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Compliance among Small and Medium Enterprises in Embakasi  
Region, Nairobi Kenya**



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## **Influence of Knowledge of Taxation System on Turnover Tax Compliance among Small and Medium Enterprises in Embakasi Region, Nairobi Kenya**

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### **Abstract**

**Purpose:** To examine the effect of taxpayer knowledge of taxation system and turnover tax compliance among small and medium enterprises (SMEs) in Embakasi Region, Nairobi.

**Methodology:** The study adopted an explanatory research design. The target population was 15,839 SMEs, with a sample size of 390 respondents. Primary data was collected using structured questionnaires and analyzed using descriptive, inferential statistics, and multiple regression analysis.

**Findings:** Findings showed that understanding turnover tax regulations significantly enhances tax compliance among MSMEs. This statement has a mean response of 4.09 (SD = 0.509), indicating that respondents strongly agreed that understanding turnover tax regulations improves compliance. Findings also established that knowledge of the taxation system significantly influences compliance ( $\beta = 0.173$ ,  $p = 0.009$ ). Findings also reveal a positive and statistically significant relationship between knowledge of the taxation system and turnover tax compliance ( $r = 0.579$ ,  $p = 0.000 < 0.05$ ).

**Unique Contribution to Theory, Policy and Practice:** The study contributes to theory as it established that knowledge of the taxation system had a significant influence compliance with turnover tax among small and medium enterprises (SMEs) in Embakasi Region, Nairobi. The study recommends that government policies foster trust through transparent tax administration and equitable enforcement. KRA should enhance taxpayer support services, including SME help desks and mobile tax clinics, to improve knowledge dissemination. SMEs should proactively train employees and owners on tax matters to strengthen compliance.

**Keywords:** *Taxpayer Knowledge of Taxation System, Formal Tax Education, Turnover Tax Compliance*

## 1. Introduction

Turnover tax compliance is essential for small and medium-sized enterprises (SMEs), as it not only reflects the health of the SME sector but also its vital relationship with government, playing a crucial role in maintaining economic stability and fairness in the business environment. Designed to be less burdensome than traditional tax systems, turnover tax offers a simplified regime that benefits SMEs, which are major contributors to GDP, employment, and innovation across various economies (Ndoinjeh, 2025). High compliance rates among SMEs lead to numerous economic benefits including enhanced government services and infrastructure, thus reinforcing the importance of SMEs in sustaining economic development (Waskita & Ashari, 2025). Additionally, tax revenues from businesses are essential for meeting the public needs of a country, especially in developing nations where mobilizing public revenue is a challenge (Mpofu, 2022).

Globally, taxes are the primary source of government funding and play a significant role in budget planning (Kochanova, Hasnain & Larson, 2020). The Monterrey Consensus acknowledged that taxes play a crucial role in mobilizing resources locally because they give governments a steady stream of money to finance their economic initiatives and social amenities (Cnossen, 2020). In the United States (U.S.) alone, non-compliance is estimated to cost the federal government over \$300 billion annually. The traditional economic models of tax compliance which primarily emphasize enforcement and detection variables are, however, unable to explain current levels of compliance. In Europe, governments lost money on unpaid taxes equal to 8% of their GDP (Kostic & Mihajlovic, 2021).

In Africa, tax collection is low, but similar to other regions at a similar income level. In 2018, the most recent year with wide data coverage, Sub-Saharan African countries collected 14% in taxes as a share of GDP (McNabb, et al., 2021). High- and upper middle-income countries like Seychelles, Namibia, and South Africa have rates as high as 28–33% whereas; low-income countries like Chad, Democratic Republic of Congo, and Ethiopia have rates as low as 7%. These numbers have remained stagnant over the past three decades, with African countries collecting an average of 12–15% of GDP as taxes.

In Kenya, the Kenya Revenue Authority (KRA) is the body charged with the mandate of tax revenue administration. Turnover Tax was initially introduced in 2007 at the rate of 3% on gross receipts from businesses which have an annual turnover ranging from Kshs 500,000 to Kshs 5,000,000. It was to be remitted on a quarterly basis. The Finance Act, 2018 repealed the tax but it was re-introduced again by the Finance Act, 2019 albeit as a monthly tax. In 2020, the rate was changed to 1% and the threshold increased to Kshs 1,000,000 but not exceeding Kshs 50,000,000.

