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Investor Perceptions and Tax Compliance of Manufacturing Small and Medium Enterprises in Kiambu County, Kenya

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ABSTRACT

Tax compliance among manufacturing small and medium enterprises (SMEs) is a critical component of fiscal sustainability and corporate governance, especially in counties experiencing rapid industrial growth. This study examined the effect of investor perceptions on tax compliance among manufacturing SMEs in Kiambu County, Kenya. Specifically, it assessed the influence of perceived fairness of the tax system, perceived transparency of the tax system, and perceived risk of non-compliance on the tax compliance behavior of these enterprises. The study was grounded on Deterrence Theory, Equity Theory, and Legitimacy Theory, providing a comprehensive framework for understanding how behavioral and governance factors interact in shaping compliance. A descriptive research design was adopted, targeting the 1,753 active manufacturing SMEs in Kiambu County, with finance managers, tax managers, compliance officers, and internal auditors serving as the units of observation. Using Fischer's formula, a sample of 326 SMEs was selected through stratified and simple random sampling to ensure proportionate representation of the agro-processing, textiles, and light manufacturing sectors. Data were collected using a structured questionnaire comprising Likert-scale items aligned to the study variables; validity was ensured through expert review and reliability assessed using Cronbach's alpha. A total of 243 questionnaires were returned, yielding a 74.5% response rate. Quantitative data were analyzed using descriptive and inferential statistics. The model summary indicated strong explanatory power ($R = .875$; $R^2 = .766$), and ANOVA confirmed overall model significance ($F(3,239) = 260.879$, $p < .001$). All predictors were positive and significant: perceived fairness ($B = .292$, $\beta = .405$, $p < .001$), perceived transparency ($B = .324$, $\beta = .323$, $p < .001$), and perceived risk ($B = .403$, $\beta = .227$, $p < .001$). The study concludes that fairness, transparency, and credible enforcement operate as complementary levers of tax compliance, with fairness exerting the largest standardized effect. It recommends uniform and proportionate application of tax rules to strengthen fairness, clearer and timelier communication to deepen transparency, and a balanced enforcement approach that combines risk-based audits with taxpayer support to sustain voluntary compliance among manufacturing SMEs.

Keywords: *Tax compliance, investor perceptions, perceived tax fairness, tax transparency, risk of non-compliance, manufacturing SMEs, Kenya.*



1.0 Introduction

Tax compliance is critically important for manufacturing small and medium enterprises (SMEs) in the current era of globalization, where production and supply chains are increasingly interconnected, and regulatory scrutiny extends beyond national borders. In a globalized economy, manufacturing SMEs operate in a highly competitive and transparent environment, making compliance with tax obligations not only a legal necessity but also a key element of corporate reputation and investor confidence (Norizan et al., 2024). For these enterprises, timely filing, accurate reporting, and full payment of taxes contribute to fiscal stability, support public infrastructure, and strengthen the legitimacy of the manufacturing sector (Amadi et al., 2021). Moreover, globalization has intensified information sharing among tax authorities through initiatives such as the OECD's Common Reporting Standard, reducing opportunities for tax evasion and heightening the consequences of non-compliance. In this context, manufacturing SMEs that consistently comply with tax laws are better positioned to attract domestic and international investors, maintain favorable relationships with regulators, and avoid reputational and financial risks associated with tax disputes (Baseli et al., 2024).

Investor perceptions play a pivotal role in influencing the tax compliance behavior of manufacturing SMEs (Siladjaja, 2022). When investors perceive the tax system as fair, transparent, and effectively enforced, they are more likely to expect the firms they invest in to uphold high compliance standards. Positive perceptions such as equitable application of tax laws, clear guidelines, and credible enforcement can motivate firms to maintain strong internal controls and ethical practices to align with investor expectations (Muller, 2024). Conversely, negative perceptions, such as perceived bias, lack of transparency, or weak enforcement, can reduce the perceived legitimacy of the tax system, potentially encouraging aggressive tax planning or avoidance. In the case of manufacturing SMEs in Kiambu County, investor confidence is closely tied to governance and regulatory compliance (Otieno, 2025). As such, understanding how investor perceptions shape compliance decisions is crucial for both policymakers seeking to enhance revenue mobilization and firms aiming to sustain long-term investor trust in an increasingly integrated global marketplace.

