

**TAX BEHAVIOR ON GROWTH OF MICRO, SMALL AND MEDIUM
ENTERPRISES: A CASE OF BUTCHERIES IN NORTH OF
NAIROBI TAX REGION, KENYA**

BY

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DECLARATION

Declaration by Candidate

I declare that this research project is my original work and has not been presented either in full or part of it for a degree in this University or any other.

Signed..... Date.....

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Declaration by the Supervisors

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DEDICATION

I dedicate this research project to my wife Magdalene Wanja and my daughters - Elaine Njeri, Naomi Wanjiku and Lisa Wahito as well as my loving parents who gave me all their love and care. No words can express my gratitude to them for the support and words of encouragement throughout the research process.

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ABSTRACT

Despite the high level of resilience exhibited by the micro small and medium enterprise sector as evidenced by job creation abilities in a tough environment as well as significant contribution to gross domestic product, the businesses still face serious challenges that impede their growth. The firms experienced average decline of 4% in annual turnover between financial years 2018-2019. This study therefore sought to investigate the effect of tax behavior on growth of micro, small and medium enterprises: a case of butcheries in North of Nairobi tax region, Nairobi County. The specific objectives were to determine the effect of tax knowledge by taxpayers, tax compliance costs behaviour, and tax non-compliance cost behaviour on growth of micro, small and medium enterprises in North of Nairobi tax region, Nairobi County. The study was anchored on the theory of planned behaviour theory of economic entrepreneurship, and the economic deterrence theory. An explanatory design was employed. The target population for this research was 2500 licensed butcheries by Nairobi County Government in Kenya Revenue Authority tax region of North of Nairobi. The study sampled 344 butcheries using stratified random sampling. Primary data was collected using structured questionnaires. Data was analyzed by descriptive statistics (means and standard deviation), while inferential statistics (correlation and regression) helped to test the relationship between the study dependent and the independent variables. The regression results showed that tax knowledge by taxpayers ($\beta=0.488$, $p=0.000$) had a positive and significant effect on growth of micro, small and medium enterprises. The results further showed that tax compliance costs ($\beta= -0.102$, $p=0.002$) and tax non-compliance cost behavior ($\beta= -0.223$, $p=0.000$) have a negative and significant effect on growth of micro, small and medium enterprises. From the findings, the study concluded that it is important for micro, small and medium enterprises to employ employees that have knowledgeable on tax compliance matters. This will enhance their growth. The study further concluded that number of taxes and the amount of tax that micro, small and medium enterprises are required to pay to the government had greatly increased. In addition, the tax payment method is very clear to the micro, small and medium enterprises and this enables them to make frequent tax payments. The study recommended that micro, small and medium enterprises should invest in seeking tax knowledge and ensure that all their employees are equipped with the tax knowledge. This is because acquiring reasonable level of tax knowledge facilitates growth of their businesses. The government of Kenya needs to lower the compliance costs of the micro, small and medium enterprises. This is because high compliance costs diminish competitiveness of the country in terms of taxation attractiveness, public services which have become increasingly interested in ways to simplify their tax legislation systems. The government of Kenya also needs to lower the noncompliance costs of the micro, small and medium enterprises. This is because increase in tax compliance costs, denies the business persons the advantage to reap off economies of scale and thus little growth is envisioned.

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OPERATIONAL DEFINITION OF TERMS

Butcheries – These are businesses involved in selling of slaughtered animal meat including beef, goat and pork (Pobiner et al., 2018).

Growth – is a condition of survival for young and small businesses, as growing firms are found less vulnerable to failure than non-growers. It describes process in which a business generates enough economic profits over and above the normal profits to enable it increase in terms of assets, number of customers and employees (Baden-Fuller & Teece, 2019).

Micro, Small and Medium Enterprises – these are informal sectors characterized by small scale activities, easy entry and exit due to fewer regulations, less capital investments, limited job security and also self-employment (Tambunan, 2019).

North of Nairobi Tax Region this is the geographical area found on the Northern part of Nairobi County as demarcated by the Kenya Revenue Authority. It includes Nairobi downtown around Kirinyaga road, Thika road, Parklands and Westlands (KRA, 2019).

Tax compliance costs are the costs which taxpayers and others incur in meeting obligations imposed under tax legislation (Marcuss et al., 2013).

Tax compliance is characterized as how much a taxpayer goes along (or neglects to go along) with nation tax rules including income declaration, return filing, and paying assessment due in time (Slemrod, 2019).

Tax knowledge refers to the processes, by which taxpayers become aware of tax legislation and other tax-related information (Oladipupo & Obazee, 2016).

Tax non-compliance costs arise as a result of non-compliance with the tax laws and procedures and they include penalties, interest and convictions (Abdul & Wang'ombe, 2018).

ABBREVIATIONS AND ACRONYMS

DC:	Dynamic Capabilities
EU:	European Union
GDP:	Gross Domestic Product
IMF:	International Monetary Fund
KNBS:	Kenya National Bureau of Statistics
LDC:	Least Developed Countries
MSE:	Micro and Small Enterprises
MSMEs:	Micro, Small and Medium Enterprises
NACOSTI:	National Commission for Science, Technology and Innovation
OECD:	Organisation for Economic Co-operation and Development
RBV:	Resource – Based View
SPSS:	Statistical Package for Social Sciences
UIA:	Uganda Investment Authority,
VIF:	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.0 Chapter Overview

This chapter details the background of the study, statement of the problem, research objectives, research hypotheses, significance, and scope of the study.

1.1 Background of the Study

When it comes to tax policy, governments are faced with a difficult choice. On the one hand, they must collect sufficient taxes in order to provide necessary public goods and services to their population. On the other hand, they want to avoid the risk of overburdening enterprises with hefty taxes and compliance expenses, which might stifle economic growth (Lee & Gordon, 2005). Entrepreneurial decisions are influenced by high tax compliance expenses. According to a study by Wen and Gordon (2014), tax progressivity affects individuals' occupational choices between self-employment and paid employment, with more progressivity, people are less likely to choose self-employment. The results from the study illustrate how career and business decisions of individuals can be dependent on taxation. High tax compliance costs increase the cost of doing business thus cutting down on the benefits accruing to the business owners. According to a recent study by Darnihamedani et al. (2018), excessive corporate tax lowers the value of innovation because it typically rises in tandem with the venture's earnings. As a result, high taxes and compliance expenses deter businesses from investing in risky but innovative businesses.

Tax laws are enacted by governments to raise revenue (Forest & Sheffrin, 2002), with the goal of limiting tax avoidance and evasion. As a result, the content and aggressiveness of tax regulations are shaped by government discourse on tax revenue

collection and dealing with non-compliant taxpayers. With time, the taxpayers discover ways of tax avoidance which makes the government enact more stringent laws thus making tax laws more complex. Tax laws are also designed to achieve a certain level of fairness among tax payers (Oliver & Bartley, 2005). This leads into exemptions, low tax rates for some tax payers and other preferential treatments. When these are too many, they create confusion, increasing the compliance costs.

Growing firms are proven to be less prone to failure than non-growers, making growth a prerequisite of survival for young and small businesses (Stam et al., 2006). Many scholars have concentrated on the success of MSMEs in recent years, with a few others concentrating on the causes for MSMEs' failure and the elements that influence their failure. There are also a number of studies that look at the link between the qualities of MSMEs' owners/managers and their success or failure. Failed business owners/managers have a low tolerance for ambiguity, but strong creativity and internal locus of control, as well as a moderate demand for achievement (Zahra, et al., 2011).

Individual and non-individual elements promote the growth of MSMEs. Individual factors are determined by the characteristics of MSMEs' owners/managers, whereas non-individual factors are divided into those originating from SMEs' characteristics, as well as decisions made within SMEs (internal), and factors originating from SMEs' environment and negatively affecting SMEs' success (Nikolic' et al., 2015).

Individual tax behavior has an impact on the trajectory of MSMEs' growth, as does the decision to acquire tax knowledge, comply with tax laws, or fail to comply with tax rules. Even though the evidence is inconclusive (e.g., Hanlon et al., 2007; Rice, 1992), most studies show that small business owners/managers are more likely to

cheat than other taxpayers (e.g., Joulfian & Rider, 1998 Kirchler et al., 2006; Schütze, 2002). Small businesses allocate tax compliance resources that can be used for investment to drive future growth (Tomlin, 2008).

MSMEs, sometimes known as the "informal sector," are defined by small-scale activities, ease of entry and departure due to fewer rules, lower capital investments, minimal job security, and self-employment. A medium-sized company has less than 250 employees and an annual turnover of less than 50 million euros and a balance sheet of less than 43 million euros; a small company with less than 50 employees and sales and total assets of less than € 10 million; and micro-enterprises employ less than ten people and have a balance sheet and turnover of less than ten million euros (Ghatak, 2010).

According to a 2015 report by the Organization for Economic Co-operation and Development (OECD), MSMEs in developing and least developed countries (LDCs) thrive in labor-intensive industries with low barriers to entry, such as agriculture and agribusiness, manufacturing, and services. In addition, many SMEs in developing countries are still unorganized enterprises. In Turkey, the average company (51-250 employees) is the slowest growing segment of the economy, and increased access to credit has strengthened the country's investment climate while increasing the rate of business growth (Seker & Correa, 2010).

Micro businesses have annual sales of less than 500,000 Kenyan shillings and employ between one and nine people under the Kenya Micro and Small Business Act (MSE) of 2012. Small businesses have annual sales of between 500,000,000 and 500 million Ksh and employ ten to fifty people according to the Micro and Small Enterprises (MSE) Act in Kenya 2012. In the industrial sector, investment in machinery and

equipment must be between Ksh 10 million and 50 million, while in the service sector and agriculture the registered capital must be between Ksh 5 million and Ksh 25 Million Ksh. On average the company has a turnover of between 5 million and 800 million Ksh and employs 50 to 99 people.

In Kenya, most of the lower-end butchers offer little product differentiation, on the other hand, high-end butchers offer much higher diversified meat products. In the lower segment of the market, consumers tend to be low to middle income earners, who buy from butchers whose meat is openly exposed without refrigeration. These butcher operations are mostly located in middle-income residential properties. The high-end segment is caused by high-income consumers who like to shop at high-end supermarkets and butcher shops. They tend to evaluate product performance as a quality characteristic. The success of a butcher shop in Kenya depends primarily on being able to ensure a stable supply of meat. Small businesses, including butchers, are faced with systemic challenges resulting in a 75% mortality rate within three years of start-up. Challenges include lack of access to finance, markets, information, management skills, technology, infrastructure challenges, and unsupported actions (KNBS, 2019).

1.2 Statement of the Problem

In most successful countries, small businesses are seen as essential springboards for growth, job creation and social progress. These businesses have been singled out as engines through which developing countries can achieve overall growth in their economies (Alemu, 2015). Therefore, in developing countries sustainable growth and increased employment opportunities can be achieved if more emphasis is put in these sections of the economy that are able to absorb much of the labour force (Abebe,

2011). With time, some of these small businesses have grown into humongous profitable outfits whereas others have failed within a very short period after inception and others have stagnated. KNBS report of 2019 indicated that small enterprises experienced an average decline of 4% in annual turnover between financial years 2018-2019. This indicates a decline in growth of small businesses. MSMEs, particularly those in developing nations, confront significant difficulties that limit their expansion. Lack of coherence in legislative and regulatory frameworks, lack of access to funding, poor information and capacity shortages, and lack of basic infrastructure are only a few examples (Verma & Nema, 2019).

Measurement of growth for businesses is more accurate if growth rate of sales or profits are used, in practice they are not credible (Altinay, Madanoglu, De Vita, Arasli & Ekinici, 2016). Business owners are always very hesitant to report the true value for these two. The most credible measuring tools for growth of businesses in MSMEs are employment and asset-based parameters. Employment growth is relatively easy for the respondents to remember and is unadulterated by changes in prices and so are the general number of clients and assets.

About 1.56 million MSMEs in Kenya are licensed while 5.85 million of them are unlicensed businesses. Despite their importance to Kenya's economy, MSMEs are disproportionately concentrated in the micro and small categories. This emphasizes the reality that the majority of firms can only support a small number of employees because they are mostly run by their owners. With the growth and expansion of the MSME sector, there is a great opportunity to create additional jobs (KNBS, 2016).

There exists limited research on the connection between tax behavior and growth of MSMEs both globally and locally. Gathigia (2011) examined the effect of taxation on

the growth of small and medium plastic manufacturing enterprises in Kenya. However, her research focused on general taxation and not tax behavior of the owners. Wangeci (2018) examined the effect of taxes on the growth of the SME sector in the Kenya Voi sub-region and found a significant relationship between taxation and the growth of the SME sector. However, the study presents a conceptual gap since it used different objectives from the current research. Moreover, the researcher found that there is limited research that has focused on growth of MSMEs in Nairobi. Yet, enterprises in this region also face challenges that hinder their growth. It is in light of the aforementioned research gaps that the study sought to investigate the effect of tax behavior on growth of butcheries in KRA tax segment of North of Nairobi, Kenya.

1.3 General Objective

The general objective of this study was to investigate the effect of tax behavior on growth of enterprises in Nairobi, Kenya.

1.3.1 Specific Objectives

- i. To assess the effect of tax knowledge by taxpayers on growth of enterprises in North of Nairobi tax region, Kenya.
- ii. To examine the effect of tax compliance costs behaviour on growth of enterprises in North of Nairobi tax region, Kenya.
- iii. To determine the effect of tax non-compliance cost behaviour on growth of enterprises in North of Nairobi tax region, Kenya.

