tax compliance. The findings are in line with the social contract theory that was proposed by Hobbes (1651), and which offers a basis for comprehending the interaction between the government and SMEs with regard to tax compliance. They were also in line with the results obtained by Odhiambo and Munyiri (2021), in which consistent, clear, and transparent policies were found to influence the level of tax compliance among SMEs in Kenya.

In testing the direct relationship model, the researchers found an adjusted R^2 of 0.34, implying that the three independent variables of tax audits, penalties, and publicity of enforcement actions accounted for 34% of the variations in the dependent variable, which was tax compliance. These findings point for the need to investigate more factors that influence tax compliance among SMEs in Mavoko Sub-County, Machakos County, Kenya. The direct relationship model obtained from the analysis was expressed as follows:

$Y= -1.564+0.350TA+0.379TF+0.210P+0.502$

Where:

Y = Tax compliance

TA = Tax audits

TF = Tax fines

P = Publicity of enforcement actions

5. Conclusions and Recommendations

5.1 Conclusions

The investigators drew a number of conclusions in line with the objectives of the study. As far as the first objective was concerned, the researchers established that a positive relationship existed between tax audits and tax compliance among SMEs in Mavoko Sub-County. This led the researchers to neglect the null hypothesis which had held that there was no statistically significant relationship between tax audits and tax compliance. The researchers concluded that tax audits were important tools for enhancing tax compliance.

In regard to the second objective that sought to establish the effects of tax fines and penalties on tax compliance, the investigators found a positive relationship that made them reject the associated null hypothesis. This led the investigators to conclude that tax fines and penalties significantly influenced the level of tax compliance among the selected informants. The researchers also rejected the associated null hypothesis.

In addition, the researchers found a positive relationship between publicity of enforcement actions and tax compliance, leading the researchers to conclude that publicity of enforcement actions were an important factor that influenced the level of tax compliance among the SMEs. Similarly, the researchers found government policy to significantly moderate the relationship between enforcement measures and tax compliance, leading them to conclude that government policy played a key moderating role in the said relationship.

5.2 Recommendations

On the basis of the results obtained from the study, the researchers made several recommendations. Firstly, SMEs should keep records of their transactions so as to gauge the amount of taxes they are ought to pay. Without elaborate book keeping, it becomes challenging to calculate the taxes that an SME would be required to pay. Secondly, KRA should simplify tax procedures and systems to enable people with low levels of education, or little knowledge of taxation systems, to pay their taxes as at and when required. Thirdly, KRA should engage in more publicity campaigns, including creating tax compliance awareness and educating the SME owners on the process involved in paying their taxes. Fourthly, KRA should be fair, transparent, and consistent when enacting the enforcement measures so as to build trust with current and potential tax payers. Fifthly, the Kenyan government should provide incentives to motivate more people to pay their taxes. These would include tax refunds, waivers, and reduced rates for start-ups, among many others.

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