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Advance Pricing Agreement Adoption, Tax Compliance Cost, and Income Tax Compliance Among Multinational Corporations Operating in Kenya

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Abstract

The study sought to determine the effect of advance pricing agreements adoption on income tax compliance and the moderating effect of compliance cost on this relationship among multinational corporations operating in Kenya. This study adopted an explanatory research design and targeted all 972 registered tax consultants in Kenya with a sample size of 284 firms. Primary data was collected through a questionnaire. Descriptive statistics were adopted to analyse the collected data, and the results were presented in the tables and charts. Hierarchical moderated regression analysis was also undertaken to determine the nature and strength of the relationship between the study variables. The regression results showed that APA validity period ($\beta = 0.170$), tax dispute resolution time ($\beta = 0.255$), pricing agreement compliance cost ($\beta = 0.358$), and tax compliance cost ($\beta = 0.534$) each had significant positive effects on income tax compliance. In addition, the moderating effects were also significant, with compliance cost strengthening the relationships between validity period ($\beta = 0.378$), tax dispute resolution time ($\beta = 0.574$), and pricing agreement compliance cost ($\beta = 0.849$) with income tax compliance. The study recommended that Kenya should adopt Advance Pricing Agreements to enhance tax compliance by providing predictability, reducing disputes, and fostering trust. Improving tax dispute resolution through digital systems, strict timelines, and alternative dispute resolution mechanisms can build certainty and encourage voluntary compliance. Rationalizing compliance costs by simplifying processes and ensuring affordability can promote openness, protect revenues, and support a business-friendly environment.

Keywords: *Advance pricing agreements, income tax compliance, compliance cost, multinational corporations operating*

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1. Introduction

Globalization has accelerated the growth and complexity of international business structures, yet the institutions, regimes, and organizations regulating cross-border commerce remain relatively underdeveloped (Tran, 2019). Multinational corporations (MNCs) have become dominant players in the global economy. According to the United Nations Conference on Trade and Development (UNCTAD) 2007 World Investment Report, MNCs contribute approximately 10% of the world's Gross Domestic Product (GDP) and account for one-third of global exports, with their growth outpacing the average expansion of the world economy (Hearson & Prichard, 2018). However, the presence of tax havens has facilitated intra-firm transactions that often enable profit shifting from high-tax to low-tax jurisdictions under the guise of legitimate business operations. MNCs generally lack incentives to manipulate transfer pricing when home and host countries maintain similar tax structures. Yet, significant tax rate differences, combined with the mobility of capital and the existence of low-tax jurisdictions, exacerbate the challenges of ensuring tax compliance and equitable taxation.

However, double taxation and operational complexities are critical challenges facing multinational corporations (MNCs) in today's global economy (Olika & Olateru-Olagbegi, 2022). Double taxation arises when the same income is taxed in both the host and home countries, leading to financial strain and reducing the overall profitability of cross-border operations. Despite the existence of tax treaties and relief mechanisms, inconsistencies in tax regulations across jurisdictions often complicate compliance. Additionally, the operational complexities of navigating diverse legal, regulatory, and cultural environments further burden MNCs, as they must adapt their strategies to meet varying local requirements while maintaining global coherence. These challenges not only impact financial performance but also hinder long-term growth and expansion opportunities, emphasizing the need for streamlined international tax policies and simplified regulatory frameworks (Oktaviani & Tambunan, 2021).

To address these challenges, current OECD international guidelines are founded on the arm's length principle, which requires that transfer prices between related entities be equivalent to those agreed upon by independent, unrelated parties under comparable circumstances (OECD 2017). The arm's length principle (ALP), despite its seemingly informal title, is enshrined in Article 9 of the OECD Model Tax Convention. This principle forms the foundation for bilateral tax treaties between OECD member countries and is also widely adopted by numerous non-OECD governments. Transfer pricing regulations, guided by the ALP, mandate that income derived from international transactions between two or more related entities must be calculated at an arm's length price. The fundamental test for compliance is that such transactions should be comparable to those undertaken between independent parties operating at arm's length in similar conditions (Afik & Lahav, 2016).

An Advance Pricing Agreement (APA) is an official arrangement between a taxpayer and the tax authorities that sets, ahead of time, the method for determining transfer prices in transactions between related entities. Many countries incorporate APAs into their transfer pricing frameworks as a proactive measure to prevent pricing disputes through a cooperative approach. This mechanism serves as an alternative to traditional dispute resolution methods. As noted by Mashiri (2018), APAs are an increasingly accepted alternative solution. Unlike safe harbour provisions, which are generally broad in application, APAs are tailored to individual taxpayers. An APA specifies a suitable transfer pricing process for intra-group business over a defined period. When only one tax jurisdiction is involved, the arrangement is unilateral; however, when two jurisdictions are involved, it becomes bilateral. Bilateral APAs are particularly advantageous as they ensure acceptance by both jurisdictions, thereby eliminating the risk of double taxation (Afik & Lahav, 2016).