The small and medium enterprises in Siaya town are evolving daily in addition to being innovative and being uncertain about their daily operations. Most of the small-scale traders form the small and medium enterprises which accounts for 95% of firms in most countries. Due to the challenges that they face the small-scale traders have not reached their optimal level of performance. This is

due to some of the challenges such as lack of managerial training, lack of adequate finance and limited credit facilities, rapid technological challenges, new laws and regulation, inadequate knowledge and skills (Kenya Agribusiness and Agroindustry Alliance, 2019).

### **1.1 Statement of the Problem**

The large numbers of SMEs, their high turnover rates, and their diversity present challenges to most administrations (Elford & Daub, 2020). According to Chebii (2020), most SMEs do not register for tax purposes and most of them operate without licenses from both the county and national governments. Thus, tax compliance issue is a serious problem in most of the SMEs. Attempts have been made to bring the SMEs sector into the tax bracket by the introduction of TOT in 2008. The main challenges that affect the TOT adoption rate are: large size of the SME sector making recruitment difficult, lack of training on TOT to staff, inadequate attention by the tax administration towards the informal sector, mobility of SMEs making compliance difficult and poor attitude towards government and taxation (Mwangi, Gachoka & Siagi, 2020).

The informal sector is the composition of the economic activities that are not regulated by laws like environmental, labor, or taxation but is under the regulations of local authorities. Besides the tremendous growth from the small and medium enterprises during the past few years, the corresponding tax collection from the sector has remained very low. For instance, in the financial year 2023/2024 financial year, TOT collection was Kshs 121,601,514 compared to a target of Kshs 135,108,912 (KRA, 2024). Furthermore, as at the close of March 2024, total revenue collection averaged 89.2% on original target and 92.7% on Supplementary target (KRA reports, 2024). According to the Controller of the Budget half year report, revenue collected in the 1<sup>st</sup> half of FY2023/2024 was Kshs. 1.44 trillion, representing only 33.7% of the revised annual target (KRA, 2024).

Further, the Turnover Tax Structure in Kenya is not stable. Since its inception in 2007, the tax legislature has been undergoing changes; from its repeal in 2018, to its re-introduction in 2020, further changes in the tax rate from 3% to 1% and change in tax period from a three-month tax period to a one-month tax period. These changes in the fundamental structure of the turnover tax system show that there is a problem with the implementation of the tax in Kenya and subsequently the compliance to the tax. This study therefore sought to determine the effect of knowledge of taxation system on turnover tax compliance among small and medium enterprises in Embakasi Region, Nairobi Kenya.

## **2. Literature Review**

### **2.1 Theoretical Review**

The research was supported by the Theory of Planned Behavior. The Theory of Planned Behavior (TPB) is a well-recognized psychological theory that aims to elucidate and forecast human behavior, particularly in the context of adhering to tax systems. Originating in 1991 through the

work of Icek Ajzen, this theory posits that an individual's inclination to engage in a specific behavior serves as a critical predictor of whether they will actually carry out that behavior. In the realm of tax compliance, this signifies that a person's intention to abide by tax laws plays a pivotal role in determining whether they will fulfill their tax obligations as mandated by law. The TPB suggests that an individual's intention is influenced by three primary factors.

Firstly, Attitude comes into play, representing the individual's personal evaluation of the behavior at hand. When applied to tax compliance, this could relate to whether they perceive paying taxes as a positive or negative action. Research findings indicate that a positive attitude toward paying taxes tends to bolster compliance (Kirchler, 2007). Secondly, Subjective Norms encompass the perceived social pressures and expectations tied to the behavior. If an individual believes that people significant to them, such as family or friends, anticipate their compliance with the tax system, they are more likely to have the intention to do so (Kirchler, 2007).

Thirdly, Perceived Behavioral Control involves the individual's perceived ability to carry out the behavior. In the context of tax compliance, it pertains to the person's confidence in their capability to comprehend and navigate the tax system. Studies have found that individuals who feel assured about their capacity to meet their tax obligations are more inclined to intend to comply (Hofmann et al., 2013). Significantly, the influence of knowledge and education on these factors plays a vital role in shaping tax compliance. Firstly, the impact of education on tax compliance is well-documented. Numerous research studies consistently underscore the substantial influence of education in this context. Torgler (2005) study, for instance, identified a positive correlation between higher levels of education and increased tax compliance. The reasoning behind this correlation lies in the notion that individuals with more education tend to have a more profound understanding of tax laws and their implications, making them more inclined to adhere to tax obligations.