1.4 Research Hypotheses

H₀₁: Tax knowledge by taxpayers has no significant effect on growth of enterprises in North of Nairobi tax region, Kenya.

H₀₂: Tax compliance cost behavior has no significant effect on growth of butcheries in North of Nairobi tax region, Kenya.

H₀₃: Tax non-compliance cost behavior has no significant effect on growth of butcheries in North of Nairobi tax region, Kenya.

1.5 Significance of the Study

The research results are beneficial to a number of groups. The owners/managers of MSMEs may understand how tax compliance or lack of it affects growth of their business. This informs their decision making with respect to tax compliance. The study is also a reference source to the policy makers in Kenya to address the issue of non-compliance in the informal sector. The study also provides theoretical and empirical insights in regard to tax compliance and growth of business, which other researchers can adopt in their research work on related subject. Further, it specifically contributes literature to the nascent study of tax behavior, compliance and non-compliance costs and how these affect the growth of MSMEs in developing countries.

1.6 Scope of the Study

The study focused on the impact of tax behavior on growth of micro, small and medium enterprises: a case of butcheries in North of Nairobi tax segment, Nairobi County. The key dimensions of tax behaviour were; tax knowledge, tax compliance cost and tax non-compliance cost. The study target population was 2500 licensed butcheries by Nairobi County Government in Kenya Revenue Authority tax segment of North of Nairobi. A sample size of 344 butcheries was used. The study was conducted between 2020 and 2021.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the theoretical framework, empirical literature research, gaps in the conceptual framework and chapter summaries.

2.2 Concepts of the Study

2.2.1 Growth

The foundation of the definition of growth was laid by the theories of dynamic capability as well as the Resource Based View (RBV) that perceived it as process of learning and developing skills, which ultimately leads to an expansion of scope and size (Baden-Fuller & Teece, 2019); Bleadly, Ali & Ibrahim, 2018). RBV logic focuses on the inner characteristics of the entrepreneur, the company, and its strategy.

Liao and Marsillac (2015) contributed to the concept of absorption capacity (AC) in the definition of growth, that it is one of the concepts derived from understanding innovation in terms of the internal usefulness of external knowledge. The concept of dynamic skills (DCs) to define growth was refined by Di Stefano et al., 2010, who postulated that DCs go beyond the competencies that define a firm's ability to integrate, build, and reconfigure, handle and design internal and external resources to rapidly define business environments that changed.

The growth of enterprises is regarded as a key driver of employment, competitive advantage, and social inclusion. In a developing country, this becomes more critical for MSMEs considering the percentage of employment opportunities. There are key factors that influence growth for enterprises engaged in MSMES; the individual attributes of the owner, the nature of the enterprise and the strategy adopted. Judging

from the characteristics of the owner, this entails willingness to learn, ability to deal with uncertain results, management experience, education, and the desire of entrepreneurs to develop. The type of company depends on the company age, stage of growth and size. Strategic direction, on the other hand, relates to research and development, innovation, financial structure, and productivity.

2.2.2 Tax Behaviour

The innate nature of the taxpayer is to make rational and selfish decisions aimed at material satisfaction. Tax evasion has happened in the context of taxes (Kircher et al., 2008), influenced by perceptions of the taxation system's fairness (Andreoni et al. 1998). Tax law compliance is critical for fiscal policy since it impacts equality, efficiency, and, ultimately, the tax system's impact. The tax system becomes unjust and penalizes honest people by collecting unneeded additional taxes when vast segments of the population dodge or continue to lower their fair share of taxes.

Tax behavior is an individual factor and the decision to gain tax knowledge, to comply with tax regulations or not to comply with tax regulations will affect the growth trajectory of MSMEs. Despite the lack of clear proof, most studies demonstrate that small business owners/managers are more likely to cheat than other taxpayer groups (eg Joulfian & Rider, 1998; Kirchler et al., 2006; Schuetze, 2002). Small businesses spend resources on tax compliance that may be used to help them develop in the future (Tomlin, 2008).

2.2.2.1 Tax Knowledge

Tax knowledge refers to the process by which taxpayers become familiar with tax laws and other tax-related information (Oladipupo & Obazee, 2016). With self-assessment, knowledge of taxation is the most important factor in determining the

right tax liability. This has been proven empirically by several studies (Loo, 2006; Kasipillai & Jabbar, 2003) which show that tax knowledge will lead to higher compliance. Loo's study found that a lack of tax literacy causes many errors in tax returns prepared and submitted by individual taxpayers, leading to unintentional non-compliance by some and over-compliance by others.

Dubin and Wilde (1988) found that highly educated taxpayers were less likely to qualify. Richardson (2006) showed in his study a direct connection between education and tax compliance. Positive relationships are based on feelings of justice. The more educated taxpayers have better understanding of tax laws and the need to comply (Saad, 2010).

2.2.2.2 Tax compliance costs behaviour

Tax compliance has been defined in innumerable ways by diverse scholars. According to Braithwaite (2009), it is the full payment of all taxes due. Tax compliance is defined by Mariana, Norkhazimah, and Mohmad (2010) as the extent to which taxpayers follow their own country's tax laws and regulations. Tax compliance costs are the expenses incurred by taxpayers in meeting the obligations imposed by tax legislation and tax authorities. The expense of complying with complex tax regulations is inversely proportional to the cost of compliance (Marcuss et al., 2013). Furthermore, they discovered in their research that self-assessment tax systems and complicated tax regulations can compel people to hire compensated tax counselors. Furthermore, modern tax rules need the use of specialized accounting systems, which forces firms to engage accountants, raising compliance expenses.

Money costs and psychological costs are the two sorts of compliance costs. In compliance with tax legislation, cash costs include money paid and opportunity costs

linked with time and other resources incurred. Psychological costs, on the other hand, are associated with assessments of emotional stress and anxiety due to tax compliance (Evans & Tra-Nam, 2014).

Academics, policymakers, and businesses have all expressed interest in the cost of tax compliance (Abdul & Wang'ombe, 2018). Recognizing that high compliance costs impair a country's competitiveness in terms of tax attractiveness, government agencies are becoming more interested in simplifying its tax regulations (Mogeni, 2014).

2.2.2.3 Tax non-compliance costs behaviour

Tax non-compliance costs refer to costs incurred for failure to comply with tax laws and they include interest, penalties and legal costs of going through convictions (Doran, 2009). Drawing from the tax compliance concepts, tax non-compliance is the opposite. Tax non-compliance is the penalties brought about by the tax authorities due to businesses evading taxes. This is intentional concealment and unintentional disobedience due to miscalculation and lack of understanding of tax laws. The intricacy of the tax system is one possible factor that determines the tax disparity (Gambo et al., 2014). The rising cost of this folly has compelled many taxpayers to seek outside tax assistance in order to avoid penalties for non-compliance (Abdul & Wang'ombe, 2018).

Taxpayers' tax behaviour has been defined as the manner in which taxpayers, under the influence of endogenous and exogenous factors, choose to act in relation to tax obligations, to react to tax policy and to interact with other taxpayers and the tax authorities (Bătrâncea, 2013). The costs of taxations due to non-compliance can result in non-compliance behaviour. Taxpayers usually assess costs vs benefits while making compliance decisions, according to Musimenta (2020). If the penalty for non-

compliance is lower than the price for compliance, for example, the taxpayer will flee and wait for the punishment, which may or may not come at all. If the costs of compliance outweigh the benefits, then taxpayer agility is a priority to be avoided or avoided. To increase compliance, compliance costs must be kept as low as possible.

2.3 Theoretical Framework

This study was guided by theory of planned behaviour, theory of economic entrepreneurship, and the economic based theory.

2.3.1 Theory of Planned Behaviour

The Theory of Reasonable Action (TRA) (Fishbein & Ajzen, 1975) is a social psychology theory that is a continuation of Planned Behavior Theory (TPB). Human conduct is led by three sorts of thinking, according to the theory: behavioral beliefs, normative views, and ideas about the existence of circumstances that can promote or hinder behavior (Ajzen, 1991). He tried to explain human behavior, and in particular the premise that people make logical and informed decisions about goal-oriented behavior by evaluating the information available to them. This theory was developed by Ajzen (1985) and describes in detail how influences on individuals determine the individual's decisions about certain behaviors.

The perception of a behavior or its transformation into another behavior is based on the purpose that the individual has developed for that conduct. Intention, according to Ajzen, is a factor that reflects an individual's level of effort to do a specific behavior (Ajzen, 1991). Attitudes toward behavior, individual norms, and perceived behavioral control are all used to characterize intentions. Attitudes regarding the chance that the act will have the predicted effect, as well as subjective assessments of the risks and advantages of the outcome, influence intentions.

A person is unlikely to perform the recommended conduct if they are not motivated. There are four additional factors that have a direct impact on behavior. Three of the four are very crucial in assessing whether behavioral intentions can lead to behavioral results. To begin with, even if a person has a strong behavioral intention, he or she will require skills and knowledge in order to carry out the activity. Second, there should be few, if any, environmental constraints that make behavioral indicators difficult or impossible to measure (Koklic & Vida, 2014). Third, the individual's actions must be taken into consideration. Finally, a person's prior behavioral performance experience may reduce the importance of intention in shaping behavioral results (Koklic & Vida, 2014).

Behavioural attitudes by an entrepreneur will determine the strategy to use in relation to tax compliance to grow their businesses. As an economic being, an entrepreneur will weigh the cost of compliance vis-à-vis growth prospects and the benefits that will accrue thereof. The theory of planned behavior is therefore applicable in this research since it explains the relationship between entrepreneurs' behaviour and attitude towards tax compliance and business growth. The theory makes a prediction that entrepreneurs' behaviour and attitude towards tax compliance determines the growth of their businesses.

2.3.2 Economic Theory of Entrepreneurship

In the 18th century Richard Cantion made a distinction between those who "receive a fixed salary" and those who "receive a fixed salary", the entrepreneur being one of the latter. Entrepreneurs are economic actors who bear risks due to unstable market functions. Sai would later identify an entrepreneur as an intermediary between employees who generate knowledge and workers who apply it in industry. He

introduced the concept of innovation in entrepreneurship (McFarlane, 2016; Baumol, 1968).

The entrepreneur, according to Schumpeter (1950; 1961), is a production coordinator and a change agent. Entrepreneurship, according to proponents of this viewpoint, is not very crucial in the early phases of economic development. They feel that entrepreneurs are more vital at a later stage of development when knowledge and competition drive economic growth. Entrepreneurship may play a smaller impact in early stages of development because growth is primarily driven by the accumulation of components (cs & Naudé, 2013).

Another definition of behavior has to do with entrepreneurship's increased prominence in emerging countries. The entrepreneur, according to Kirzner (1973), is someone who helps others adjust to change by looking for profitable arbitrage possibilities (and unbalanced market situations). The theory economic theory of entrepreneurship places the growth of MSMEs at the heart of an entrepreneur who as defined by Kirzner spots opportunities for profitable arbitrage. The growth of MSMEs is guided by the actions of the entrepreneur who balances competing needs to the most profitable alternative.

2.3.3 Economic Deterrence Theory

Becker (1968) proposed the economic deterrence theory, which has changed over time as many academics examined numerous variables and questioned the results of its predecessors. According to Becker, he investigates economic theory in relation to crime from a theoretical standpoint. This assumes that people's motivations shift away from self-interest. Economic theory (deterrence theory) states that certain underlying considerations, such as cost effectiveness, prohibit individuals from obtaining full

compliance. Allingham and Sandmo (1972) suggest that taxpayers normally desire to maximize their earnings, which contradicts Becker's findings. The rewards and incentives provided by processes are the focus of economic theory, often known as deterrence theory.

Economic theory focuses on economic variables such as the costs incurred, the likelihood of disclosure, and the penalties a person may face if they fail to comply with certain regulations. Most business people's primary purpose is to save money, therefore when there is a fee or a fine they might pay for launching a smaller firm, they tend to overlook the compliance side. According to Trivedi and Shehata (2005) they like to play audit lottery, which is why taxpayers usually adjust their declarations to suit them when they submit them.

Despite knowing about sanctions and fines, as well as the risk mindset of taxpayers, the degree of MSME compliance has not increased. This is due to the fact that the majority of those in this group are not taxed. It is important to understand how fines and penalties affect compliance levels in order to understand compliance levels.

2.4 Empirical Literature Review

This section provided review of past studies on tax knowledge, tax compliance costs and tax non-compliance costs and growth of MSMEs.

2.4.1 Tax Knowledge and Growth of MSMEs

Tax knowledge is expected to improve the awareness of the SME holders and improve their morale towards adhering to payment. In this way, knowledge has a positive effect on the growth of SMEs as a whole, as they can avoid sanctions and gain considerable benefits. In general, tax cuts were found to increase growth, have no impact on growth, reduce growth, or provide no clear result. The effects of various

taxes – income, corporate, property, and sales – vary widely within and between studies (Gale, Krupkin & Rueben, 2015). In seminars or in-depth tax courses, trainers offer training in the areas of tax returns, company formation, bookkeeping, preparation of tax returns for business and personal matters, tax matters for self-employed and income tax (Palil, 2010). But what is more important is the awareness and attitude of the taxpayers themselves because the effectiveness of tax education depends on the willingness, acceptance, and honesty of taxpayers (Setyorini, 2016).