Globally, tax compliance has emerged as a central focus for governments, multinational corporations, and regulatory agencies, particularly in the wake of rising concerns over base erosion, profit shifting, and tax evasion (Boateng et al., 2022). Initiatives such as the OECD's Base Erosion and Profit Shifting (BEPS) framework and the Global Forum on Transparency and Exchange of Information for Tax Purposes have been instrumental in promoting cross-border cooperation to curb illicit financial flows and improve tax administration efficiency. In the manufacturing sector, compliance is further reinforced by international regulatory standards, including anti-money laundering (AML) frameworks and financial reporting requirements under IFRS, which indirectly support tax transparency (Holle et al., 2021). However, even with these global efforts, gaps persist in understanding how investor perceptions—specifically perceptions of fairness, transparency, and risk of non-compliance—affect corporate tax compliance behavior. While most global literature focuses on tax policy reforms, enforcement mechanisms, and institutional capacity, there is limited empirical evidence linking investor sentiment to compliance outcomes in dynamic industries such as manufacturing (Oyetade et al., 2024).



Within Africa, tax compliance remains a challenge due to structural weaknesses in tax administration, limited enforcement capacity, and the prevalence of informal economies. The African Tax Administration Forum (ATAF) has been at the forefront of promoting effective tax systems, capacity building, and information sharing among member states (Mackenzie et al., 2022). Despite these efforts, corporate tax compliance rates remain suboptimal, with multinational and regional manufacturing enterprises often under scrutiny for aggressive tax planning and avoidance strategies. Regional studies largely emphasize administrative efficiency, tax policy reforms, and enforcement measures, yet the behavioral dimension—particularly the influence of investor perceptions—remains underexplored (Mpofu, 2025). Furthermore, African manufacturing markets, though growing, are still developing in terms of transparency and investor protection, making the relationship between investor perceptions and tax compliance an important but insufficiently studied area (Titus, 2024).

In the East African Community (EAC), governments have intensified efforts to improve domestic revenue mobilization in line with the EAC Vision 2050, which prioritizes fiscal sustainability and industrial sector growth (Thema, 2025). Member states, including Kenya, Uganda, Tanzania, Rwanda, Burundi, and South Sudan, have implemented reforms such as the digitization of tax systems, the establishment of transfer pricing regulations, and the strengthening of audit and enforcement processes. For manufacturing SMEs, regional integration has created opportunities for cross-border trade and production but also increased scrutiny over compliance practices (Ejones et al., 2021). While research within the EAC context has examined the impact of tax reforms and enforcement strategies, there is little empirical focus on how investor perceptions influence compliance decisions in the manufacturing sector, leaving a behavioral and governance gap in the literature.

In Kenya, tax compliance is a top priority for the Kenya Revenue Authority (KRA) as the government seeks to expand the tax base, improve revenue collection, and reduce fiscal deficits (Muniu & Musau, 2025). Measures such as the iTax platform, data-driven audit selection, and sector-specific compliance programs have improved transparency and reduced compliance costs for taxpayers. However, challenges such as perceived inconsistencies in enforcement, disputes over tax assessments, and concerns about the fairness of the tax regime continue to affect compliance behavior (Kamara, 2021). While studies in Kenya have addressed factors such as enforcement, tax rates, and administrative efficiency, there is limited examination of how investor perceptions—especially in SMEs—shape corporate tax behavior. This gap is particularly relevant in the manufacturing sector, where investor confidence is a critical driver of market performance and corporate governance (Muller, 2024).