Advance Pricing Arrangements (APAs) are believed to have started in 1985, marking a significant milestone in the evolution of transfer pricing frameworks. This initial step was taken by the Japanese National Tax Agency, which negotiated its first APA and formally instituted it in 1987 (Toluwani, 2024). The APA mechanism emerged as a proactive measure to address complexities in determining transfer prices for intercompany transactions, particularly in cross-border scenarios. By creating agreed-upon methodologies earlier, APAs aimed to reduce disagreements and foster cooperation between tax authorities and taxpayers. Over time, this approach gained global recognition, with many countries adopting it to enhance transparency and amenability in transfer pricing practices. The Japanese initiative set a precedent, demonstrating the potential of APAs to harmonize tax administration while mitigating risks of double taxation and disputes (Tambunan, Rosdiana & Irianto, 2020). This development underscores the importance of innovative solutions in addressing challenges associated with globalization and increasingly intricate international business operations.

Tax compliance cost for this study is considered as the moderating variable influencing the relationship between the independent and dependent variables. MNCs are likely to weigh the costs of compliance, such as legal fees, administrative overhead, and time spent on fulfilling regulatory requirements, against the benefits of complying with tax policies, such as favorable APA terms or efficient dispute resolution. High compliance costs can reduce the effectiveness of policies like long APA validity periods or quick dispute resolution, as MNCs may become less inclined to comply if the costs outweigh the perceived benefits (Oktaviani & Tambunan, 2021). Additionally, the presence of significant compliance costs may exacerbate the impact of APA-related costs on income tax compliance, reinforcing the need to consider this variable in understanding tax behavior (Ndegwa, Mwangi, & Kiragu, 2025).

Tax compliance is deemed fit to moderate the relationship between tax policy instruments and income tax compliance among multinational corporations (MNCs) in Kenya. When compliance costs, such as those related to documentation, legal fees, expert consultations, or administrative burden, are perceived as high, MNCs may be discouraged from fully adhering to tax obligations despite the clarity or fairness of the underlying tax policy (Mutua & Kiarie, 2022). It is conceivable that even when tax policies are designed to enhance certainty, transparency, and dispute resolution efficiency, their effectiveness could be undermined if the cost of compliance is viewed as excessive or unjustified. This suggests that MNCs are likely to weigh the benefits of compliance against the financial and operational burden of adhering to the policies, which could influence their tax behavior (Kamau & Waweru, 2021).

1.1 Problem Statement

The increasing concern over the taxation of multinational corporations (MNCs) is a pressing issue for both developing and developed countries (Pareno, 2024). Consequently, the country continues to experience tax evasion, resulting in significant medium- to long-term opportunity costs. As the expansion of MNCs continues unabated, these alarming tax revenue losses among established global powers serve as a critical wake-up call for developing countries like Kenya to fortify their regulations, policies, and legal frameworks concerning the taxation of MNCs. Additionally, the Kenyan judicial system has faced numerous cases and disputes related to tax avoidance by MNCs, highlighting the need for more robust enforcement mechanisms to address these challenges effectively (Obuya, 2021).

The OECD report of 2023 shows that in 2021; Kenya lost 160 billion in illegal financial flows through multinationals (OECD 2023). Statistics from the Kenya Revenue Authority (KRA) show that of the 226 MNCs registered in Kenya, only 146 of them filed annual returns for the financial year 2021/2022, which indicates that 36% did not file returns, acting as a wake-up call to the government (KRA 2024). In 2023, KRA's publication on Tax Evasion reported that tax evasion across different multinational companies was at KES 259 billion (KRA 2024). The report also indicates that in recent years, financial fraud and tax investigations have uncovered complex tax evasion strategies implemented by these companies within the supply chain to avoid tax payments (Obuya, 2024). This prompted the government to introduce an advance pricing agreement in the Finance Bill 2024 aimed at streamlining how multinational report their transactions, declare their taxes, and have an elaborate mechanism to ensure full compliance. With the rejection of the bill due to public outcry, the government is still determined to introduce the mechanism as literature shows it's a useful tool to improve tax compliance from these organizations. This study was motivated by this gap and explored whether the advance pricing agreement has an effect on income tax compliance among multinationals operating in Kenya.

1.2 Objectives of the Study

i. To determine the effect of validity period on income tax compliance among multinational corporations operating in Kenya
ii. To evaluate the effect of tax dispute resolution time on income tax compliance among multinational corporations operating in Kenya
iii. To assess the effect of pricing agreements compliance cost on income tax compliance among multinational corporations operating in Kenya
iv. To investigate the moderating effect of tax compliance cost on the relationship between:
   a) validity period and income tax compliance among multinational corporations operating in Kenya.
   b) tax dispute resolution time and income tax compliance among multinational corporations operating in Kenya.
   c) pricing agreements, compliance cost, and income tax compliance among multinational corporations operating in Kenya.