Research, such as that conducted by Alm and Torgler (2006), has shown that providing taxpayers with information and education about tax laws and obligations leads to heightened compliance. These programs serve to enhance individuals' understanding of the tax system, ultimately promoting greater adherence to tax regulations. Moreover, research has explored how attitude and perception can be positively influenced through education and information campaigns. For instance, a study by Myles and Naylor (1996) demonstrated that taxpayers who received information about the benefits of taxes and how the government utilizes tax revenue were more likely to develop positive attitudes toward tax compliance. This highlights the potential for educational efforts to reshape individuals' outlooks on tax compliance, fostering a more positive stance.

## 2.2 Empirical Literature Review

SMEs constitute a substantial segment of most economies and contribute significantly to employment and tax revenue. However, compliance within this sector often depends on taxpayers'

knowledge and understanding of the taxation system. A strong grasp of tax regulations enables businesses to interpret their obligations accurately, maintain appropriate records, and file returns correctly.

Recent research consistently affirms that tax knowledge enhances compliance behavior. For example, Andreoni et al. (2020) found that firms with better comprehension of tax procedures and obligations were significantly more likely to comply voluntarily. Their findings indicate that knowledge reduces the perceived complexity and uncertainty surrounding tax obligations, thereby lowering the psychological barriers that lead to non-compliance.

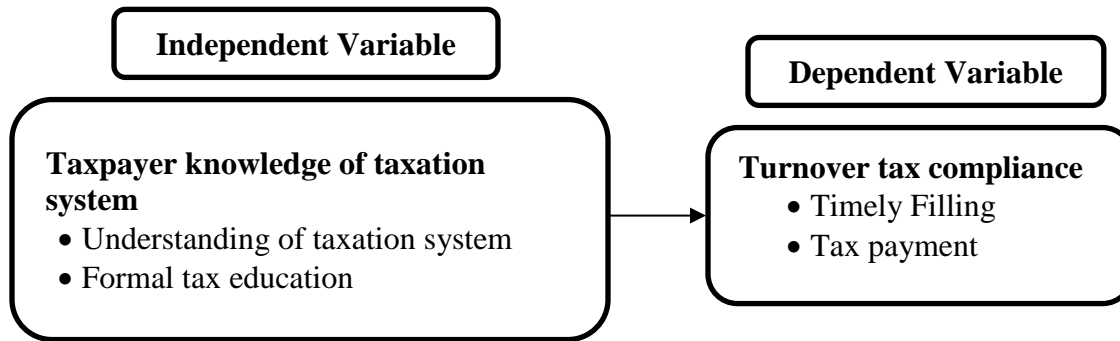
In the Kenyan context, turnover tax (TOT) targets small enterprises with annual turnover below KES 5 million (KRA, 2021). Despite this simplified regime, compliance levels remain sub-optimal. Studies attribute this to gaps in understanding filing procedures, eligibility, and record-keeping requirements. Mwangi and Njeru (2019) observed that SMEs with access to structured tax training demonstrated markedly higher filing accuracy and payment timeliness.

Recent evidence strengthens these observations. Nyawira and Munyoki (2022) showed that participation in awareness programs and informal education initiatives, such as KRA outreach sessions, significantly improved turnover tax compliance among Nairobi-based SMEs. Similarly, Alabede (2021) found that practical knowledge—particularly of tax incentives and allowable deductions—reduced unintentional non-compliance. These studies highlight that knowledge acquisition, both through formal and informal channels, directly supports voluntary compliance and enhances confidence in interacting with tax systems.

Nonetheless, gaps remain. Much of the current research focuses on knowledge as a direct determinant of compliance, overlooking how behavioral factors such as taxpayer attitudes influence whether this knowledge translates into compliant actions. This gap forms the foundation for examining the moderating role of taxpayer attitude in the present study.

### **2.3 Conceptual Framework**

The conceptual framework is a network of linked concepts, a formation that a researcher is confident can be able to show the movement and the inter-linkage of the variables being studied (Varpio, Paradis, Uijtdehaage & Young, 2020). This study focused on to establish the effect of taxpayer knowledge of the taxation system on turnover tax compliance. The conceptual framework was shown in Figure 1.