Kenya's manufacturing sector is one of the most vibrant in Sub-Saharan Africa, comprising both local and foreign-owned SMEs, with Kiambu County recognized as a key industrial hub due to its proximity to Nairobi and access to infrastructure (Tyson, 2021). The sector is regulated by agencies such as the Kenya Revenue Authority, the Kenya Bureau of Standards, and county-level trade and industrialization departments (Were et al., 2021). Manufacturing SMEs operate in a competitive environment where reputation, transparency, and investor trust directly influence market value and access to capital. Despite these oversight mechanisms, tax disputes between



SMEs and the KRA occasionally arise, highlighting areas of contention in interpretation, enforcement, and compliance (Kinyua, 2021). Existing studies on manufacturing enterprises in Kenya have primarily focused on productivity, financial performance, and regulatory compliance in areas such as quality standards and market expansion, with minimal attention to the role of investor perceptions in shaping tax compliance practices.

1.1 Statement of the Problem

According to the Kenya Revenue Authority (KRA, 2023), corporate tax non-compliance, including late filing, underreporting, and tax disputes, continues to undermine revenue mobilization efforts, with the SME sector accounting for a notable share of outstanding tax assessments. In 2022, KRA reported that unresolved tax disputes involving manufacturing enterprises and other SMEs exceeded KES 20 billion, highlighting persistent compliance challenges despite advanced monitoring systems such as iTax and data analytics tools (Orodi, 2022). This situation threatens fiscal stability and erodes public trust in both the tax administration and the corporate governance practices of manufacturing SMEs, which are expected to set the standard for regulatory adherence.

Investor perceptions can play a significant role in addressing these compliance challenges. When investors view the tax system as equitable and transparent, and when they believe that the consequences of non-compliance are severe and certain, they are more likely to pressure firms to uphold high compliance standards (Nyaga, 2019). Positive investor perceptions can motivate manufacturing SMEs to maintain ethical practices, strengthen internal controls, and avoid aggressive tax planning strategies that may jeopardize their reputation and market value (Otieno, 2025). Conversely, negative perceptions can undermine trust in both the regulatory framework and the firms themselves, potentially normalizing non-compliant behavior (Kurnia, 2024). Leveraging investor perceptions as a behavioural driver for tax compliance offers a complementary approach to purely enforcement-based strategies.

Existing studies have examined tax compliance from various angles but have left notable gaps in the context of manufacturing SMEs in Kenya. For example, Mukabi et al. (2020) analyzed the impact of tax reforms and administrative efficiency on corporate tax compliance, while Omachar (2022) explored the influence of enforcement mechanisms and tax rates. However, these studies did not consider behavioural dimensions such as investor perceptions as potential determinants of compliance. Similarly, regional research by Mrema (202) in Tanzania emphasized enforcement and policy reforms but overlooked how fairness, transparency, and perceived risk shape compliance behavior in regulated sectors like manufacturing. This study addressed this gap by empirically examining the effect of investor perceptions on tax compliance among manufacturing SMEs in Kiambu County.

1.2 Research Objectives

1.2.1 General objective

The general objective of the study was to establish the effect of investor perceptions on tax compliance of manufacturing small and medium enterprises in Kiambu County, Kenya.



1.2.2 Specific objectives

- i. To assess the effect of perceived fairness of the tax system on tax compliance of manufacturing SMEs in Kiambu County.
- ii. To determine the effect of perceived transparency of the tax system on tax compliance of manufacturing SMEs in Kiambu County.
- iii. To evaluate the effect of perceived risk of non-compliance on tax compliance of manufacturing SMEs in Kiambu County.

2.0 Literature Review

2.1 Theoretical Literature Review

The study is anchored on three key theories that explain the relationship between investor perceptions and tax compliance: Deterrence Theory, Equity Theory, and Legitimacy Theory.