2. Literature Review

2.1 Theoretical Review

2.1.1 Deterrence Theory

The theory was primarily developed by Beccaria (1872) and later expanded by Bentham (1789), who argued that individuals and organizations are deterred from engaging in unlawful behavior by the threat of punishment. The theory proposes that the likelihood, intensity, and immediacy of punishment serve as deterrents to unlawful behavior and misconduct. Therefore, when people or organizations view the repercussions of their actions as both harsh and probable, they are less inclined to pursue tax evasion or avoidance practices, ultimately fostering compliance, accountability, and greater trust in the effectiveness of tax administration systems.

This study applied Deterrence Theory to examine how the cost of complying with pricing agreements affects income tax compliance among multinational corporations (MNCs) in

Kenya. The focus was on understanding how sanctions, penalties, and the perceived probability of detection shape compliance behavior within these organizations. According to Deterrence Theory, the threat of severe penalties for non-compliance with pricing agreements can deter MNCs from engaging in tax evasion, as the potential costs of being caught outweigh the benefits of avoiding tax obligations. In the context of compliance costs, if MNCs perceive the enforcement mechanisms related to pricing agreements as strict and the chances of detection as high, they are more likely to comply with tax regulations to avoid the risk of substantial fines and reputational damage. Thus, the higher the compliance cost associated with pricing agreements, the greater the deterrent effect, leading to increased income tax compliance among MNCs in Kenya.

2.1.2 Transaction Cost Theory

Developed by Ronald Coase (1937), the theory points out that firms exist to minimize transaction costs, which arise from the difficulties of negotiating, enforcing, and managing market exchanges. The core idea behind Transaction Cost Theory is that firms will choose the most efficient governance structure, whether market-based, hierarchical, or a hybrid structure, based on the relative transaction costs involved. This theory is particularly useful in explaining why firms engage in various organizational forms, such as joint ventures, mergers, or the internalization of certain operations. It also highlights how firms weigh the risks and benefits of different approaches to managing external transactions and relationships, especially in complex environments. By focusing on cost minimization, the theory provides a framework for understanding organizational choices in both domestic and international contexts.

This study employed Transaction Cost Theory to analyze the impact of tax dispute resolution time on income tax compliance among multinational corporations (MNCs) in Kenya. The focus was on the expenses borne by MNCs in handling tax disputes, such as legal fees, administrative expenses, and the time invested in navigating the tax system. The theory suggests that firms aim to reduce transaction costs in their economic dealings. When tax dispute resolution becomes lengthy and expensive, MNCs may view the process as inefficient, which can reduce their willingness to comply because of the substantial costs linked to handling such a dispute. Conversely, a more efficient and timely resolution process would lower transaction costs, increasing the likelihood of MNCs complying with tax regulations to avoid further costs. This application helps understand the relationship between administrative efficiency and compliance behavior, as well as how firms weigh the costs and benefits of tax compliance based on dispute resolution timelines.

2.1.3 Institutional Theory

Institutional Theory, developed primarily by Meyer & Rowan in 1977, posits that organizations are influenced not just by economic imperatives, but by norms, values, and expectations embedded in the broader institutional environment. External pressures influence how organizations operate through isomorphism, a process in which they grow more alike as a result of societal expectations, regulatory requirements, and prevailing cultural norms. Institutional Theory emphasizes that organizations adapt to institutional pressures to secure legitimacy, obtain necessary resources, and minimize the risk of penalties (Tran, 2019). This theory suggests that organizations are not only motivated by efficiency and profitability but by the need to align with societal norms, laws, and other institutional requirements to maintain their survival and success (Meyer & Rowan, 1977).

In this study, Institutional Theory was employed to examine how the validity period of Advance Pricing Agreements (APAs) affects income tax compliance among multinational corporations (MNCs) in Kenya. The focus was on understanding how institutional pressures, including regulatory requirements, established norms, and prevailing practices, shape and influence corporate behavior in meeting tax obligations. According to Institutional Theory, organizations tend to conform to the rules and expectations set by regulatory bodies to gain legitimacy and avoid sanctions. In the context of APAs, the validity period of the agreement can affect MNCs' compliance behavior by either providing a stable and predictable tax environment, which encourages adherence to tax regulations, or by creating uncertainty if the validity period is short. A longer APA validity period can reduce the perceived risks associated with tax disputes, thereby enhancing compliance. On the other hand, frequent renegotiations or uncertainty about the APA's validity could pressure MNCs to engage in risk-averse behaviors, leading to compliance with tax laws to align with institutional expectations and maintain their reputation in the marketplace.