In a study of tax knowledge, sanctions, and compliance in Nigerian small and medium-sized enterprises, Oladipupo (2016) discovered that tax knowledge is more likely to promote tax compliance than tax punishments. He stated that business owners should make every effort to have a sufficient level of tax understanding for their industry. In Ethiopia's Tigrei area, Berhane and Yesuf (2013) address the obstacles and opportunities of rental income tax. They found that most of the taxpayers did not have sufficient knowledge about tax assessment and collection procedures.

In the Kenyan city of Nakuru, Omondi and Theuri (2019) investigated the impacts of tax awareness and tax compliance costs on shopkeepers. A descriptive research design is used in this study. The findings revealed that tax awareness and literacy had a favorable and significant impact on tax compliance, whereas the cost of compliance had a substantial impact on tax compliance levels.

Gachiku (2015) examined tax compliance among small and medium-sized businesses in Kenya's North Nairobi tax district, and finds that most taxpayers have trouble getting tax information. Furthermore, less educated taxpayers are less exposed to tax

information and are less informed about key tax information, making them more inclined to cheat taxes, according to this study.

Lyimo (2018) studied the impact of taxation on the growth of small micro enterprises in Tanzania. The study employed quantitative approach in the collection of relevant information. Cross sectional survey design was useful for collecting data and techniques used in analysis. Purposive sampling was employed during the study. The research design used during the course of this study employed a sample of 100 respondents. Questionnaires and document reviews were used to obtain data. The data was evaluated using an analytical descriptive method, with the results given as frequency and percentage analysis. The findings revealed that the majority of respondents recognized the negative impact of current tax policies on SMEs' growth and urged that state tax laws be reformed. The results will help stakeholders to develop measures to more effectively adapt the tax system for SMEs. This study recommends further research on the use of tax revenues and how the perception that taxpayers do not benefit from their tax revenues is a real factor that affects their attitude towards taxes.

In Indonesia, Mukhlis, Utomo, and Soesetio (2015) investigated the influence of tax education on tax knowledge, tax equality, and SME craft tax compliance. Handicraft SME entrepreneurs in East Java Province, Indonesia, are the study's unit of analysis. The data is primary data collected through the use of a questionnaire approach. The sample is drawn from a population sample obtained by a multi-step process using a basic random sample. While partial least squares is used to examine the data, structural equation modeling is used to analyze the data. Tax education has a significant and positive effect on tax knowledge, tax knowledge has a significant and

positive effect on tax justice, tax justice has a significant and positive effect on tax compliance, and tax knowledge has a significant and positive effect on tax compliance obligations, according to the findings of this study. Based on these findings, it is critical to improve tax education in order to raise tax understanding and compliance with tax laws and regulations.

A benchmark study was undertaken by Newman, Mwandambira, Charity, and Ongayi (2018) to analyze the influence of tax knowledge on tax compliance for small and medium firms in developing nations. This study looks at the literature to see if SMEs in the developing country analyzed are tax literate, as well as to see what factors might influence their tax literacy. Other elements that could impact the gap between SMEs and tax authorities' techniques for raising awareness and complying with SME rules have been identified. The survey discovered that SMEs in this developing country do not adhere to tax legislation. They have just rudimentary knowledge of taxation and do not comprehend tax concerns. It also demonstrates that simply boosting tax awareness without addressing high tax rates and corruption will have no significant influence on SMEs' tax behavior. The study suggests that an introductory tax course be added to the curriculum, potentially as an optional subject at the start, so that students are aware of their duties as future taxpayers. This form of instruction is believed to aid in the development of responsible taxpayers.

The influence of tax knowledge on tax compliance was investigated by Fauziati, Minovia, Muslim, and Nasrah (2020). Survey studies are used in conducting research. Primary data sources were used and 300 copies of the self-administration questionnaire were distributed. The association between tax knowledge and tax compliance was studied using a basic regression line model. The significance of the

variables analyzed was determined using T-statistics. Clearly, tax knowledge has little bearing on tax compliance. As a result, it is suggested that efforts be made to improve taxpayer understanding in order to improve tax compliance and, as a result, boost government revenue. However, this study finds a conceptual gap because the focus on tax compliance is the dependent variable rather than business growth.

Ahmad, Ismail, and Halim (2016) sought to determine the level of taxpayer understanding and perception of Malaysia's Goods and Services Tax (GST). Only 256 high school teachers from the Kuala Kangsar district of Perak participated in this study. A questionnaire was used to collect information. The findings revealed a modest level of awareness, with the majority of respondents seeing GST as having a highly unfavorable impact. As a result, the majority of respondents are opposed to the use of GST in Malaysia. However, the research was conducted in Malaysia, not Kenya.

Marta, Kusumawardani, and Irwansyah (2017) investigated the impact of taxpayer attitudes and awareness of tax payments on SMEs' compliance with the law. The findings of this study should, in principle, enrich and give empirical evidence on the elements that influence taxpayers' perceptions of tax evasion, which will be beneficial to researchers, practitioners, and policymakers. The Samarinda small and medium food business in Sungai Kunjang sub-district is the population of this study. Targeted sample using arbitrary criteria for individual taxpayers of Samarinda food enterprises was used in this investigation. The study's key conclusions include the following information: Taxpayers' awareness of tax obligations has influenced their tax payments.

Guitaru (2017) used the example of SMEs in Nairobi to analyze the effectiveness of taxpayer training on tax compliance in Kenya. The influence of e-learning for

taxpayers, taxpayer training in print media, and stakeholder involvement on tax compliance is examined in this study. SMEs in Nairobi's CBD tax zone are the target group. Data was gathered through the distribution of previously protested questionnaires to small business owners. Descriptive statistics and inference statistics were used to analyze the data. Electronic taxpayer training, taxpayer training in print media, and stakeholder engagement all have an impact on tax compliance for SMEs in the Nairobi CBD region, according to research findings. The results show that the sensitivity of stakeholders with a correlation coefficient of 0.810 is positively related to taxpayer training to calculate taxpayer compliance correctly. This study recommends this; Compliance with tax regulations in SMEs should be improved, as they are below average due to intensive taxation. Those involved in tax problems need knowledge and abilities in interpreting numerous tax rules and regulations in order for SMEs to improve their tax compliance.

Chandarasorn (2015) investigates citizens' impressions of Thailand's income tax system and tax compliance, as well as the factors that influence tax compliance in Thailand. This research employs two survey methods: a personal poll of 1,148 Bangkok residents and interviews with 15 Thai tax specialists. The findings show that perceptions of law enforcement, fairness of the tax system, tax knowledge, and demographic characteristics are all important factors influencing tax compliance behavior in Thailand, confirming that traditional utility maximization and alternative approaches to behavior are also required to understand tax compliance issues. The findings of this investigation are backed up by tax specialists' opinions. The study suggests a comprehensive strategy to improve tax compliance in Thailand, including lowering tax rates, expanding the tax base, eliminating unnecessary allowances and

deductions, linking social benefits to tax filings, educating citizens about tax and citizenship obligations, and improving public administration and long-term revenue.

The effectiveness of income tax management in Nigeria was investigated by EL-MAUDE, Bawa, Mohammed, and Pate (2018). The study spans the years 2010 to 2015. A total of 100 personnel from the Federal Finance Office in Adamawa, Bauchi, Gombe, and Taraba participated in the poll. Because there were only 100 employees in the research population, the entire population was used as the sample size. The data for this study comes from both primary and secondary sources, and descriptive statistics - mean were used to examine it. The findings reveal that capital gains tax makes a minor contribution to income generation, and that tax awareness and compliance have an impact on capital gains tax emergence. According to the findings, capital gains tax is ineffective due to a lack of tax awareness and non-compliance.

In Afghanistan, Ay, Humta, and Ghafourzay (2021) looked at the influence of tax understanding and knowledge on taxpayer compliance. A total of 254 valid questionnaires were evaluated, which were obtained via Google Form. The proposed hypotheses were investigated using correlation analysis and multiple regression analysis. The reliability and validity of the accepted scales were evaluated using Cronbach's Alpha, KMO, and Bartlett's tests, as well as Confirmatory Factor Analysis (CFA). The study results demonstrated that tax understanding and tax awareness significantly positively impact tax compliance in Afghanistan. The study however, focused on tax compliance and not growth of small businesses.

The influence of taxpayers' comprehension of taxpayer awareness and tax punishments on taxpayer compliance by SMEs performing online commerce in Metro city was studied by Zanaria and Lestari (2020). Quantitative research is the name for

this type of study. Primary and secondary data sources were used in this investigation. A sample of 97 SME taxpayers in Metro who engage online business activities using the website, Twitter, Facebook, Instagram, Tokopedia, or other platforms were given the questionnaire. According to the findings, taxpayer comprehension has a substantial impact on compliance with SME taxpayer regulations. SME taxpayer compliance is influenced by tax awareness. Taxpayer awareness is the ability to comprehend the taxation system utilized by taxpayers, the role of taxes as a source of state revenue used for government spending, and the tax laws for filing tax returns and paying taxes.

Obafemi, Araoye and Ajayi (2021) examined the role of various government tax incentives in the growth and development of SMEs in developing countries with a particular focus on SMEs from the state of Kwara, Nigeria. This survey is descriptive and thus captures primary data on the variables that contribute to the effect of taxes and their impact on SME growth. Simple and stratified random selection was used to pick a sample of 260 respondents, which represents the percentage of the target company's population in the manufacturing sector of the Kwara State Industrial Estate. To investigate the contribution of each variable to the effect of SME growth, data obtained through questionnaires, interviews, and, if necessary, observations were analyzed using a simple least squares regression model. The results of this study show that taxation has a substantial impact on the growth of SMEs.

Ishola, Bello, and Raheed (2020) looked into the link between tax knowledge and compliance among Nigerian taxpayers. This survey used a survey design to collect data from a sample of taxpayers. The Kaiser-Meyer-Olkin test was used to obtain primary data using a questionnaire that was prepared and administered. Cronbach

Alpha is also used to assess the research instrument sample's adequacy and dependability. In this study, the evaluation sampling approach was applied. The data obtained from the questionnaire were analyzed using a simple table as descriptive statistics and Pearson correlation at a significance level of 1% as output statistics. The results showed that taxation knowledge in general was significantly related to taxpayer compliance when making payments and tax compliance when filing tax returns. As a result, this study came to the conclusion that tax awareness and compliance have a favorable association.

In Ghana, Peprah, Abdulai, and Agyemang-Duah (2020) looked into income tax compliance among micro, small, and medium businesses. To evaluate the income tax compliance compliance of SMEs in the southern district of Nkwanta, Ghana, a mixed methods study was done using a sample of 210 people (200 SMEs and 10 key informants). The lack of a tax system, high tax rates, low income levels, and excessive private consumption are all significant and relevant elements in SMEs' compliance with tax regulations, according to this study. Furthermore, research suggests that weak institutional capability, insufficient resources, bad public attitudes regarding tax payments, lack of coordination amongst tax authorities, and political intervention are all issues facing tax administration. Based on these findings, tax collectors and agencies must reinforce and streamline existing systems in order to ensure that Ghana's income tax management is effective. However, the research was carried out in Ghana rather than Kenya.

2.4.2 Tax Compliance Costs behaviour and Growth of MSMEs

Compliance costs are costs incurred by taxpayers and other parties to fulfill tax obligations (Godwin, 1978). When taxpayers follow the tax laws, they are said to be

in compliance (Kirchler, Muehlbacher, Kastlunger & Wahl, 2007). Tax compliance expenses, on the other hand, are incurred only for tax purposes; the only way to avoid these costs is to eliminate taxation (Sandford & Hardwick, 1989; Ariff, Ismail & Loh, 1997). Compliance costs have been theoretically and practically proven to impact negatively on the Growth of MSMEs if they are heavily imposed. As such, the business owner is inclined to close down the business due to negative profits or decide to not comply with the law (Ajzen, 1991; Koklic & Vida, 2014).

Jan Pavel, Leos Vitek (2014), examined the costs of compliance with tax laws: selected countries after transformation and the Czech Republic and found that compliance costs in all comparable studies were regressive and therefore higher for small taxpayers. In addition, they find that these compliance costs increase due to the need to purchase services related to the proper execution of tax obligations by third parties.

Mayiku (2015) analyzed factors affecting tax compliance in Tanzania. The study employed questionnaire, interviews and documentary review during data collection. Descriptive statistics summarized the information from the collected data and data collected were analyzed both qualitatively and quantitatively. Small returns from businesses, high tax rates, tax knowledge, negative perception of taxpayers on government spending, unaware of tax matters, the need of high profits, irregular follow-ups from tax authorities and probability of audits and penalties were identified as variables affecting tax compliance in Tanzania.

In Uasin Gishu, Kenya, Mutai (2013) investigated the determinants of tax compliance in small and medium firms, focusing on how tax knowledge and tax compliance costs

affect SMEs' behavior. A qualitative research design is used in this study. The cost of compliance is found to be inversely connected with tax compliance in this study.

Wangei (2018) looked at the effect of taxes on the growth of the SMEs in Kenya's Voi sub-region. Taxation can be viewed in three ways: tax rates, policies, and types of taxes, as well as how each influences micro and small business growth. A descriptive research design is used in this study. The data was quantitatively examined using descriptive statistics. This study finds a significant relationship between taxation and the growth of the SME sector.