2.1.1 Deterrence Theory

Deterrence Theory, rooted in the economic crime framework advanced by Becker (1968), explains tax compliance as a rational decision in which taxpayers weigh the expected benefits of non-compliance against the probability of detection and the severity of penalties. The theory posits that higher audit rates, stringent enforcement mechanisms, and severe sanctions increase the cost of evasion and thereby encourage voluntary compliance with tax regulations (Becker, 1968; Kasper & Alm, 2022; Hageman et al., 2023). Its central premise is that taxpayers respond predictably to enforcement signals, adjusting behavior in line with perceived monitoring intensity. However, critics argue that the theory is overly narrow because it overlooks moral, psychological, and social determinants of compliance such as ethical norms, institutional trust, and reputational concerns (Mears & Stafford, 2024; Sazhin et al., 2025; Hageman et al., 2023). In this study, Deterrence Theory explains how perceived risk of non-compliance influences tax compliance among manufacturing SMEs in Kiambu County, as strong enforcement expectations from both regulators and investors create pressure for firms to adhere to tax laws and avoid financial and reputational sanctions (Becker, 1968; Kasper & Alm, 2022; Hageman et al., 2023).

2.1.2 Equity Theory

Equity Theory, developed by Adams (1965), is founded on the principle that individuals and organizations evaluate fairness by comparing their input–outcome ratios with those of others, and this perception of fairness significantly shapes compliance behavior. In taxation, firms are more likely to comply when they perceive tax burdens, enforcement practices, and benefits of public revenue to be distributed equitably across comparable entities (Adams, 1965; Polk, 2022; Cubillas et al., 2021). Where taxpayers perceive inequities—such as preferential treatment, disproportionate tax liabilities, or inconsistent enforcement—compliance may decline as firms attempt to restore perceived balance. Nonetheless, the theory is criticized for the subjectivity of fairness perceptions, which vary across taxpayers and may be influenced by misinformation, institutional distrust, or contextual biases (Hageman, 2023; Shubita, 2024; Were et al., 2021). In this study, Equity Theory underpins the role of perceived tax fairness in shaping investor expectations and tax compliance among manufacturing SMEs, suggesting that when investors



view the tax system as equitable, they are more likely to encourage transparent, ethical, and compliant tax behavior within firms (Adams, 1965; Polk, 2022; Cubillas et al., 2021).

2.1.3 Legitimacy Theory

Legitimacy Theory, articulated by Suchman (1995), posits that organizations continuously seek alignment with societal norms, values, and regulatory expectations to secure legitimacy, stakeholder approval, and long-term survival. In taxation, compliance serves as a visible signal of accountability, transparency, and ethical corporate conduct, reinforcing investor confidence and public trust (Suchman, 1995; Martens & Mbui, 2023; Silva, 2021). Firms that demonstrate responsible tax practices are better positioned to maintain social approval and access strategic resources. However, the theory is critiqued for the difficulty of objectively measuring legitimacy and for the possibility that organizations may engage in symbolic rather than substantive compliance, using disclosure and public relations strategies to project conformity while pursuing aggressive tax planning internally (Silva, 2021; Titus, 2024; Suchman, 1995). In this study, Legitimacy Theory explains how investor perceptions influence tax compliance among manufacturing SMEs in Kiambu County, as firms are motivated to maintain compliant tax practices to safeguard reputation, sustain investor trust, and preserve legitimacy within the regulatory and competitive business environment (Suchman, 1995; Martens & Mbui, 2023; Silva, 2021).

2.2 Empirical Literature Review

This section reviews previous empirical studies related to the effect of investor perceptions on tax compliance, with a focus on the key dimensions of perceived fairness of the tax system, perceived transparency of the tax system, and perceived risk of non-compliance. The review synthesizes findings from global, regional, and local contexts, highlighting methodological approaches, key results, and the relevance of each study to the current research. By examining existing evidence, this section identifies consistencies, contradictions, and gaps in the literature, particularly regarding the behavioral and governance aspects of tax compliance in the manufacturing sector. The discussion is structured around the study's specific objectives to provide a coherent basis for comparison and to guide the formulation of research hypotheses.