2.2 Empirical Review

Pinto Alves and Souza (2021) investigated the influence of Advance Pricing Agreements (APAs) on tax compliance among multinational corporations (MNCs) in Brazil. The study employed a longitudinal approach, analyzing data from 120 MNCs over 5 years. The findings revealed that MNCs with APAs had higher tax compliance rates compared to those without, with longer APA validity periods associated with more consistent and accurate tax filings. Specifically, companies with APAs valid for over 3 years demonstrated better alignment with tax regulations, reducing tax disputes by approximately 12%.

Zhang (2020) examined how the duration of Advance Pricing Agreements (APAs) affects tax compliance among multinational corporations (MNCs) in China. The study used quantitative analysis, comparing the compliance behavior of 200 MNCs that entered into APAs of varying lengths. The research showed that longer APAs, specifically those lasting more than 3 years, significantly enhanced tax compliance. Companies with extended validity periods experienced a 15% decrease in tax evasion cases compared to those with shorter agreements. Zhang’s study concluded that extended APA validity provides a clearer framework for tax reporting, making it easier for MNCs to forecast their tax obligations and comply.

Bäckman and Forsberg (2023) conducted a study in Sweden to assess the impact of the country's APA dispute resolution framework on corporate tax compliance. The researchers used a longitudinal panel design covering data from 2010 to 2020 for 320 multinational corporations. Regression analysis was employed to determine the effect of APAs on tax compliance, measured by timely filing and accurate reporting. The findings indicated that firms engaged in APAs showed a 28% higher compliance rate than those not in the program. APAs helped reduce uncertainty related to transfer pricing audits and improved corporate-tax authority relationships. Interviews with tax experts further revealed that legal certainty offered by APAs contributed to long-term compliance and reduced litigation. The study concluded that clear, well-administered dispute resolution mechanisms such as APAs are vital tools for tax administrations. It recommended expanding the APA program to cover more sectors and ensuring transparency in its application to foster trust and compliance.

Waweru (2023) conducted a study examining the impact of compliance costs on tax compliance among small and medium-sized enterprises (SMEs) in Nairobi City County. Using a cross-sectional survey design with a sample of 250 SMEs, the research revealed that the average annual compliance cost per SME was approximately KSh 78,000. The largest portion of these costs was linked to consultancy fees (40%), followed by expenses on software and licensing (25%). Results from multiple regression analysis demonstrated a significant negative correlation ($R^2 = 0.61$, $p < 0.01$) between compliance costs and the level of tax compliance. The study concluded that elevated compliance expenses discouraged accurate tax reporting, particularly among newer and informal enterprises.