*Figure 1: Conceptual Framework*

### **3. Research Methodology**

The study applied explanatory research design. Toyon (2021) state that explanatory studies seek to describe the characteristics of the variables and at the same time investigate causal relationships between variables. The target population is the 15839 owners of small and medium enterprises in Embakasi Region in Nairobi Kenya (KRA, 2025). The sample size therefore was 390 owners of small and medium enterprises in Embakasi Region in Nairobi Kenya. This was selected utilized stratified random sampling.

The data was collected from owners of SMEs through the use of structured questionnaires containing closed-ended questions. After receiving a research approval from the supervisor, a permit from the National Commission for Science, Technology, and Innovation, an introductory letter from Moi university was obtained and with the help of one research assistant, the questionnaires were administered to the respondents. Questionnaires were distributed to respondents via electronic mail to owners of SMEs. Data collected during the study was analyzed using descriptive and inferential statistics.

### **4. Results and Discussions**

#### **4.1 Descriptive statistics**

##### **4.1.1 Knowledge of Taxation System**

The respondents were to give opinions on statements regarding knowledge of taxation system. The findings are shown in Table 1.

**Table 1: Knowledge of Taxation System**

	Mean	Std. Dev	Skewness	Kurtosis
Understanding turnover tax regulations significantly enhances tax compliance among MSMEs.	4.09	.509	.147	.736
Access to formal tax education programs leads to better tax compliance among business owners.	3.97	.789	-.909	.935
Informal tax education sessions (e.g., workshops, seminars) are effective in improving turnover tax compliance.	4.06	.785	-.286	-.644
Businesses with higher levels of formal education are more likely to comply with tax obligations.	4.07	.508	.122	.804
Regular updates and continuing education on tax laws are crucial for maintaining high compliance rates among MSMEs.	3.76	.726	-.839	.770
Digital and user-friendly tax filing systems significantly reduce the complexity of tax compliance for MSMEs.	3.93	.762	-.955	1.188
Increased transparency from tax authorities and readily available support would improve turnover tax compliance.	4.08	.641	-.074	-.569

**Source: Study (2025)**

The statement measuring knowledge of taxation system in Table 1 shows that for the statement Understanding turnover tax regulations significantly enhances tax compliance among MSMEs. This statement has a mean response of 4.09 (SD = 0.509), indicating that respondents strongly agreed that understanding turnover tax regulations improves compliance. The low standard deviation suggests that responses were closely clustered around the mean, reflecting consensus among participants. The skewness of 0.147 shows a slight right-tailed distribution, meaning a few respondents were even more strongly in agreement. The positive kurtosis (0.736) indicates a distribution slightly more peaked than normal, reinforcing the concentration of high agreement. The findings are in line with Mwangi and Njeru (2019) who observed that SMEs with access to structured tax training demonstrated markedly higher filing accuracy and payment timeliness.

For Access to formal tax education programs leads to better tax compliance among business owners has a mean of 3.97 (SD = 0.789), respondents generally agreed that formal tax education improves compliance. The moderate standard deviation indicates some variability in responses. The negative skewness (-0.909) suggests a left-leaning distribution, meaning a portion of respondents leaned toward stronger agreement. The kurtosis of 0.935 shows a slightly sharper peak than normal, implying that most responses were clustered around the mean with fewer outliers. For Informal tax education sessions (e.g., workshops, seminars) are effective in improving

turnover tax compliance. This item had a mean of 4.06 (SD = 0.785), reflecting strong agreement that informal tax education aids compliance. The standard deviation suggests moderate variation in responses. The skewness of -0.286 indicates a slight left skew, with some respondents more strongly agreeing. The negative kurtosis (-0.644) implies a flatter distribution than normal, meaning responses were more spread out rather than tightly clustered. The findings concur with Nyawira and Munyoki (2022) who showed that participation in awareness programs and informal education initiatives, such as KRA outreach sessions, significantly improved turnover tax compliance among Nairobi-based SMEs.