Azmi, Sapiei, Mustapha and Abdullah (2016) examined the factors for the introduction of tax compliance accounting in small and medium-sized companies using a technology-organizational and environmental framework, in particular the role of tax compliance in promoting the introduction of this system. This study adds to the literature on IT implementation by attempting to link the effect of tax compliance expenses to it. The data was examined using the least squares method after questionnaires were sent to 401 SMEs. The findings show that the technology-organization-environment framework is useful for researching the factors that influence SMEs' decision to adopt information technology; the effects of perceived compatibility, complexity, relative advantage, and mimetic and regulatory pressures are critical for the implementation of VAT-compliant bookkeeping.

Wadesango, Mutema, Mhaka, and Wadesango (2018) looked into small and medium enterprise tax compliance in developing nations. This study reviews the literature on compliance with tax laws and tax systems. This study examines a scientific review of the main factors that influence small and medium-sized companies towards compliance through a self-assessment system. All relevant data which are

summarized in the information are disclosed in this study and identify all components that need clarification with respect to self-assessment and its effect on tax compliance. The results show that in addition to tax knowledge, self-assessment systems in developing countries must also consider many other factors that cause discrepancies. Economic and psychological variables influence the relationship between taxpayers and tax collectors.

Matarirano, Makina and Chiloane-Tsoka (2019) estimated the impact of Tax Conformity Certificates (TCC) on small business efficiency. The aim is to determine whether TCC has a statistically significant impact on small business efficiency. For replies, questionnaires were emailed to contractors in classes 3 and 4 of the Construction Industry Development Board at random. The 83 responses were subjected to a paired t-test, Pearson correlation coefficient test, regression test, and structural equation modeling. TCC has a substantial impact on the efficiency of small firms, according to data study. Internal TCC has been determined to be the most burdensome for small organizations and, as a result, has the largest impact on efficiency. TCC from outside sources has been shown to have a negative impact on business outcomes.

Making, filing, and paying taxes due within a specified time frame is referred to as tax compliance. To fulfill the demands of small enterprises and satisfy the government's objectives, the tax system for them must be efficient and simple. Naiker and Rajaram (2018) seek to determine which taxes are the most difficult for SMEs to comply with, as well as what elements and prices are most significant in ensuring tax compliance. A survey was sent to 85 small business owners to assess which taxes were the most

complicated, as well as which obstacles and costs they faced. The results of this study indicate that VAT is the most complex tax for small businesses in South Africa.

In Embu County, Kenya, Zachary, Kariuki, and Mwangi (2017) investigated the factors of tax compliance by small and medium firms, with an emphasis on tax compliance costs. This study used a descriptive research design to attain the research goals. All 615 registered SMEs in Embu District are included in the population of interest. A total of 185 small and medium firms in Embu Regency were chosen utilizing stratified and simple sampling approaches for this study. A questionnaire was used to obtain survey data. The mean, standard deviation, and response rate were determined as descriptive statistics. To assess for significance, reference statistics such as regression, analysis of variance, and the t-test were used. The findings revealed a significant positive association between the cost of complying with tax rules and regulations and SMEs' compliance with tax rules and regulations. The study shows that small and medium firms in Embu County have a considerable direct association between tax compliance expenses and tax payments.

Nyakieni (2019) examines the impact of tax compliance on the financial sustainability of SMEs. The economic deterrent model theory guides this research. An explanatory design of this study was accepted. In the city of Nemira, the target group consists of 2670 SME owners. A systematic questionnaire was used to obtain primary data. In this study, content validity was approved. Cronbach's alpha coefficient was used to assess internal consistency reliability. Mean, frequency, percentage, and standard deviation are examples of descriptive statistics. Pearson's multiple regression analysis and the moment of correlation are the identification statistics. The findings revealed

that tax compliance costs have a negative and considerable influence on SMEs' financial viability.

A study by Kaspillai, Ariff and Hanefah (2017) reports on the results of a postal and privately administered questionnaire on compliance costs. The costs of meeting the SME requirements are significantly higher than the costs measured for stock exchanges and thus large companies. The average tax is only one-tenth of the average tax paid by a typical public company, but the average company's compliance costs are only three times that of a typical SME. In this way, the compliance effort for SMEs is four times higher. This finding is very important for the tax administration and the legislature because of the high burden of self-assessment, which must be carried out gradually starting with company self-assessment.

The effect of perceived and perceived growth on Ghana's tax compliance decisions was investigated by Koranteng, Osei-Bonsu, Ameyaw, Ameyaw, Agyeman, and Dankwa (2017). This study aims to investigate respondents' subjective perspectives on their enterprises' growth, how these views affect their tax perceptions, and how these perceptions contribute to tax law compliance. To investigate tax compliance difficulties among SMEs, 840 questionnaires were sent to registered SMEs in ten Ghanaian districts. According to the findings of this study, SMEs have unfavorable subjective perceptions about their growth, which has a detrimental impact on their overall tax perspective and, as a result, on their compliance with tax legislation.

Alshir'ah, Abdul-Jabbar, and Samsudin (2016) examined the role of sales tax in Jordan's small and medium-sized business sector, emphasizing the severity of the tax gap that the Jordanian government must close. The paper requests that tax officials, in particular scholars, investigate the drivers of sales tax in Jordan and apply Fischer's

tax compliance model, which combines economic and socio-psychological deterrence theory. Empirical studies of this kind are highly recommended because the results expect policy makers to make a significant contribution in simplifying and developing strategies to minimize government revenue losses.

The behavioral factors of Malaysian taxpayers were studied by Kiow, Salleh, and Kassim (2017). The findings of this study show that individual taxpayers' ethical perceptions influence their compliance with tax legislation, and that their ethical perceptions are influenced by public administration and transparency in government activities. Individual taxpayers' ethical perceptions have a vital effect in their ability to disclose their income appropriately. Individual ethical judgments differ and are shaped by environmental changes and their experiences working with the government. Perceptions concerning the usage of public funds, state grants, and other tax evaders are all thought to impact their compliance behavior. Taxpayers will be more compliant if governments spend tax dollars properly or if taxpayers obtain tax incentives for public goods and social services that they value.

The impact of tax compliance costs on foreign trade in Africa was investigated by Atiase, Asorwoe, Ablode, and Kolade (2019). There is evidence that the amount of tax paid by businesses each year, combined with the corporation tax rate, which is a percentage of profits, has a detrimental impact on African foreign trade. However, it does not appear that the time it takes for business to register/compliance with taxes, as well as the time it takes for companies to file taxes, has a direct impact on foreign trade in Africa. To lower the present tax burden on African firms, this document claims that Africa requires tax reform in the form of self-assessment, simplification of tax administration, risk-based regulations, and electronic submission of tax returns.

Ochola (2017) examined the impact of taxation on the effectiveness of SMEs in Migori County, focusing on studies on tax compliance, tax incentives, and tax administration systems. This study used a correlation research design, which was guided by controllability theory. Simple random sampling was used to choose 104 samples from the target population of 656 MSMEs. There is a mix of primary and secondary data used. The findings suggest that inequalities in organizational outcomes are explained by taxation. It also reveals that tax compliance and innovative tax procedures have a considerable good influence on organizational effectiveness, however tax incentives have no substantial positive influence on the organizational performance of SMEs. Tax incentives and innovative tax systems, according to this study, are key predecessors to the effectiveness of SMEs in Migori County.

Twesige and Gasheja (2019) investigated the impact of tax incentives on the growth of Rwandan small and medium businesses. We used both qualitative and quantitative research methods. Descriptive statistics were used to analyze the data set. According to the report, tax incentives have a strong positive and significant association with the growth of small and medium firms in Rwanda. Tax incentives, according to the study, are the key to long-term SME growth. The government must devise a policy that particularly tackles concerns relating to SMEs' long-term viability. This study, however, focuses on small enterprises in Rwanda rather than Kenya.

2.4.3 Tax Non-Compliance Costs behaviour and Growth of MSMEs

In the general economic theory, costs in business are a negative to appoint where they are not offset by the income of the firm. This implies, that the profitability of the firm is negative and the firm runs into debts which might lead to closure of the business (McFarlane, 2016; Baumol, 1968). In the context of taxation, non-compliance with

taxes is a major contributor to the increase in compliance costs (Mahangila, 2017). Abdul and Wang'ombe (2018) noted that because of the importance of tax revenue, tax administrations in most countries usually go to great lengths to understand and resolve inconsistencies. However, increase in tax compliance costs, denies the businesspersons the advantage to reap off economies of scale and thus little growth is envisioned. This negative relationship is worse in the case of a Micro, Small and Medium Enterprises.

Taxation is a forced extraction of wealth (Doran, 2009) and as such the natural reaction by taxpayers is to avoid any form of compliance or comply at the very basic. Tax non-compliance costs arise as a result of non-compliance with the tax laws and procedures, and they include penalties, interest and convictions.

Devos (2014) studied whether penalties and enforcement make taxpayers more compliant in Australia and found that penalties per se were viewed as being limited in influencing compliance behavior. There was a flipside to this observation in that penalties were found to be an effective deterrence tool for those already fined. Those fined found penalties excessive and were more likely to be cautious in undertaking future compliance obligations.

Yunus and Ramli (2017) investigated tax sanctions and compliance for Malaysian SMEs, and their findings are consistent with earlier research that found that the severity of tax fines had a favorable impact on tax compliance behavior (Andreoni, Errad & Feinstein, 1998; Slemrod & Yitzhaki, 2002). However, this study also discovers that tax fines have a minor negative association with tax compliance behavior, implying that high penalties are indicative of widespread noncompliance. Taxpayers often flout the law and ignore it when the penalties are judged too harsh.

Musa (2018) investigated the factors that influence tax evasion in Nigeria. This research adds to the existing knowledge by examining the direct effects of tax court perceptions as well as the indirect impact of tax compliance expenses. The survey is based on a questionnaire completed by 450 small-business taxpayers in Kano, Nigeria. The hypothesis was tested using PLS-SEM. Auditing, complexity, perceived fairness, tax court perception, tax compliance expenses, and the introduction of tax rates all have a direct impact on tax infractions, according to this study. Audit impact, complexity, tax court perceptions, and tax rate perceptions of tax breaches have all been proven to be correlated with tax compliance costs. The findings of this study provide essential information to tax authorities, policymakers, and future scholars in comprehending small business tax discrepancies.

In keeping with the current state of Vietnam's tax administration, Nguyen, Le, and Truong (2020) investigated the elements that influence the corporate tax discrepancy in Ho Chi Minh City. The Probit regression model was applied to a sample of 187 enterprises inspected or supervised by the Vietnamese tax authorities between 2013 and 2017. Working capital/total assets; income / total assets; total debt / total assets; losses in the preceding year; receivables / receipts; firm size; administrative punishments for fiscal/tax payable; and business are eight characteristics that influence corporate tax non-compliance, according to the article. He investigated non-compliance with taxes as a violation of Vietnamese tax law by businesses claiming they didn't pay enough corporate income tax to the government.

Al-Ttaffi (2017) looked at the subject of income tax non-compliance in Yemeni SMEs from two theoretical perspectives: social and economic psychology. The information was gathered by a survey approach, with a total of 500 questionnaires sent and a

response rate of 66%. The hypothesis was tested using hierarchical regression analysis. The findings reveal that the Islamic religious perspective as well as geopolitical factors has a substantial impact on taxpayer behavior. The findings also suggest that the quality of tax services and public administration have a significant negative impact on the scale of tax infractions, while tax rates have a positive impact, but the impact of sanctions on the number of tax infractions is not statistically significant. This study, on the other hand, focuses on SMEs in Yemen that operate in a different setting from those in Kenya.

2.5 Research gaps

Review of past literature indicated that majority of the reviewed studies have been conducted in other countries and not Kenya. Some of these countries include Nigeria, Malaysia, Czech, Australia, Tanzania, among others. It would therefore be impractical to generalize results from these studies to the Kenyan context. The current research thus sought to address the contextual gap by focusing on Kenyan context.

The studies reviewed also did not focus on growth of MSMEs as the dependent variable. Majority of the investigations used tax compliance as the dependent variable (Oladipupo, 2016; Omondi and Theuri, 2019; Mayiku (2015). The current study thus sought to address the conceptual gap by focusing on growth of MSMEs as the dependent variable.

2.6 Conceptual Framework

The conceptual framework introduces research variables and their components that guide investigation (Childs, 2010). It explains how the independent and dependent variables are related. In this study, the independent variables consist of elements of tax behavior: tax knowledge, tax compliance behavior, and non-compliance cost

behavior. The dependent variable is growth of butcheries in North of Nairobi tax segment. The conceptual framework for this study is shown in Figure 2.1.