2.3 Conceptual Framework

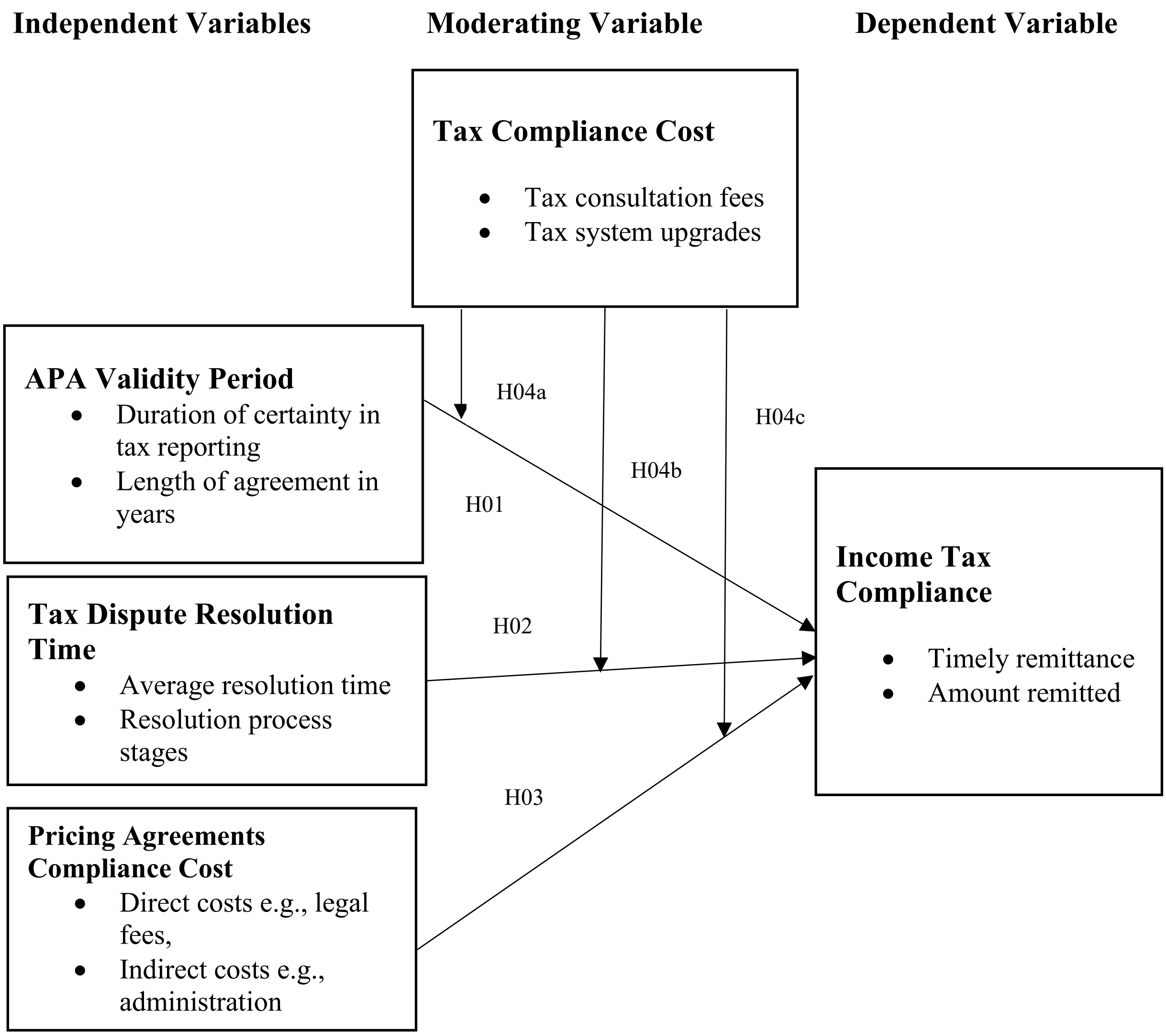

Figure 1: Conceptual Framework

3. Methodology

This study adopted an explanatory research design, which is particularly suited for examining cause-and-effect relationships between variables. The study used a random sampling approach to arrive at a sample of 283 registered tax consultants. This method of sampling was chosen because of the homogeneous nature of the elements belonging to the population chosen for the study. For this study, quantitative primary data was collected using a questionnaire. Upon approval, questionnaires were distributed and later retrieved after four working days to give respondents sufficient time to complete them. Once questionnaires were collected, they were carefully checked to confirm completeness before being entered into the Statistical Package for the Social Sciences (SPSS) for coding. This coding process allowed the data to be organized into categories for further analysis using descriptive measures. The researcher generated outputs such as percentages, mean scores, and standard deviations, which were later displayed using tables and charts for clarity. In addition, hierarchical moderated regression analysis was applied to examine both the direction and intensity of relationships among the study variables.

4. Results and Discussion

4.1 Descriptive Analysis

4.1.1 APA Validity Period and Income Tax Compliance

Table 1: APA Validity Period and Income Tax Compliance

	N	Mean	Std. De
Short APA agreement has positively effects organization's income tax compliance?	242	2.5041	.85577
Frequency of APA renewal or renegotiation affect organization's compliance behavior?	242	4.0826	.64527
Long period of years in APAs provides tax certainty therefore improving on consistent tax compliance?	242	4.4298	.49607
Stability of the transfer pricing method during the APA period contribute to compliance?	242	4.0496	.56673
Proportion of fiscal years covered by an active APA improve income tax compliance?	242	3.8430	.66953
Time lag between APA application and formal approval hinder compliance efforts among MNCs?	242	4.2851	.68574

Notably, the findings revealed that the highest mean response was associated with the duration of years an APA assures tax certainty, thereby reinforcing consistent compliance (μ = 4.4298; SD = 0.49607), reflecting its practical importance for long-term tax planning and stability. This suggests that respondents highly value the assurance provided by APAs over time as a foundation for steady compliance. Conversely, the lowest mean was reported for the length of the APA agreement influencing organizational tax compliance (μ = 2.5041; SD = 0.85577), indicating uncertainty or differing views on whether the mere duration of an APA directly affects compliance behavior. In addition, the time lag between APA application and formal approval was seen as a significant hindrance to compliance efforts, with a mean of 4.2851 and standard deviation of 0.68574, highlighting concerns about delays in processing APAs. The frequency of APA renewal or renegotiation also received a strong mean score (μ = 4.0826; SD

= 0.64527), reflecting the importance of keeping agreements up to date. Stability in the transfer pricing method during the APA period was positively perceived (μ = 4.0496; SD = 0.56673), emphasizing its role in compliance. Lastly, the proportion of fiscal years covered by an active APA scored a favorable mean of 3.8430 (SD = 0.66953), suggesting extended coverage improves adherence to tax obligations.