For the statement, businesses with higher levels of formal education are more likely to comply with tax obligations. The mean response was 4.07 (SD = 0.508), showing strong agreement that formal education correlates with compliance. The low standard deviation suggests high consistency in responses. The slight positive skewness (0.122) indicates a minor rightward tail, with a few respondents even more strongly agreeing. The kurtosis of 0.804 suggests a distribution slightly more peaked than normal, reinforcing the concentration of high agreement. The findings agree with Alabede (2021) who found that practical knowledge—particularly of tax incentives and allowable deductions—reduced unintentional non-compliance.

This statement Regular updates and continuing education on tax laws are crucial for maintaining high compliance rates among MSMEs, has a mean of 3.76 (SD = 0.726), indicating general agreement, though slightly less strong than other items. The standard deviation suggests moderate variability. The negative skewness (-0.839) reflects a left-leaning distribution, with some respondents more strongly agreeing. The kurtosis of 0.770 indicates a slightly sharper peak than normal, meaning most responses were near the mean with fewer extreme values. For the statement Digital and user-friendly tax filing systems significantly reduce the complexity of tax compliance for MSMEs. The mean response was 3.93 (SD = 0.762), showing agreement that digital systems ease compliance. The strong negative skewness (-0.955) suggests a left-tailed distribution, with some respondents more strongly agreeing. The high kurtosis (1.188) indicates a sharper peak and heavier tails, meaning most responses clustered around the mean with a few more extreme responses.

For Increased transparency from tax authorities and readily available support would improve turnover tax compliance there is a mean response of 4.08 (SD = 0.641), respondents strongly agreed that transparency and support enhance compliance. The standard deviation suggests moderate consistency. The slight negative skewness (-0.074) indicates a nearly symmetrical distribution. The negative kurtosis (-0.569) implies a flatter distribution, meaning responses were more spread out rather than tightly clustered. The findings agree with Andreoni, *et al.* (2020) who found that firms with better comprehension of tax procedures and obligations were significantly more likely to comply voluntarily.

#### 4.1.2 Turnover Tax Compliance

The respondents were to give opinions on statements regarding turnover tax compliance. The findings are shown in Table 2.

**Table 2: Turnover Tax Compliance**

	Mean	Std. Dev	Skewness	Kurtosis
I am duly registered for turnover tax in Kenya	4.09	.816	-1.123	2.265
I file turnover tax returns every month	4.07	.814	-1.130	2.316
My business pays the resultant turnover taxes on time	4.08	.644	-2.085	9.170
I declare actual income received from all sources to the tax authority	4.06	.834	-1.116	2.048
I keep a proper record of the gross receipts from my business	4.05	1.074	-1.160	.376

**Source: Study (2025)**

Table 2 shows the descriptive summary for responses for turnover tax compliance. For the statement, "I am duly registered for turnover tax in Kenya, the mean response was 4.09 (SD = 0.816), indicating that respondents generally agreed with this statement. The low standard deviation suggests that responses clustered closely around the mean, reflecting consensus among participants. The skewness of -1.123 indicates a left-skewed distribution, meaning more responses were on the higher end of the scale, while the kurtosis of 2.265 signifies a distribution with slightly heavier tails and a sharper peak than a normal distribution.

Regarding I file turnover tax returns every month, the mean is 4.07 (SD = 0.814), suggesting respondents agreed with this practice. The standard deviation shows minimal variation in responses. The skewness (-1.130) confirms a left-skewed distribution, and the kurtosis (2.316) indicates a slightly more peaked distribution than normal. For My business pays the resultant turnover taxes on time, the mean is 4.08 (SD = 0.644), reflecting strong agreement among respondents. The very low standard deviation implies high consistency in responses. The skewness (-2.085) shows a pronounced left skew, with most responses leaning toward "Agree" or "Strongly Agree." The high kurtosis (9.170) suggests an extremely peaked distribution with heavy tails, meaning responses were highly concentrated around the mean.

Concerning I declare actual income received from all sources to the tax authority, the mean is 4.06 (SD = 0.834), indicating agreement among respondents. The skewness (-1.116) reflects a left-skewed distribution, while the kurtosis (2.048) shows a slightly sharper peak than a normal distribution. Finally, for I keep a proper record of the gross receipts from my business, the mean is 4.05 (SD = 1.074), suggesting agreement, though with slightly more variability in responses compared to other items. The skewness (-1.160) indicates a left-skewed distribution, while the kurtosis (0.376) suggests a distribution that is flatter than normal but still with some peak.