2.2.1 Perceived Fairness of the Tax System and Tax Compliance

Empirical literature widely affirms that perceived fairness of the tax system is a fundamental driver of voluntary tax compliance across jurisdictions. Globally, taxpayers are more inclined to comply when tax burdens, enforcement actions, and benefit distribution are viewed as equitable and proportionate (Kirchler et al., 2008; Gilligan & Richardson, 2018; Han et al., 2022). In African contexts, fairness perceptions are often shaped by institutional trust and governance quality, with studies in Nigeria and Tanzania showing that perceived selective enforcement and disproportionate taxation reduce compliance willingness (Atawodi & Ojeka, 2012; Fjeldstad & Semboja, 2018; Josiah & Otieno, 2024). Within East Africa, Kenyan and Ugandan evidence further demonstrates that equitable tax rates, consistent enforcement, and reasonable penalties positively influence corporate compliance behavior (Mwangi et al., 2023; Kijjambu & Mwesigye, 2024; Kinyua, 2021). Nationally, fairness in audits, dispute resolution, and penalty administration has been shown to strengthen compliance among firms, although inconsistencies in enforcement continue to

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undermine perceptions of equity (Njeru & Omwenga, 2021; Ngugi, 2024; Korir et al., 2015). Despite these insights, most studies focus on taxpayer or managerial perceptions, with limited attention to investor viewpoints, particularly in manufacturing SMEs. This study therefore fills this gap by examining how investor perceptions of tax fairness—operationalized through equitable taxation, consistent enforcement, and proportional penalties—influence tax compliance among manufacturing SMEs in Kiambu County (Tanako, 2023; Mwangi et al., 2023; Ngugi, 2024).

2.2.2 Perceived Transparency of the Tax System and Tax Compliance

Perceived transparency of the tax system has been empirically linked to improved tax compliance through its influence on trust, predictability, and accountability. Globally, transparency in tax administration—reflected in clear laws, accessible information, and open processes—has been associated with higher voluntary compliance rates (Bird et al., 2008; Alm et al., 2016; Aluoch, 2023). In African economies, transparency challenges have historically undermined compliance, with studies in Uganda and Nigeria showing that opaque tax procedures, weak communication, and unclear guidelines discourage voluntary adherence (Okello, 2014; Ojong et al., 2016; Ali, 2025). Evidence from East Africa indicates that firms value not only the availability of tax information but also its clarity, timeliness, and reliability in shaping compliance decisions (Makundi et al., 2024; Mpofu, 2025; Mwangi et al., 2023). In Kenya, initiatives such as digital tax platforms and stakeholder engagement forums have improved perceptions of openness, though sector-specific guidance gaps remain, particularly for manufacturing SMEs with complex transactions (Mutuku et al., 2024; Mwangi et al., 2023; Nyaga, 2019). Moreover, transparency has been linked to investor confidence, with firms demonstrating open tax disclosures being perceived more favorably in capital markets (Waweru et al., 2023; Mutuku et al., 2024; Ali, 2025). Nonetheless, limited research has examined transparency from an investor perception lens within manufacturing SMEs. This study addresses this gap by assessing how investor views on tax clarity, accountability, and disclosure influence compliance behavior in Kiambu County’s manufacturing sector.

2.2.3 Perceived Risk of Non-Compliance and Tax Compliance

Perceived risk of non-compliance remains one of the most established determinants of tax compliance within deterrence-based literature. Foundational models demonstrate that audit probability and penalty severity significantly shape taxpayers’ evasion decisions by altering the cost–benefit calculus of non-compliance (Allingham & Sandmo, 1972; Luttmer & Singhal, 2014; Fajriana et al., 2023). In African contexts, perceived enforcement strength has proven influential even where actual enforcement capacity is limited, with studies in Tanzania and Nigeria showing that visible audits and publicized penalties enhance compliance behavior (Fjeldstad et al., 2012; Akinboade, 2015; Aluoch, 2023). Within East Africa, corporate compliance has been linked to perceptions of detection likelihood, audit frequency, and sanction severity, particularly where tax authorities actively communicate enforcement actions (Hyera et al., 2025; Kasper & Alm, 2022; Aluoch, 2023). In Kenya, strengthened audit systems and data-driven monitoring have elevated perceived detection risk, positively influencing firm compliance, especially when enforcement outcomes are publicly disclosed (Muniu & Musau, 2025; Kamara, 2021; Muteti, 2021). For manufacturing firms, perceived risk also intersects with investor scrutiny, as tax disputes and penalties can damage reputation and financing prospects (Oyetade et al., 2024; Oladipo et al.,