4.1.2 Tax Dispute Resolution Time and Income Tax Compliance

Table 2: Tax Dispute Resolution Time and Income Tax Compliance

	N	Mean	Std. Dev
A shorter average resolution time for tax disputes enhances our income tax compliance.	242	3.8471	.67358
Quick resolution of tax litigation or arbitration supports compliance with income tax obligations.	242	4.2893	.68702
Reduced duration from dispute initiation to final ruling improves tax compliance within APA.	242	4.2025	.60110
Resolving tax disputes within 12 months encourages greater compliance among MNCs.	242	4.4669	.49994
Fewer procedural steps in dispute resolution positively influence tax compliance behavior among MNCs.	242	4.2025	.60110
Frequent delays due to administrative backlog or appeals reduce MNCs willingness to comply with tax regulations.	242	4.4669	.49994

The highest mean recorded was 4.4669, for two statements: resolving tax disputes within 12 months encourages greater compliance among MNCs, and frequent delays due to administrative backlog or appeals reduce MNCs' willingness to comply with tax regulations. This indicates that timely resolution and minimizing delays are essential to enhancing compliance behavior and fostering trust in the tax administration system. Similarly, respondents strongly agreed that quick resolution of tax litigation or arbitration supports compliance (μ = 4.2893; SD = 0.68702), and that reducing the duration from dispute initiation to final ruling improves tax compliance within the Advance Pricing Agreement (APA) framework (μ = 4.2025; SD = 0.60110). Furthermore, the perception that fewer procedural steps in dispute resolution positively influence tax compliance was also highly rated (μ = 4.2025; SD = 0.60110), underscoring the importance of process simplicity and transparency. On the lower side, the statement that a shorter average resolution time enhances income tax compliance recorded a mean of 3.8471 (SD = 0.67358).

4.1.3 Pricing Agreement Compliance Cost and Income Tax Compliance

Table 3: Pricing Agreement Compliance Cost and Income Tax Compliance

	N	Mean	Std. Dev
High documentation costs for APA preparation negatively affects MNCs income tax compliance.	242	2.5165	.85562
A greater number of staff hours dedicated to APA compliance increases MNCs compliance burden.	242	3.4669	.71798
Legal and consultancy fees for APA compliance reduce MNCs motivation to comply fully with tax requirements.	242	4.2025	.60110
Costs associated with system upgrades or data management for APA adherence influence our compliance behavior.	242	4.4669	.49994
Administrative overhead in monitoring and reporting APA activities affects our tax compliance.	242	4.2025	.60110
Cost differences between unilateral, bilateral, and multilateral APAs impact MNCs decision to comply with income tax regulations.	242	4.4669	.49994

The highest mean of 4.4669 was recorded for two key statements: costs related to system upgrades or data management for APA adherence, and cost differences between unilateral, bilateral, and multilateral APAs influencing MNCs' decision to comply with income tax regulations. This indicates that technical and procedural cost variations play a major role in shaping compliance decisions. Similarly, legal and consultancy fees for APA compliance, and the administrative overhead in monitoring and reporting APA activities, both scored a mean of 4.2025, emphasizing the significant burden these expenses place on MNCs, potentially reducing their motivation for full compliance. Conversely, the statement that high documentation costs for APA preparation negatively affect compliance scored the lowest mean of 2.5165, suggesting that while documentation costs are a concern, they may not be perceived as severely limiting compliance compared to other cost factors. A moderate mean of 3.4669 was recorded for the additional staff hours dedicated to APA compliance, reflecting a noticeable but less critical compliance burden. The findings imply that financial and administrative costs related to APA compliance, particularly system upgrades, consultancy fees, and cost variations among APA types, are key determinants influencing MNCs' income tax compliance.

4.1.4 Income Tax Compliance

Table 4: APA Validity Period and Income Tax Compliance

	N	Mean	Std. Dev
MNCs in Kenya always file income tax returns within the statutory deadline.	242	3.4669	.71798
MNCs in Kenya declare all taxable income accurately in line with regulations.	242	2.1488	.83155
MNCs in Kenya adheres to transfer pricing rules without coercion.	242	3.5702	.49607
MNCs in Kenya maintain up-to-date records for income tax audits.	242	4.4669	.49994
MNCs in Kenya tax department proactively ensure compliance with income tax laws.	242	3.0083	.69373

Notably, the highest mean recorded was 4.4669, while the lowest mean response was 2.1488, indicating significant differences across various dimensions of tax compliance. From the findings, majority of the respondents agreed that MNCs in Kenya maintain up-to-date records for income tax audits (μ = 4.4669; SD = 0.49994). This suggests strong organizational discipline and readiness for tax scrutiny among MNCs. Similarly, respondents indicated that MNCs adhere to transfer pricing rules without coercion to a considerable extent (μ = 3.5702; SD = 0.49607), reflecting voluntary compliance with tax regulations. On the other hand, a moderate view was held regarding the timely filing of income tax returns within the statutory deadline (μ = 3.4669; SD = 0.71798), indicating room for improvement in meeting deadlines. Additionally, the perception that MNCs' tax departments proactively ensure compliance was rated moderately low (μ = 3.0083; SD = 0.69373), signaling potential gaps in enforcement efforts. The lowest mean was recorded on the statement that MNCs declare all taxable income accurately in line with regulations (μ = 2.1488; SD = 0.83155), pointing to concerns about full and accurate income declaration. These findings indicate that while record-keeping and transfer pricing compliance are relatively strong, challenges persist in income declaration accuracy and proactive enforcement, which affect the overall income tax compliance among MNCs in Kenya.