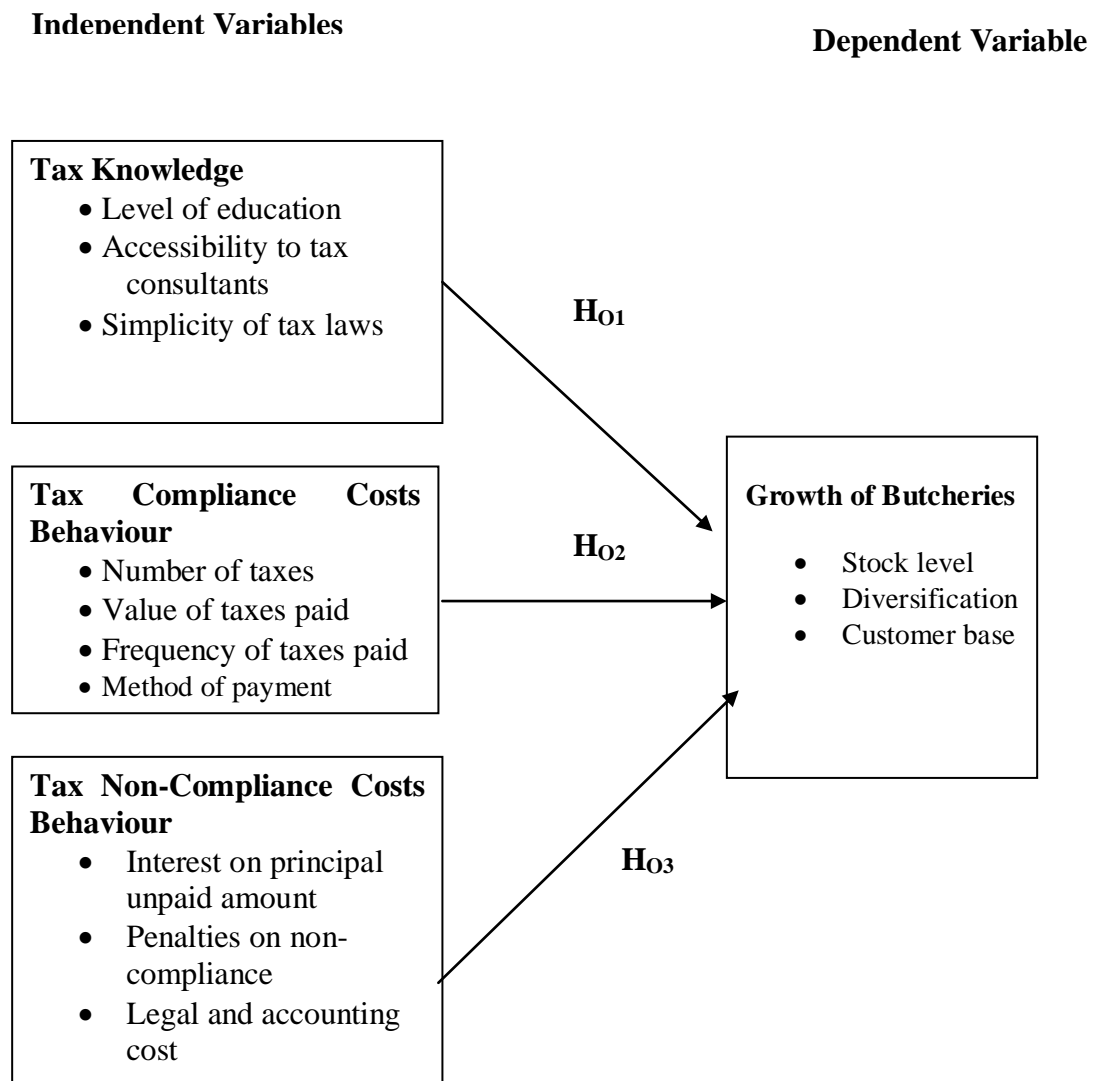


Figure 2.1: Conceptual Framework

Source (Author, 2020)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the research methodology used in the research including design, target population, sampling methods, sample frame and sample size, data collection tools and procedures, trials, reliability tests, validity tests, data analysis and presentation, and ethical considerations.

3.1 Research Design

This research was conducted according to the explanatory study design. Research design is a roadmap of how research objectives have been solved and completed (Saunders, Lewis & Thornhill, 2009). Explanatory studies try to establish random relationships between variables. The focus is on studying a situation or problem to explain the relationship between variables (Saunders, Lewis & Thornhill, 2012). This design choice is justified because the aim of the researcher is to study the effect of tax behavior on growth. This study is intended to provide further clarity on the subject of tax compliance in the context of SMEs and provide a further foundation for future research. In addition, the research lacked statistical strength and it could not provide conclusive results, but the study provided the how and why of tax compliance behaviour and growth of MSMEs.

3.2 Area of Study

This study covered licensed butcheries by Nairobi County Government in Kenya Revenue Authority tax segment of North of Nairobi covering Nairobi downtown along Kirinyaga road, Thika road, Parklands and Westlands. The location is suitable because huge numbers of butcheries are located within this region. According to the

KMC (Kenya meat Commission) Nairobi has the highest number of butchery owners since the locality is of so much potential to business owners. This provides an opportunity for Growth of MSMEs related to butchery. The same is supported by Kenya Revenue Authority that there are 2500 licensed butcheries owners/managers in Nairobi County. Therefore, Nairobi County offers an ideal location for the study to collect enough and representative data and/or findings for the generalizability.

3.3 Target Population

The target population for this study was the owners/managers of 2500 licensed butcheries by Nairobi County Government in Kenya Revenue Authority tax region of North of Nairobi (KRA, 2019). There is varying degree of success in butcheries with some closing within a very short period and others flourishing to levels of exporting their meat products. The unit of analysis was the licensed butcheries, while the unit of observation was owners/ managers of the butcheries.

Table 3.1: Target Population

Category	Number	Percentage
Micro (1-9 employees)	1804	72%
Small (10-49 employees)	556	22%
Medium (50-99 employees)	140	6%
Total	2500	100

Source: KRA (2019)

3.4 Sampling Techniques

The sampling technique to be used in this study was stratified random sampling followed by systematic sampling. Based on the number of employees that the enterprise employs, the MSMEs are classified into three groups: micro, small and medium. Stratified random sampling is considered as most accurate since the study population is not homogeneous. There is therefore need to group the MSMEs into their respective sizes and draw a sample from each sub-group. To arrive at the

required number per strata, the total numbers were expressed as a percentage and the resultant percentage multiplied with the sample size. The sample such drawn was then subjected to systematic sampling. This involved the selection of butchereries from the already ordered sampling frame in a systematic manner.

3.5 Sampling Frame and Sample Size

Kothari (2004) defines the sampling frame as the basic unit or group or cluster that forms the basis of the sampling process. The sampling frame for this study came from 2,500 MSMEs registered as butchers by the Nairobi District Government. The sample is part of the population (Kothari, 2004). Yamane (1967) formula is adopted in computation of the sample size.

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

Where:

‘n’ = sample size,

‘N’ = population

‘e’ = the confidence level

1 = constant.

This study assumed the level of precision of 5%

The sample size is:

$$n = \frac{2500}{1 + 2500(0.05)^2}$$

$$n = 344$$

The study sample size was 344 butchereries. Table 3.2 showed the study sample size.

Table 3.2: Sample Size

Category	Target Population	Sample Size
Micro (1-9 employees)	1804	248
Small (10-49 employees)	556	77
Medium (50-99 employees)	140	19
Total	2500	344

3.6 Data Collection Instrument and Procedure

A questionnaire was utilized to obtain primary data in this investigation. When respondents are easily found and eager to comply, questionnaires are the most regularly utilized instrument. In terms of energy, time, and money, they are extremely efficient (Bartram, 2019). It also offers quantitative data that is simple to gather and analyze. The questionnaire was administered to the target person himself. The drop and pick method will be used later. This gives the respondent enough time to read the question and provides accurate results.

3.7 Pilot Tests

According to Kothari (2004), in order to reveal the weaknesses, if any, of the questionnaires a pilot study should be done. Piloting of the research instrument was done to ensure its reliability and validity. According to Neuman (2011), 10% of the sample size is adequate for pilot. This study therefore piloted 34 licensed butcheries operating in the Kiambu County representing 10% of the sample population. The selected butcheries were located in the neighboring Kiambu County for the pilot. The choice of Kiambu County was due to its closeness to the study area. The responses obtained from the pilot were excluded from the main study.

3.7.1 Reliability of the Instrument

Reliability tests examine the extent to which research tools produce the same results over a series of repeated attempts using the same methodology (Mugenda &

Mugenda, 2003). The pilot data is used to perform the reliability test. Instrument reliability was assessed using Cronbach's alpha coefficient (Sheth & Naik, 2016). The cutting point was set at 0.7 Cronbach's alpha coefficient, and all elements with a value less than 0.7 were deemed weak and so left alone. Cronbach's alpha was more than 0.7, indicating that the survey variable was reliable..

3.7.2 Validity of the Instrument

The extent to which the differences discovered with the measuring equipment match the real differences between individuals examined is referred to as validity (Kothari, 2004). To ensure content validity, moderators examine research tools and suggest areas for improvement. To achieve constructive validity, all indicators and measurements were carefully developed based on relevant prior knowledge. The questionnaire contains only relevant questions that measure certain indicators of the variables studied. Face validity was carried out with the help of a pilot study to ensure the suitability of the contents of the questionnaire.

3.8 Measurement of Variables

3.8.1 Growth

Growth of Butchereries was operationalized in terms of stock level, diversification and customer base (Alemu, 2015). A 5-point Likert rating scale was used to measure respondents' views on the growth of small and medium-sized enterprises. The scale was; strongly agree (5), agree (4), neutral (3) disagree (2) and strongly disagree (1). The most positive received five points and the most negative received one point.

3.8.2 Tax Knowledge

Tax Knowledge was operationalized as level of education, accessibility to tax consultants and simplicity of tax laws (Gachiku, 2015; Oladipupo, 2016). A 5-point

Likert rating scale was used. The scale was completely agree (5), agree (4), neutral (3) disagree (2) and strongly disagree (1). The most positive received five points and the most negative received one point.

3.8.3 Tax Compliance Costs Behaviour

Tax Compliance Costs Behaviour was operationalized as the number of taxes, value of taxes paid, frequency of taxes paid and the method of payment (Schoonjans et al, 2011; Mutai, 2013). A 5-point Likert rating scale was used. Libra completely agree (5), agree (4), neutral (3) disagree (2) and strongly disagree (1). The most positive receive five points and the most negative receive one point

3.8.4 Tax Non-Compliance Costs Behaviour

Tax Non-Compliance Costs Behaviour was measured in terms of interest on principal unpaid amount, penalties on non-compliance and the legal and accounting cost (Raihana et al., 2014; Yunus & Ramli (2017). A 5-point Likert rating scale was used. Libra completely agree (5), agree (4), neutral (3) disagree (2) and strongly disagree (1). The most positive received five points and the most negative received one point.

Table 3.3: Measurement of Variables

Variable	Type of variable	Indicators	Type of Questions	Tool of Analysis
Growth of Butcherries	Dependent	<ul style="list-style-type: none"> • Stock level • Diversification • Customer base 	Likert scale	Descriptive, regression Analysis.
Tax Knowledge	Independent	<ul style="list-style-type: none"> • Level of education • Accessibility to tax consultants • Simplicity of tax laws 	Likert scale	Descriptive, regression Analysis.
Tax Compliance Costs	Independent	<ul style="list-style-type: none"> • Number of taxes • Value of taxes paid • Frequency of taxes paid • Method of payment 	Likert scale	Descriptive, regression Analysis.
Tax Non-Compliance Costs	Independent	<ul style="list-style-type: none"> • Interest on principal unpaid amount • Penalties on non-compliance • Legal and accounting cost 	Likert scale	Descriptive, regression Analysis.

Source, (Author, 2020)

3.9 Data Analysis and Presentation

The data collected from the questionnaires were collected and presented in the form of descriptive statistics (frequency, percentage, mean and standard deviation), while the inferential statistics (correlation and regression) helped establish the relationship between the variables studied. The data analyzed included descriptive analysis and inference analysis. This analysis is assisted by the use of the SPSS program (v.22.0). Descriptive findings are presented in the form of mean, standard deviation, numbers and percentages using (tables, charts and graphs). Inferential statistics help measure

causal relationships between variables and include correlation analysis and regression analysis.

3.9.1 Regression Model

The statistical association between the dependent variable and the independent variables was established using the multiple regression model below.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where:

Y = Growth of Butcherries

$\beta_0, \beta_1, \beta_2$ and β_3 = Beta coefficients

X_1 = Tax Knowledge

X_2 = Tax Compliance Costs

X_3 = Tax Non-Compliance Costs

$\beta_0, \beta_1, X_2, \beta_3 X_3$ = beta coefficients

ε = Error Term

3.9.2 Regression Assumptions

Diagnostic tests of all data variables were performed prior to regression analysis. These tests include; Normality test, multicollinearity test, linearity, heteroscedasticity and autocorrelation. This is done to ensure that the results of the analysis are correct and unbiased.

3.9.2.1 Normality Test

The normality test ensures that the data is regularly distributed, which enhances the regression model. In a distribution of the studied variables, normality testing involves a variety of methodologies. According to Park (2008) he asserted that normality testing can be undertaken by two main methods. These are graphical method and numerical method. Graphical methods are preferred for their intuitiveness and ease of interpretation while numerical methods provide objective ways of examining normality. This study adopted graphical test using the Q-Q plot.

3.9.2.2 Multicollinearity Test

Multicollinearity occurs when there is a high correlation between independent variables, which affects the significance of each variable. In this study, it was verified by the coefficient of variation of inflation (VIF) (Ramakrishnan, 2013). A VIF value greater than 10 indicates a multicollinearity problem, while a VIF value less than 10 does not indicate a multicollinearity problem.