## 4.2 Inferential Statistics

### 4.2.1 Correlation Analysis

The correlation analysis shows the relationships between all the study variables. The findings are shown in Table 3.

**Table 3: Correlations**

		TOT Compliance	Knowledge of taxation system
TOT Compliance	Pearson Correlation	1	
	Sig. (2-tailed)		
Knowledge of taxation system	Pearson Correlation	.579**	1
	Sig. (2-tailed)	.000	

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

The correlation analysis reveals a positive and statistically significant relationship between knowledge of the taxation system and turnover tax compliance ( $r = 0.579$ ,  $p = 0.000 < 0.05$ ). This suggests that taxpayers with a stronger understanding of tax laws and regulations are more likely to comply with turnover tax obligations. The findings concur with Nyawira and Munyoki (2022) who showed that participation in awareness programs and informal education initiatives, such as KRA outreach sessions, significantly improved turnover tax compliance among Nairobi-based SMEs.

### 4.2.2 Regression Analysis

The regression analysis using model summary, ANOVA and coefficient analysis to determine the effects of knowledge of taxation system on turnover tax compliance among small and medium enterprises in Embakasi Region, Nairobi Kenya. The findings are shown in Table 4, 5 and 6.

**Table 4: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error
1	0.695	0.483	0.481	2.885

a. Predictors: (Constant), Knowledge of taxation system

#### Source: Study (2025)

Table 4 shows that there is a strong relationship between the knowledge of taxation system, and turnover tax compliance. The multiple correlation coefficient  $R = 0.695$  indicates a substantial linear association, up to 69.5%. The coefficient of determination  $R^2 = 0.483$  shows that the predictors cause 48.3% of the variance in turnover tax compliance, the remaining 51.7% was caused by factors not included in the study.

**Table 5: ANOVA without Enhancing Moderator**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2263.262	1	2263.262	271.863	0.000
	Residual	2422.581	291	8.325		
	<b>Total</b>	<b>4685.843</b>	<b>292</b>			

a. Dependent Variable: TOT

b. Predictors: (Constant), Knowledge of taxation system

**Source: Study (2025)**

The analysis of Variance table 5 shows F statistic of 89.994, p-value =0.000<0.05, this implies that the regression model is significant in expressing the relationship between the predictors and turnover tax compliance

**Table 6: Regression coefficient Analysis**

Model		Standardized Coefficients $\beta$	Std. Error	t	Sig.
1	(Constant)	2.004	0.944	2.123	0.035
	Knowledge of taxation system	0.334	0.059	5.661	0.000

Dependent Variable: TOT compliance

**Source: Study (2025)**

The regression coefficient analysis was summarized in the equation

$$Y = 2.004 + 0.334X_1$$

The regression analysis presented in Table 6 reveals that a unit change in knowledge of the taxation system leads to a significant increase of 0.334 in turnover tax compliance ( $\beta = 0.334$ ,  $p= 0.000$ ), indicating that taxpayers with a better understanding of tax regulations are more likely to comply with turnover tax obligations. The findings concur with Nyawira and Munyoki (2022) who showed that participation in awareness programs and informal education initiatives, such as KRA outreach sessions, significantly improved turnover tax compliance among Nairobi-based SMEs.

## 5. Conclusions

The study concludes that knowledge of the taxation system has a significant and positive influence on turnover tax compliance among SMEs in Embakasi Region, Nairobi, Kenya. This indicates that SMEs with greater tax knowledge were more likely to comply. Hence, improving taxpayers' understanding of tax laws and regulations can enhance voluntary compliance. This finding contributes to existing literature by reinforcing the critical role of tax literacy in compliance behavior, particularly in developing economies where tax education is often lacking.

## 6. Recommendations

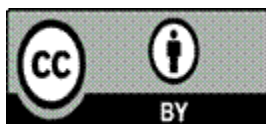
First, given the significant positive effect of knowledge of the taxation system on turnover tax compliance, the government should prioritize nationwide tax education programs targeting SMEs. This could include simplified tax guides, workshops, and digital learning platforms to enhance tax literacy.

For Kenya Revenue Authority (KRA), the findings recommend adopting taxpayer-centric approaches. KRA should enhance taxpayer support services, such as dedicated SME help desks and mobile tax clinics, to improve knowledge dissemination. For SME management, the study underscores the need for proactive tax training for employees and owners to ensure compliance.

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