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2022; Shubita, 2024). However, prior studies largely emphasize taxpayer or regulatory perspectives, overlooking investor perceptions of enforcement risk. This study bridges that gap by examining how investor views on audit likelihood, penalty severity, and detection capacity shape tax compliance among manufacturing SMEs in Kiambu County.

2.3 Conceptual Framework

Figure 1 illustrates the hypothesized relationships between investor perceptions based on three key dimensions: perceived fairness of the tax system, perceived transparency of the tax system, and perceived risk of non-compliance and tax compliance of SMEs in Kiambu County. Each independent variable is theorized to influence the dependent variable, tax compliance, either positively or negatively. Perceived fairness relates to how equitably tax laws and enforcement are applied; perceived transparency reflects the clarity, openness, and accountability of the tax system; while perceived risk of non-compliance captures investors’ assessment of the likelihood and severity of penalties for evading tax obligations.

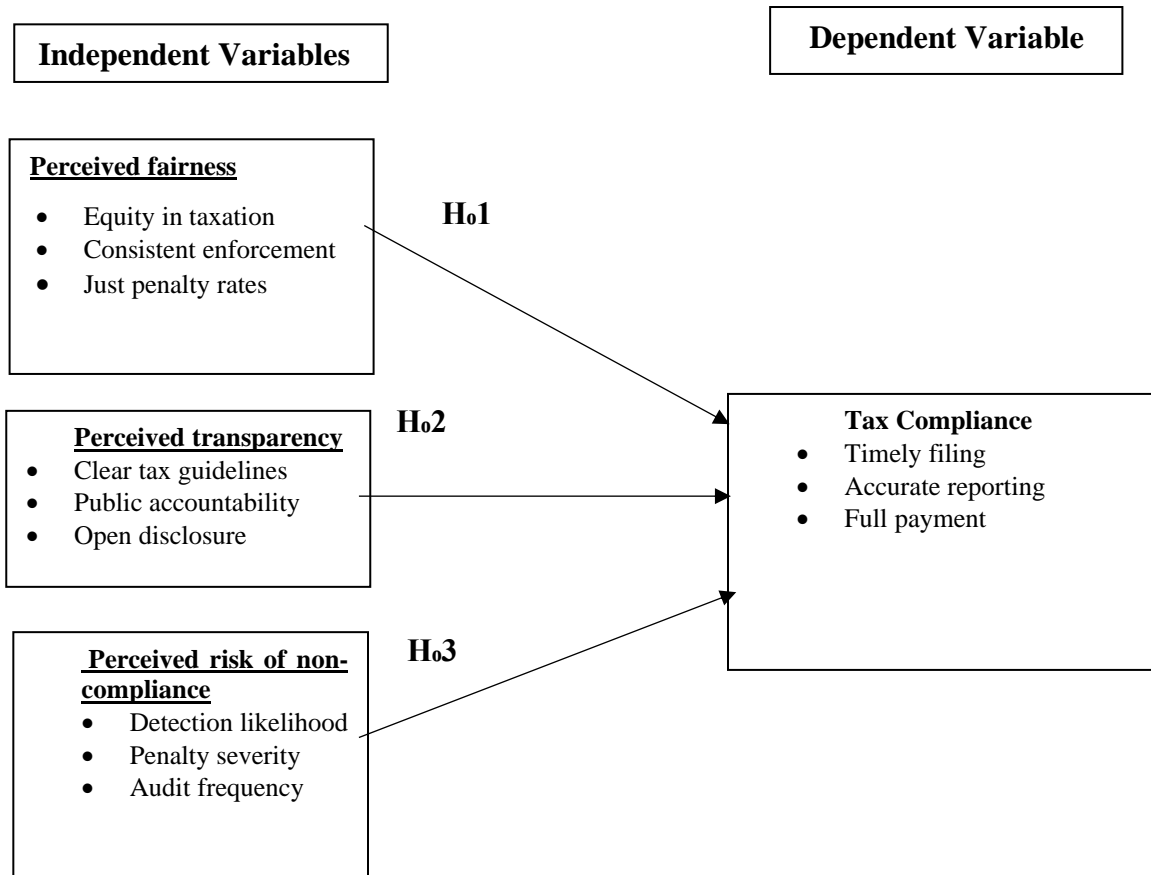


Figure 1: Conceptual Framework

3.0 Research Methodology

This chapter outlined the methodology adopted to examine the relationship between investor perceptions and tax compliance among manufacturing SMEs in Kiambu County, Kenya. The study



employed a descriptive and explanatory research design to both describe prevailing compliance behaviors and explain the causal relationships between the study variables. The target population comprised 1,753 manufacturing SMEs drawn from agro-processing, textiles, and light manufacturing sectors, with senior finance and compliance personnel serving as the unit of observation. A combination of stratified and simple random sampling techniques was applied to ensure proportional sectoral representation, resulting in a sample size of 326 respondents determined using the Yamane formula. Primary data was collected using a structured Likert-scale questionnaire covering perceived fairness, perceived transparency, perceived risk of non-compliance, and tax compliance.

The chapter further detailed procedures for pilot testing, validity, and reliability assessment to ensure the research instrument’s accuracy and consistency, with Cronbach’s alpha used to test internal reliability. Data collection was conducted through both physical and electronic questionnaire administration following ethical approvals and respondent consent. Quantitative data was analyzed using descriptive statistics, correlation, and multiple regression analysis in SPSS Version 27, guided by a specified regression model linking investor perception dimensions to tax compliance. Diagnostic tests—including normality, multicollinearity, heteroscedasticity, and linearity tests—were performed to validate model assumptions, while ethical standards relating to confidentiality, voluntary participation, and responsible data handling were strictly observed throughout the research process.