3.9.2.3 Linearity Test

Linearity was tested using a scatter plot which showed whether there was a linear relationship between the independent variable and the dependent variable. The relationship between variables is expected to be quite linear before the regression model is applied (Jain et al., 2017).

3.9.2.4 Heteroscedasticity Test

If the error variation is not constant, there is evidence of heteroscedasticity. Applying the regression model without considering heteroscedasticity will cause the parameter estimation to be biased. The test of this assumption was carried out by plotting standardized residuals alongside the predicted value of Y. The results of the test

demonstrated if the assumption is met by the presence of residuals scattered randomly around the X axis line which indicated a relative even distribution. On the other hand, the violation of this assumption was demonstrated by uneven scatter points such as butterfly and fans shapes. These assumptions when tested have the ability to reduce the errors and increasing the reliability and validity.

3.9.2.5 Autocorrelation Test

Using the Durbin-Watson autocorrelation test, the researchers determined whether the residues were serially associated. The Durbin Watson test produces test statistics ranging from 0 to 4, with 2 denoting no autocorrelation, 0 to 2 denoting positive autocorrelation, and > 2 denoting negative autocorrelation. Test statistics in the 1.5-2.5 range are generally considered normal. Values outside of this range should be avoided (Field, 2009).

3.10 Ethical Consideration

The researcher sought approval from the University and (NACOSTI before conducting the research. The consent of the participants was sought before administering the questionnaires. Confidentiality and anonymity of the respondents was ensured at all times and participants were informed of the freedom of withdrawal at any stage of the study if they feel fit to do so. The data collected from the respondents was only used for academic purposes only.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter provides a summary of the results of the data collected while the questionnaire was used as a data collection tool. This study uses descriptive statistical tools and inference to analyze the data. Conceptual relationships within the conceptual framework guide the research results. The research results are presented in tables and graphs.

4.2 Response Rate

There were 344 surveys distributed to butcheries. The results are listed in Table 4.1.

Table 4.1: Response Rate

Questionnaires	Frequency	Percentage
Returned	256	74.4%
Non returned	88	25.6%
Total	344	100%

Source: Research Data (2021)

The results revealed that 256 surveys were correctly filled out and returned. This equates to a 74.4 percent overall success rate. A response rate of more than 50%, according to Kothari (2004), is sufficient for a descriptive study. Pig (2004) also claims that for analysis and publication, returns of more than 50% are acceptable, 60 percent are good, 70 percent are very good, and more than 80 percent are very good. As a result, the 74.42 percent response rate for this study is excellent. The high response rate could be attributed to consistent follow ups as well as communicating the importance of the study to the target respondents.

4.3 Pilot Test Results

Pilot testing was conducted to ensure that the questionnaire was reliable. The researcher administered 34 questionnaires to owners and managers of butcheries operating in the Kiambu County. Reliability analysis was conducted to assess the structure of the study. Reliability analysis was assessed by Cronbach's Alpha.

Table 4.2: Reliability Results

Variable	Cronbach's Alpha	Number of items	Comment
Tax knowledge	0.801	4	Reliable
Tax compliance cost behaviour	0.799	4	Reliable
Tax noncompliance cost behavior	0.861	4	Reliable
Growth of MSMEs	0.747	4	Reliable

Source : Research Data 2021

The results in Table 4.2 show that tax knowledge, tax compliance behavior, non-compliance behavior and growth behavior have a Cronbach alpha of more than 0.7, which makes the survey variables dependable.

4.4 Descriptive Analysis

This section contains descriptive analysis for both the independent variables and dependent variable. Respondents were given a Likert scale with choices of strongly disagree, disagree, neutral, agree, and strongly agree. The results are demonstrated in terms of percentage, mean and standard deviation.

4.4.1 Tax Knowledge

The participants were asked if they agreed or disagreed with the assertions about tax knowledge. Table 4.3 displays the results.

Table 4.3: Tax Knowledge

Statement	SD	D	N	A	SA	Mean	Std. Dev
I have adequate knowledge and information on tax compliance	9.80%	11.30%	16.40%	55.90%	6.60%	3.38	1.09
I have access to external tax consultants	9.40%	15.60%	21.10%	41.40%	12.50%	3.52	1.16
I have access to tax compliance laws and regulations	11.30%	11.30%	17.20%	53.10%	7.00%	3.53	1.13
My employees are knowledgeable on tax compliance matters.	5.90%	15.20%	8.20%	44.90%	25.80%	3.70	1.18
Aggregate mean						3.53	1.14

Source: Research Data (2021)

The results in Table 4.3 indicate that 62.5% (55.9%+6.6%) of the respondents agreed with the statement that they have adequate knowledge and information on tax compliance. The results further showed that 53.9% agreed with the statement that they have access to external tax consultants. In addition, the results further showed that 60.1% agreed with the statement that they have access to tax compliance laws and regulations. The results also showed that 70.7% of the respondents agreed with the statement that employees are knowledgeable on tax compliance matters.

The overall average of 3.53 indicates that most respondents agree with most statements about tax knowledge. The standard deviation is 1.14, which means the data is distributed around the mean. This means that the majority of respondents have the same view on most statements about tax literacy. This finding, in line with Oladipupo and Obazee (2016), is the most important factor in determining the appropriate tax liability.

4.4.2 Tax Compliance Costs

The respondents were asked if they agreed or disagreed with the assertions about the tax compliance cost behaviour. Table 4.4 illustrates the results.

Table 4.4: Tax Compliance Costs

Statement	SD	D	N	A	SA	Mean	Std. Dev
The number of taxes has increased with time	2.00%	18.40%	12.50%	61.70%	5.50%	3.50	0.92
The amount of tax has increased with time	1.60%	32.00%	10.90%	54.70%	0.80%	3.21	0.96
I frequently make tax payments as per the law.	0.40%	11.70%	11.70%	70.70%	5.50%	3.69	0.76
The methods of tax payment are clear and well defined	2.70%	3.10%	7.00%	65.60%	21.50%	4.00	0.81
Aggregate mean						3.60	0.86

Source: Research Data (2021)

The results showed that 67.2% (61.7%+5.5%) of the respondents agreed with the statement that the number of taxes has increased with time. The results also showed that 55.5% of the respondents agreed with the amount of tax have increased with time. In addition, result also showed that 76.2% of the respondents agreed frequently make tax payments as per the law. The results also showed that 55.5% of the respondents agreed that the methods of tax payment are clear and well defined.

The total average is 3.60, indicating that the majority of respondents agree with the statement about the expense of tax compliance. The standard deviation is 0.86, indicating that the data is evenly distributed. This suggests that most claims about tax compliance expenses are shared by the majority of respondents. This finding is consistent with Mogeni (2014), who states that high compliance costs impair a

country's tax attractiveness, and that public services are increasingly interested in streamlining their tax systems.

4.4.3 Tax Non Compliance Costs

The respondents were asked if they agreed or disagreed with the assertions about the costs of tax non-compliance. Table 4.5 displays the results.

Table 4.5: Non-Tax Compliance Costs

Statements	SD	D	N	A	SA	Mean	Std. Dev
The interest on unpaid tax is very high	2.00%	2.00%	12.10%	80.50%	3.50%	3.82	0.61
The penalties on non-compliance is very high	1.20%	8.60%	22.30%	67.60%	0.40%	3.57	0.70
The legal cost of non-compliance is very high	0.40%	8.20%	23.00%	57.00%	11.30%	3.71	0.79
The counting cost of non-compliance is very high	0.80%	45.30%	33.20%	17.20%	3.50%	2.77	0.87
Aggregate mean						3.47	0.74

Source: Research Data (2021)

The results revealed that 84% (80.5%+3.5%) agreed with the statement that interest on unpaid tax is very high. The results also showed that 68.0% agreed with the statement that penalties on non-compliance are very high. The results also revealed that 68.3 percent of respondents agreed that the legal cost of non-compliance is extremely significant. Furthermore, 46.1 percent disagreed with the notion that the cost of non-compliance is quite great when it comes to counting.

The overall mean is 3.47, indicating that the majority of respondents agree with the majority of the claimed tax infractions. The data is scattered around the mean with a standard deviation of 0.74. This indicates that the majority of respondents agree with the majority of assertions on the costs of tax evasion. This finding is in line with

Yunus and Ramli (2017), who discovered that tax fines had a modest negative connection with tax compliance behavior, implying that high penalties are indicative of overall non-compliance.

4.4.4 Growth of MSMEs

The respondents were asked to indicate whether they agreed or disagreed with the assertions about MSME growth. Table 4.6 summarizes the findings.

Table 4.6: Growth of MSMEs

Statement	SD	D	N	A	SA	Mean	Std. Dev
My business has expanded in terms of stock level.	5.90%	1.20%	13.30%	66.80%	12.90%	3.8	0.89
My business has expanded in terms of diversification, and I provide variety of meat products.	4.70%	25.40%	20.30%	47.30%	2.30%	3.17	0.99
My business has grown in terms of customer base.	1.20%	32.00%	23.00%	27.30%	16.40%	3.26	1.11
My business has expanded in terms of number of employees.	6.60%	9.40%	19.90%	54.70%	9.40%	3.51	1.01
Aggregate mean						3.44	1.00

Source: Research Data (2021)

The results showed that 79.7% (66.8%+12.9%) of the participants agreed with the assertion that their business has expanded in terms of stock level. Results also showed that 49.6% of the respondents agreed with the statement that their business has expanded in terms of diversification, and they provide variety of meat products. The results further revealed that 43.7 percent of the participants agreed with the statements that their company's customer base had risen. The findings also revealed that 64.1 percent of respondents agreed with the statement that their company had grown in terms of personnel numbers.

The overall average is 3.44, which means that most of the participants agree with the statement about the growth of MSMEs. The standard deviation is 1.0, which means the data is distributed around the mean. This means that the majority of respondents have the same view of most statements about the growth of MSMEs.

4.5 Diagnostic Tests

This section presents findings based on diagnostic tests.

4.5.1 Normality Test

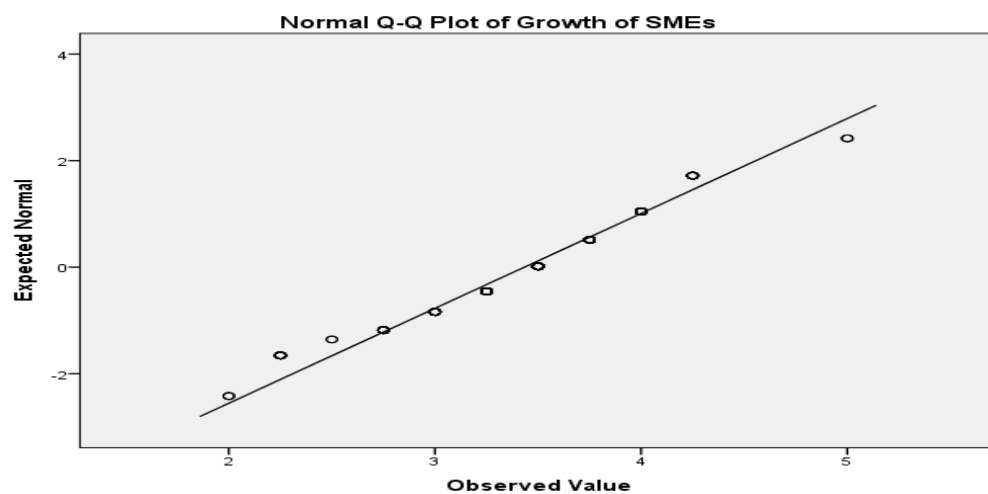


Figure 4.1: Normality Test

Source: Research Data (2021)

The Q-Q plots in figure 4.1 suggest that the data appears as a relatively straight line. This meant that the dependent variable's data set (Growth of MSMEs) was regularly distributed. Because the data was regularly distributed, this indicated that more regression analysis could be done.

4.5.2 Multicollinearity Test

Multicollinearity test was assessed using the variance inflation factor (VIF) and Tolerance statistics (Gujarati 2013). VIF values greater than ten, according to Field (2009), indicate the presence of multicollinearity.

Table 4.7: Multicollinearity Test

	Tolerance	VIF
Tax Knowledge	0.691	1.45
Tax compliance cost	0.833	1.20
Non Tax Compliance	0.808	1.24
		1.30

Source: Research data (2012)

The results in Table 4.7 present the findings of the multicollinearity tests. The tolerance level which is the reciprocal of the VIF and the VIF values ranged from 1.20 and 1.45. Multicollinearity is indicated by VIF values greater than 10, and absence of multicollinearity is indicated by VIF values less than 10. This implied that there was no correlation among the regressors.

4.5.3 Linearity Test

Linearity was tested using scatter plots as shown below.