4.1.5 Tax Compliance Cost

Table 5: Tax Compliance Cost

	N	Mean	Std. Dev
An MNCs incurs significant monetary costs in reporting and filing income tax returns.	242	4.2025	.60110
Staff within the MNCs in Kenya dedicate substantial hours to fulfilling income tax compliance tasks.	242	4.4669	.49994
MNCs in Kenya regularly hire external tax consultants or legal experts to assist with income tax compliance.	242	4.2025	.60110
MNCs in Kenya invest heavily in upgrading IT systems and software for tax data processing and filing.	242	4.4669	.49994
Administrative efforts required for maintaining tax records and ensuring audit readiness are costly.	242	3.4545	.49896
The cost of complying with income tax obligations varies significantly compared to other taxes.	242	4.4711	.60728

The highest mean of 4.4711 contrasted with the lowest of 3.4545, reflecting differences in how various cost elements are viewed. Most respondents agreed that income tax compliance is notably costly compared to other taxes ($\mu = 4.4711$; SD = 0.60728), which could reduce the positive effects of APA agreements on compliance. Additionally, substantial staff time is devoted to compliance tasks ($\mu = 4.4669$; SD = 0.49994), and significant investments are made in IT systems and software for tax processing ($\mu = 4.4669$; SD = 0.49994). Respondents also highlighted monetary expenses in reporting and filing returns ($\mu = 4.2025$; SD = 0.60110) and the use of external tax consultants or legal experts ($\mu = 4.2025$; SD = 0.60110). Administrative efforts for maintaining records and audit readiness were perceived as less burdensome ($\mu = 3.4545$; SD = 0.49896). Overall, these findings suggest that financial outlays, staff time, professional support, and technological investments are key drivers of tax compliance costs, moderating the effectiveness of APA agreements in enhancing income tax compliance among MNCs in Kenya.

4.2 Direct Regression Analysis

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.801a	.641	.637	.02140

a. Predictors: (Constant), Pricing Agreements Compliance Cost, APA Validity Period, Tax Dispute Resolution Time

From the analysis, the model shows that 64.1% of the variation in income tax compliance is explained by the combined effect of APA validity period, tax dispute resolution time, and pricing agreements compliance cost. This indicates that the independent variables are strong predictors of compliance, leaving only 35.9% of the variation to be explained by other factors not captured in the model.

Table 7: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.031	3	.344	7.504	.000b
	Residual	10.898	238	.046		
	Total	11.929	241			

a. Dependent Variable: Income Tax Compliance

b. Predictors: (Constant), Pricing Agreements Compliance Cost, APA Validity Period, Tax Dispute Resolution Time

The ANOVA results indicate that the overall regression model significantly explains variations in income tax compliance. With an F-statistic of 7.504 and a p-value of 0.000, the model is statistically significant at the 95% confidence level, showing that the independent variables collectively have a meaningful impact on income tax compliance. Because the p-value is below 0.05, the null hypothesis that the predictors have no joint effect is rejected, confirming that the independent variables together play a significant role in enhancing compliance outcomes.

Table 8: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.173	.268		4.378	.000
	APA Validity Period	.145	.056	.170	2.573	.001
	Tax Dispute Resolution Time	.202	.063	.255	3.224	.001
	Pricing Agreements Compliance Cost	.301	.069	.358	4.360	.000

a. Dependent Variable: Income Tax Compliance

The regression results in Table 8 show that the constant (B = 1.173, $p < 0.001$) is significant, indicating a positive baseline level of income tax compliance even when the predictors are not considered. Among the independent variables, all three are statistically significant, but their influence varies based on standardized coefficients. Pricing Agreements Compliance Cost (Beta = .358, $p < 0.001$) has the strongest effect, suggesting that reducing compliance costs greatly enhances compliance. Tax Dispute Resolution Time follows (Beta = .255, p = .001), showing that efficient and timely resolution of disputes meaningfully improves compliance. Lastly, APA Validity Period (Beta = .170, p = .001) has the weakest but still significant effect, implying that longer validity of APAs supports compliance, though less strongly than costs and dispute resolution.