4.0 Results and Discussion

The model summary (Table 1) shows a strong overall association between the predictors and tax compliance ($R = .875$) and a high proportion of explained variance ($R^2 = .766$; Adjusted $R^2 = .763$). The standard error of the estimate (.211) is small relative to the 1–5 scale used for measurement, indicating residuals are tightly clustered and the model predicts compliance with good precision. In combination with the earlier diagnostics, these figures point to a well-specified model suitable for reliable inference.

Table 1: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.875 ^a	.766	.763	.211353239112445

a. Predictors: (Constant), Perceived risk, Perceived fairness, Perceived transparency

The ANOVA results (Table 2) confirm that the model is statistically significant ($F(3,239) = 260.879, p < .001$). This indicates that perceived fairness, perceived transparency, and perceived risk, taken together, provide substantial explanatory power beyond an intercept-only specification. Substantively, the joint effect suggests that normative cues (fairness), informational clarity (transparency), and credible enforcement expectations (risk) operate in tandem to account for the observed variation in firms’ filing timeliness, accuracy, full declaration, and payment behavior.



Table 2: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	34.961	3	11.654	260.879	.000 ^b
	Residual	10.676	239	.045		
	Total	45.637	242			

a. Dependent Variable: Tax compliance

b. Predictors: (Constant), Perceived risk, Perceived fairness, Perceived transparency

The coefficients table (Table 3) shows that all three predictors are positive and significant: perceived fairness ($B = .292, \beta = .405, t = 6.380, p < .001$), perceived transparency ($B = .324, \beta = .323, t = 4.716, p < .001$), and perceived risk ($B = .403, \beta = .227, t = 5.185, p < .001$). Interpreting the unstandardized effects, a one-unit rise in each predictor is associated with increases of .292, .324, and .403 in the tax compliance score, respectively, holding the others constant. By standardized magnitude, fairness is the most influential driver ($\beta = .405$), followed by transparency ($\beta = .323$) and risk ($\beta = .227$), while the constant is not significant ($B = .037, p = .878$), indicating no systematic bias when predictors are at their means.