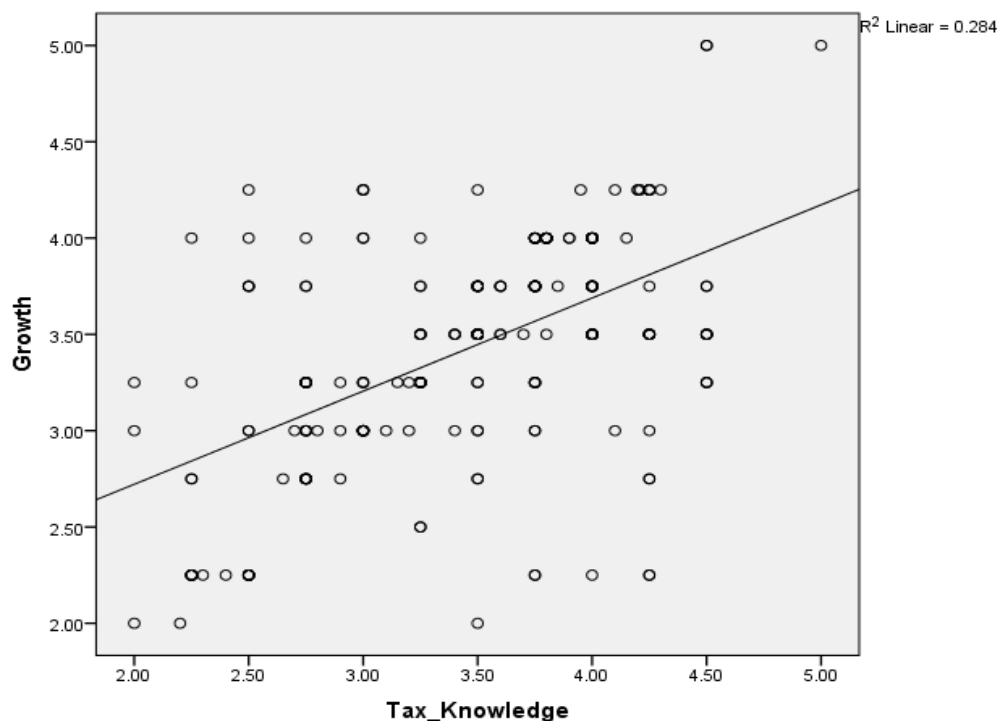


Figure 4.2: Tax knowledge and growth

Source: Research Data (2021)

Based on Figure 4.2, there was a positive linear relationship between tax knowledge and growth of MSMEs.

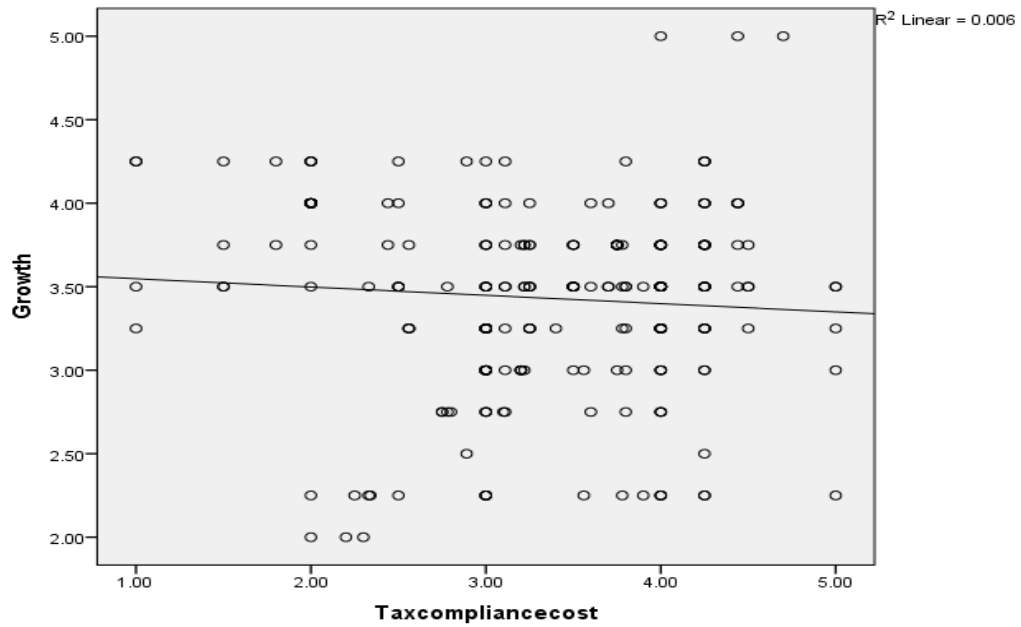


Figure 4.3: Tax compliance cost behaviour and growth

Source: Research Data (2021)

Based on Figure 4.3, there was a negative linear relationship between tax compliance cost behaviour and growth of MSMEs.

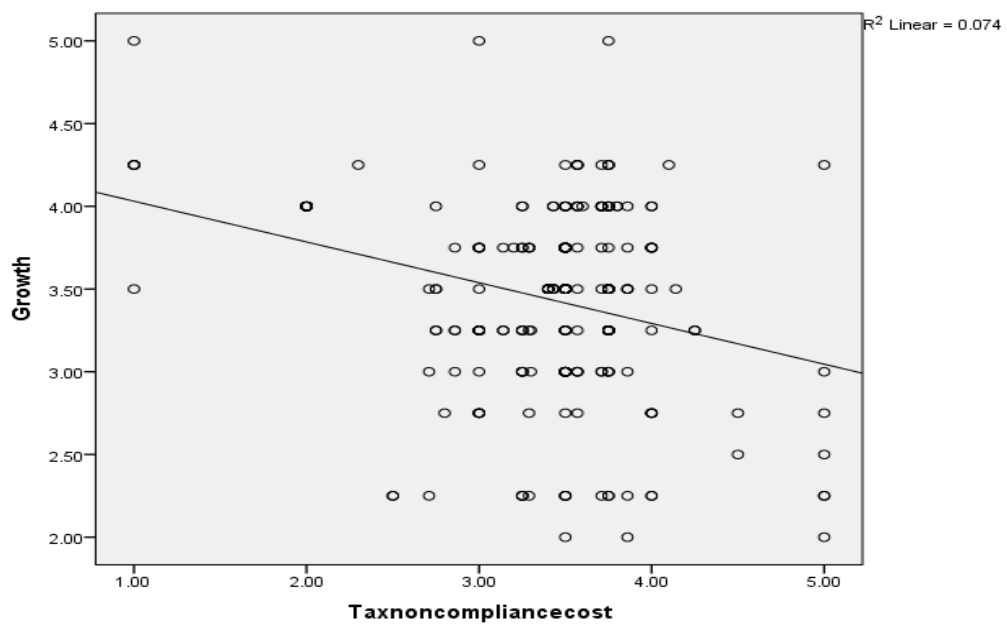


Figure 4.4: Tax noncompliance cost behaviour and growth

Source: Research Data (2021)

Based on Figure 4.4, there was a negative linear relationship between tax noncompliance cost behaviour and growth of MSMEs.

4.5.4 Heteroscedasticity Test

Heteroskedasticity results of the multivariate regression between tax behavior and Growth of MSMEs in Figure 4.5.

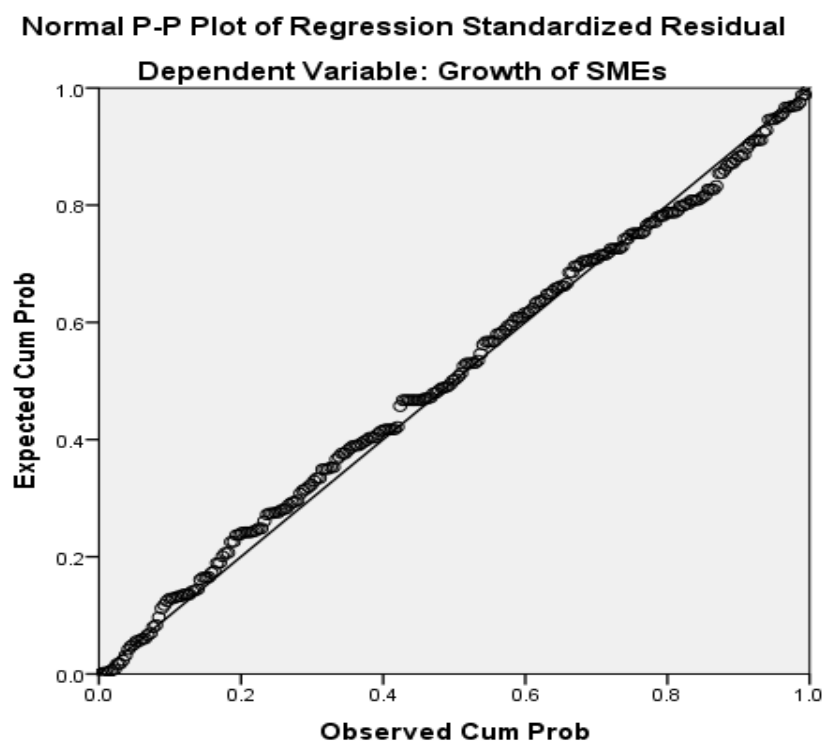


Figure 4.5: Heteroscedasticity Test

Source: Research Data (2021)

According to the results in Figure 4.5, the points are approximately equidistant from the line. Therefore, the data is not heteroscedastic. This shows that the selected regression model between tax behavior and MSME growth is suitable for the data.

4.5.5 Autocorrelation Test

The Durbin Watson test was used to test the autocorrelation. Findings are displayed in Table 4.8.

Table 4.8: Coefficient of Durbin Watson Test of Autocorrelation

	Durbin-Watson Statistic
Durbin Watson	1.696

Source: Research Data (2021)

The results in Table 4.8 show that the Durbin Watson d statistic is 1.696. The basic rule is that a value of $1.5 < d < 2.5$ indicates that there is no autocorrelation. Watson's statistic of 1,669 showed that there is no autocorrelation.

4.6 Correlation Analysis

The correlation results presented in Table 4.9 shows the relationship between tax behaviour elements and growth of MSMEs.

Table 4.9: Correlation Matrix

		Growth of MSMEs	Tax Knowledge	Tax compliance costs	Tax noncompliance costs
Growth of MSMEs	Pearson Correlation	1.000			
	Sig. (2-tailed)				
Tax Knowledge	Pearson Correlation	.533*	1.000		
	Sig. (2-tailed)	0.000			
Tax compliance costs	Pearson Correlation	-.175*	.128*	1.000	
	Sig. (2-tailed)	0.001	0.041		
Tax non-compliance costs	Pearson Correlation	-.273*	-0.061	-0.045	1.000
	Sig. (2-tailed)	0.000	0.334	0.473	

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

Source: Research Data (2021)

The results showed that tax knowledge and growth of MSMEs had a positive and significant association ($r=0.533$, $p=0.000$). This implied that an increase in tax knowledge is significantly associated with increase in growth of MSMEs. These findings agreed with that of Oladipupo and Obazee (2016) tax knowledge is the single most essential factor to determine an accurate tax liability.

Results further showed that tax compliance costs and growth of MSMEs had a negative and significant association ($r=-0.175$, $p=0.001$). This implied that an increase in tax compliance costs is significantly associated with decline in growth of MSMEs. These findings agreed with that of Wangeci (2018) who established a significant correlation between taxation and the growth of the SMEs sector.

In addition, the results showed that non tax compliance costs and growth of MSMEs had a negative and significant association ($r=-0.273$, $p=0.000$). This implied that an increase in non-tax compliance costs is significantly associated with decline in growth of MSMEs. These findings agreed with Abdul and Wang'ombe (2018) who stated that increase in tax compliance costs, denies the businesspersons the advantage to reap off economies of scale and thus little growth is envisioned.

4.7 Regression Analysis

To assess the adequacy of the model, the overall significance level of the model and the importance of funding practices in the model: Summary of the model, ANOVA coefficients and regression models are derived, and the results are presented in Table 4.10, Table 4.11 and Table 4.12 and

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.605a	0.366	0.358	0.44968

Source: Research Data (2021)

Table 4.10 shows that R is 0.605. This shows that tax behavior has a moderate relationship with the growth of MSMEs. Also, the square of R is 0.366. This shows that tax behavior accounts for about 36.6% of the variation in the growth of SMEs.

Table 4.11: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	29.413	3	9.804	48.485	.000b
Residual	50.958	252	0.202		
Total	80.371	255			

Source: Research Data (2021)

Table 4.11 shows that F statistic of 48.485 and the associated P-value of 0.000 which is a value less than a p value of 0.05. This implies that tax behavior has statistically significant effect on Growth of MSMEs at a 95% confidence level.

Table 4.12 shows the regression of coefficient results.

Table 4.12: Regression of Coefficient

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.841	0.249		11.398	0.000
Tax Knowledge Costs	0.488	0.046	0.538	10.62	0.000
Tax compliance Costs	-0.102	0.033	-0.155	-3.068	0.002
Tax non-compliance costs	-0.223	0.045	-0.247	-4.917	0.000

Source: Research Data (2021)

The results showed that tax knowledge had a positive and significant effect on the growth of MSMEs ($\beta = 0.488$, $p = 0.000$). This finding is in line with Oladipupo (2016) that entrepreneurs should try their best to obtain an adequate level of tax literacy because this will facilitate their business growth.

The results also showed that tax compliance cost had a negative and significant effect on Growth of MSMEs ($\beta = -0.102$, $p = 0.002$). These findings agreed with Wangechi (2018) who established a significant correlation between taxation and the growth of the SMEs sector.

The results further showed that tax non-compliance costs had a negative and significant effect on Growth of MSMEs ($\beta = -0.223$, $p = 0.000$). These findings agreed with Yunus and Ramli (2017) who found out that punishment of tax penalties has a light negative relationship with tax compliance behavior so that when the punishment is high, there is a general non-compliance.

From the hypothesized model ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$), the following model was estimated:

$$Y = 2.841 + 0.488X_1 - 0.102X_2 - 0.223X_3$$

Where:

Y = Growth of Butcherries

X_1 = Tax Knowledge

X_2 = Tax Compliance Costs

X_3 = Tax Non-Compliance Costs

4.8 Test of Hypotheses

4.8.1 Tax knowledge by taxpayers has no significant effect on growth of enterprises in North of Nairobi tax region, Kenya

H₀₁: Tax knowledge by taxpayers has no significant effect on growth of enterprises in North of Nairobi tax region, Kenya. The regression results for tax knowledge in Table 4.12 revealed that the p value =0.000. The decision rule for hypothesis testing was to reject H₀₁ if p value<0.05. This hypothesis was rejected since the p value was less than 0.05 (p<0.005). This implied that tax knowledge by taxpayers has a significant effect on growth of enterprises in North of Nairobi tax region, Kenya. These findings agreed with Oladipupo (2016) who found out self-employed individuals should try as much as possible to acquire reasonable level of tax knowledge as it facilitates growth of their businesses.

4.8.2 Tax compliance cost behavior has no significant effect on growth of butcheries in North of Nairobi tax region, Kenya

H₀₂: Tax compliance cost behavior has no significant effect on growth of butcheries in North of Nairobi tax region, Kenya. The regression results for tax compliance cost behavior revealed that the p value =0.000. The decision rule for hypothesis testing was to reject H₀₂ if p value<0.05. This hypothesis was rejected since the p value was less than 0.05 (p<0.005). This implied that tax compliance cost behavior has a significant effect on growth of enterprises in North of Nairobi tax region, Kenya. These findings agreed with Wangeci (2018) who established a significant correlation between taxation and the growth of the SMEs sector.

4.8.3 Non tax compliance cost behavior has no significant effect on growth of butcheries in North of Nairobi tax region, Kenya

H₀₃: Non tax compliance cost behavior has no significant effect on growth of butcheries in North of Nairobi tax region, Kenya. The regression results for tax non-compliance cost behavior revealed that the p value =0.000. The decision rule for hypothesis testing was to reject H₀₂ if p value<0.05. This hypothesis was rejected since the p value was less than 0.05 (p<0.005). This implied that tax non-compliance cost behavior has a significant effect on growth of enterprises in North of Nairobi tax region, Kenya. These findings agreed with Abdul and Wang'ombe (2018) who stated that increase in tax compliance costs, denies the businesspersons the advantage to reap off economies of scale and thus little growth is envisioned.

Table 4.13: Summary of Hypotheses Test Results

Hypotheses	P value	Decision
H₀₁: Tax knowledge by taxpayers has no significant effect on growth of enterprises in North of Nairobi tax region, Kenya	0.000<0.05	Reject
H₀₂: Tax compliance cost behavior has no significant effect on growth of butcheries in North of Nairobi tax region, Kenya	0.002<0.05	Reject
H₀₃: Non tax compliance cost behavior has no significant effect on growth of butcheries in North of Nairobi tax region, Kenya	0.000<0.05	Reject

Source: (Research data, 2021)

4.9 Discussion of the Key Findings

The study sought to determine the effect of tax knowledge on growth of MSMEs. Descriptive analysis results showed that most MSMEs had adequate knowledge and information on tax compliance. The results further showed that most MSMEs had

access to external tax consultants and also they had access to tax compliance laws and regulations. In addition, MSMEs that had employees had knowledgeable on tax compliance matters were doing better than MSMEs that had unknowledgeable employees on tax compliance matters. Regression results showed that tax knowledge by taxpayers had a positive and significant effect on growth of enterprises in North of Nairobi tax region, Kenya. ($\beta=0.488$, $p=0.000$). Based on the regression results, the null hypothesis that tax knowledge by taxpayers has no significant effect on growth of enterprises in North of Nairobi tax region, Kenya was rejected.

The study also sought to establish the effect of tax compliance cost behaviour on growth of MSMEs. Descriptive analysis results showed number of taxes has increased with time in most MSMEs. The results also showed that the amount of tax has increased with time in most MSMEs. The findings also indicated that most MSMEs make tax payments frequently as they are required by the law. The results also showed that the methods of tax payment in Kenya are clear and well defined to the MSMEs. Regression results showed that tax compliance costs had a negative and significant effect on growth of enterprises in North of Nairobi tax region, Kenya ($\beta=-0.102$, $p=0.002$). Based on the regression results, the null hypothesis that tax compliance cost behaviour has no significant effect on growth of enterprises in North of Nairobi tax region, Kenya was rejected.

Further, the study evaluated the effect of tax noncompliance cost behaviour on growth of MSMEs. Descriptive findings indicated that interest to the MSMEs on unpaid tax was very high. In addition, penalties that are charged the MSMEs on non-compliance is very high. Results also showed that legal cost as well as counting costs of non-compliance is very high. Regression results showed that tax non-compliance costs had

a negative and significant effect on growth of enterprises in North of Nairobi tax region, Kenya ($\beta=-0.223$, $p=0.000$). Based on the regression results, the null hypothesis that tax non-compliance costs behaviour has no significant effect on growth of enterprises in North of Nairobi tax region, Kenya was rejected.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

This chapter summarizes the results, conclusions, and recommendations. This is done in accordance with the objectives of the study.

5.2 Summary of Findings

This section summarizes the results of the analysis. This is done in accordance with the objectives of the study.

5.2.1 Tax Knowledge and Growth of MSMEs

The first objective of the study was to assess the effect of tax knowledge by taxpayers on growth of enterprises in North of Nairobi tax region, Kenya. Correlation results revealed that tax knowledge by taxpayers was positively and significantly associated with growth of enterprises in North of Nairobi tax region, Kenya ($r=0.533$, $p=0.000$). Regression results showed that tax knowledge by taxpayers had a positive and significant effect on growth of enterprises in North of Nairobi tax region, Kenya ($\beta=0.488$, $p=0.000$). Based on the regression results, the null hypothesis that tax knowledge by taxpayers has no significant effect on growth of enterprises in North of Nairobi tax region, Kenya was rejected.

5.2.2 Tax Compliance Costs and Growth of MSMEs

The second objective of the study was to examine the effect of tax compliance costs behaviour on growth of enterprises in North of Nairobi tax region, Kenya. Correlation results revealed that tax compliance costs behaviour was negatively and significantly associated with growth of enterprises in North of Nairobi tax region, Kenya ($r=-0.175$, $p=0.001$). Regression results showed that tax compliance costs behaviour had a

negative and significant effect on growth of enterprises in North of Nairobi tax region, Kenya ($\beta=-0.102$, $p=0.002$). Based on the regression results, the null hypothesis that tax compliance cost behaviour has no significant effect on growth of enterprises in North of Nairobi tax region, Kenya was rejected.

5.2.3 Tax Non-Compliance Costs and Growth of MSMEs

The third objective of the study was to determine the effect of tax non-compliance cost behaviour on growth of enterprises in North of Nairobi tax region, Kenya. Correlation results revealed that tax noncompliance costs behaviour was negatively and significantly associated with growth of enterprises in North of Nairobi tax region, Kenya ($r=-0.273$, $p=0.000$). Regression results showed that tax non-compliance costs behaviour had a negative and significant effect on growth of enterprises in North of Nairobi tax region, Kenya ($\beta=-0.223$, $p=0.000$). Based on the regression results, the null hypothesis that tax non-compliance costs behaviour has no significant effect on growth of enterprises in North of Nairobi tax region, Kenya was rejected.

5.3 Conclusion

From the study findings, the study concluded that tax knowledge by taxpayers had a positive and significant effect on growth of enterprises in North of Nairobi tax region, Kenya. In addition, having access to tax compliance laws and regulations enhanced the growth of MSMEs. In addition, the study concluded that it's important for MSMEs to employ employees that have knowledgeable on tax compliance matters. This will enhance their growth.

The study further concluded that tax compliance costs had a negative and significant effect on growth of enterprises in North of Nairobi tax region, Kenya. In addition, number of taxes and the amount of tax that MSMEs are required to pay to the

government had greatly increased. In addition, the tax payment method is very clear to the MSMEs and this enables them to make frequent tax payments.

From the study findings, the study also concluded that tax non-compliance costs had a negative and significant effect on growth of enterprises in North of Nairobi tax region, Kenya. In addition, interests and penalties charged to MSMEs on unpaid tax is very. In addition, very high legal costs and counting costs retarded the growth of MSMEs.

5.4 Recommendations

The study established that tax knowledge had a positive and significant effect on growth of businesses. It was therefore, recommended that the management of MSMEs should try as much as possible to invest in seeking tax knowledge and make sure that all their employees are equipped with the tax related knowledge. This is because acquiring reasonable level of tax knowledge is critical in determining the growth of businesses. The KRA should further develop programs aimed at equipping business owners will knowledge relating to tax administration.

The study established that tax compliance costs behaviour had a negative and significant effect on growth of businesses. The government of Kenya should consider lowering the compliance costs of MSMEs. This is because high compliance costs diminish competitiveness of the country in terms of taxation attractiveness and public services, which have become increasingly interested in ways to simplify their tax legislation systems.

The study established that tax non-compliance cost behaviour had a negative and significant impact on growth of the enterprises. The government of Kenya needs to lower the non-compliance costs of the MSMEs. This is because increase in tax

compliance costs, denies the businesspersons the advantage to reap off economies of scale and thus little growth is envisioned.

5.5 Contribution to Theory, Policy and Practice

This study is expected to provide a significant contribution to the theory, policy, and practice of tax administration. Theoretically, this study is based on findings about the relationship between tax behavior and firm growth. In addition, research strengthens the theoretical framework and strengthens the various theories used to explain the variables. Politically, this study advises policy makers, especially KRA, in areas for tax policy tightening. Particular attention should be paid to tax literacy, tax compliance, and non-compliance costs as they have been shown to have significant predictability to determine business growth. In practice, this study provides MSME management with information on the best ways to improve tax behavior to stimulate business growth.

5.6 Areas for Further Studies

The purpose of this study was to examine the effect of tax behavior on business growth in Nairobi, Kenya. This study focuses only on the District of Nairobi. Further research could focus on other MSMEs in other districts such as Kiambu for comparison purposes. In addition, other studies can focus on other East African Countries for purposes of comparison. In addition, R squared was 36.6% and thus not 100%. This implies that there are other factors that affect growth of enterprises in Nairobi. Other studies can therefore focus on factors such as tax incentives and their effect on growth of enterprises in Nairobi.

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APPENDICES

Appendix I: Letter of Instruction

Dear respondent,

I am a master's student, at the Kenya School of Revenue Administration (KESRA) and as part of my course requirement I am currently conducting a study on **“Effect of tax behavior on growth of micro, small and medium enterprises: a case of butcheries in North of Nairobi tax segment, Kenya”**

You are requested to kindly participate in the survey. The information you will provide is for academic purpose only and shall be treated with utmost confidentiality.

Thank you in advance for your co-operation and active participation to this academic effort.

Yours Faithfully,

Reuben Maina Chiira

Appendix II: Questionnaire

This questionnaire is meant to gather information on the topic: The effect of tax behavior on growth of micro, small and medium enterprises: a case of butcheries in North of Nairobi tax segment, Kenya.

Kindly answer the questions accurately. Utmost confidentiality of the information given is assured.

SECTION B: GROWTH OF MSMES

3. Please indicate your agreement or otherwise with the following statements relating to growth of MSMES in Nairobi County, Kenya. Use the scale: 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, and 5-strongly agree.

Statements on Business Growth	1	2	3	4	5
My business has expanded in terms of stock level.					
My business has expanded in terms of diversification and I provide variety of meat products.					
My business has grown in terms of customer base.					
My business has expanded in terms of number of employees.					

SECTION C: TAX KNOWLEDGE

4. Please indicate your agreement or otherwise with the following statements relating to taxpayers' tax knowledge. Use the scale: 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, and 5-strongly agree.

Statements on Tax knowledge	1	2	3	4	5
I have adequate knowledge and information on tax compliance					
I have access to external tax consultants					
I have access to tax compliance laws and regulations					
My employees are knowledgeable on tax compliance matters.					

SECTION D: TAX COMPLIANCE COSTS

5. Please indicate your agreement or otherwise with the following statements relating to tax compliance cost. Use the scale: 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, and 5-strongly agree.



Statements on Tax compliance costs	1	2	3	4	5
The number of taxes has increased with time					
The amount of tax has increased with time					
I frequently make tax payments as per the law.					
The methods of tax payment are clear and well defined					

SECTION E: NON-TAX COMPLIANCE COSTS


6. Please indicate your agreement or otherwise with the following statements relating to non-tax compliance costs. Use the scale: 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, and 5-strongly agree.

Statements on Non-tax compliance costs	1	2	3	4	5
The interest on unpaid tax is very high					
The penalties on non-compliance is very high					
The legal cost of non-compliance is very high					
The counting cost of non-compliance is very high					

Appendix III: NACOSTI Research permit






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This is to Certify that Mr. Reuben Maina Chira of Moi University, has been licensed to conduct research in Nairobi on the topic: TAX BEHAVIOR ON GROWTH OF MICRO, SMALL AND MEDIUM ENTERPRISES: A CASE OF BUTCHERIES IN NORTH OF NAIROBI TAX REGION, KENYA for the period ending : 15/March/2022.

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Appendix IV: Plagiarism Report

TAX BEHAVIOR ON GROWTH OF MICRO, SMALL AND MEDIUM ENTERPRISES: A CASE OF BUTCHERIES IN NORTH OF NAIROBI TAX REGION, KENYA

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