Table 3: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.037	.238		.154	.878
	Perceived fairness	.292	.046	.405	6.380	.000
	Perceived transparency	.324	.069	.323	4.716	.000
	Perceived risk	.403	.078	.227	5.185	.000

a. Dependent Variable: Tax compliance

5.0 Conclusion

The study concludes that investor perceptions significantly influence tax compliance behavior among manufacturing SMEs in Kiambu County. Specifically, perceived fairness emerged as a critical determinant of compliance, demonstrating that when taxpayers believe the tax system is equitable, consistently applied, and free from bias, they are more likely to comply voluntarily. Fairness fosters trust between taxpayers and the tax authority, creating a sense of shared responsibility rather than coercion. The evidence indicates that firms view fair tax enforcement and proportional penalties as reflections of justice and accountability, which strengthens their moral and ethical commitment to meet tax obligations. Thus, fairness in taxation serves not only as a governance principle but also as a psychological driver of voluntary compliance in the manufacturing sector.



The study further concludes that perceived transparency plays a vital role in enhancing tax compliance. When taxpayers have access to clear, timely, and accurate tax information, they are better equipped to understand their obligations and less likely to perceive the tax system as arbitrary or opaque. Transparent communication, open disclosure of policy changes, and public accountability improve the predictability of tax administration and enhance taxpayers' trust in the Kenya Revenue Authority. The findings underscore that transparency reduces uncertainty and the perceived risk of unfair treatment, encouraging firms to comply willingly. Therefore, maintaining openness and consistency in communication and decision-making processes is fundamental to building a sustainable culture of compliance among manufacturing SMEs.

Lastly, the study concludes that perceived risk of non-compliance significantly affects tax behavior by reinforcing deterrence. When firms perceive a high probability of detection and the presence of substantial penalties, they are more likely to comply with tax laws to avoid financial and reputational consequences. However, the results also suggest that while deterrence is effective, it must be complemented by fairness and transparency to ensure long-term compliance. Excessive reliance on punitive enforcement without corresponding efforts to build trust may yield only short-term compliance gains.

6.0 Recommendations

Based on the findings, the study recommends that tax authorities, particularly the Kenya Revenue Authority (KRA), should strengthen policies that promote fairness and equity in tax administration. This can be achieved by ensuring uniform application of tax laws, minimizing discretionary enforcement, and aligning penalties with the severity of offenses. Transparent and consistent application of tax rules across firms of different sizes and sectors will enhance perceptions of justice and accountability. Additionally, introducing feedback mechanisms to allow taxpayers to report perceived injustices in enforcement can improve institutional trust and encourage voluntary compliance among manufacturing SMEs.

The study further recommends that the KRA should enhance transparency in tax administration by improving access to information, simplifying tax guidelines, and ensuring timely communication of policy changes. Regular stakeholder engagement forums and digital information platforms can help bridge the information gap between taxpayers and administrators. By making compliance procedures simpler and more predictable, the KRA can reduce uncertainty and administrative burden, thereby promoting voluntary compliance. Furthermore, publishing periodic reports on tax collection performance and enforcement actions can demonstrate institutional accountability and strengthen public confidence in the integrity of the tax system.

Finally, the study recommends that tax administrators adopt a balanced approach to enforcement by combining deterrence with supportive compliance strategies. While maintaining a credible threat of audits and penalties is necessary, enforcement should be complemented with taxpayer education, advisory programs, and awareness campaigns emphasizing the benefits of compliance. Leveraging data analytics and risk-based audit systems can help target high-risk non-compliant taxpayers without overburdening compliant firms. This approach not only reinforces the perceived risk of non-compliance but also demonstrates fairness and efficiency in enforcement, ultimately



fostering a compliance culture rooted in trust, accountability, and mutual responsibility between the state and taxpayers.

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