4.4 Test for the Moderating Effect of Tax Compliance Cost

In this study, Tax Compliance Cost was chosen as the moderator between the independent variables (Validity period, Tax dispute resolution time, and Pricing agreement compliance cost) and the dependent variable (income tax Compliance). A regression model was undertaken to test if the moderator on the relationship as a variable. A summary of the moderation regression results is shown in the table below. The results are presented in six models as per the hierarchical regression specification. This is shown in Table 9.

Table 9: Summary Moderation Regression Results

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	2.10 (0.50)**	1.95 (0.49)**	1.98 (0.48)**	1.92 (0.48)**	2.05 (0.47)**
APA Validity Period	0.170 (0.001)**	0.166 (0.004)**	0.196 (0.000)**	0.410 (0.003)**	0.321 (0.003)**
Tax Dispute Resolution	0.255 (0.001)**	0.263 (0.001)**	0.470 (0.000)**	0.212 (0.001)**	0.345 (0.002)**
Pricing Agreement Compliance Cost	0.358 (0.000)**	0.349 (0.000)**	0.387 (0.000)**	0.387 (0.000)**	0.498 (0.000)**
Tax Compliance Cost		0.041 (0.003)**	0.534 (0.000)**	0.535 (0.001)**	0.535 (0.001)**
Validity Period * Tax Compliance Cost			0.378 (0.000)**	0.321 (0.003)**	0.328 (0.001)**
Tax Dispute Resolution * Tax Compliance Cost				0.574 (0.000)**	0.696 (0.002)**
Pricing Agreement * Tax Compliance Cost					0.849 (0.000)**
R^2	0.641	0.688	0.675	0.651	0.543
Adj. R^2	0.637	0.684	0.669	0.645	0.535
ΔR^2		0.047	0.013	0.024	0.108
F-value	7.504	5.709	7.255	23.202	6.950

Adding the moderator (Tax Compliance Cost) improved the model from $R^2 = 0.641$ in Model 1 to 0.688 in Model 2, showing it adds real value. When the interaction terms were included (Models 3–5), R^2 rose only slightly to 0.694, with adjusted R^2 staying steady around 0.683–0.686. This means the moderator matters, but the extra interaction effects only give small improvements rather than big changes in how well the model explains tax compliance.

5. Conclusion

The study concludes that the APA validity period plays a vital role in strengthening tax compliance among multinational corporations. A predictable and transparent validity period allows corporations to plan effectively and reduces uncertainties surrounding tax obligations. When validity periods are well-structured, corporations develop trust in the tax system, which encourages them to comply voluntarily. Stability in these agreements minimizes unnecessary disputes, lowers the risk of inconsistent interpretation of tax rules, and creates a conducive environment for businesses to align with regulatory expectations. Consequently, predictable APA validity periods serve not only as a compliance tool but also as a confidence-building mechanism, ensuring corporations operate within the law while sustaining good relationships with tax authorities.

The study concludes that the efficiency of tax dispute resolution significantly influences compliance among multinational corporations. A timely and fair process demonstrates the credibility and reliability of tax authorities, building confidence and promoting cooperation from taxpayers. When disputes are prolonged or handled ineffectively, corporations lose trust in the system and may view compliance as a burden rather than a duty. Conversely, prompt dispute settlement minimizes operational uncertainties and enhances the willingness of businesses to comply with tax regulations. By improving institutional mechanisms for dispute resolution, tax authorities can promote fairness, reduce the backlog of cases, and sustain a compliance culture.

The study concludes that the cost of complying with pricing agreements has a direct effect on tax compliance among multinational corporations. While compliance costs are inevitable, excessive financial or administrative burdens discourage businesses from fully adhering to tax obligations. On the other hand, when compliance frameworks are transparent, affordable, and fairly structured, corporations perceive the tax system as supportive rather than punitive, which fosters voluntary compliance. Balancing oversight with cost efficiency is, therefore, crucial for tax authorities seeking to achieve high compliance levels. A well-designed system ensures that corporations meet their tax obligations without viewing compliance as a drain on resources.

6. Recommendations

6.1 Practical/Managerial Implications

The findings for the Kenya Revenue Authority (KRA) emphasize the importance of improving efficiency and building trust in tax administration. KRA management should focus on implementing predictable frameworks, such as Advance Pricing Agreements (APAs), to give taxpayers certainty in planning and reporting. Streamlining compliance procedures, digitizing reporting systems, and simplifying documentation can reduce administrative burdens that hinder voluntary compliance. Additionally, investing in digital case management and enforcing strict timelines for resolving tax disputes will enhance operational efficiency, reduce backlogs, and boost corporate confidence in KRA processes. Adopting these measures will lower compliance costs for taxpayers while improving revenue collection and strengthening institutional credibility.

6.2 Policy Implications

At the policy level, Kenya should move toward institutionalizing APAs with clear validity periods to modernize the tax framework and improve predictability. Dispute resolution mechanisms must be reformed by embedding Alternative Dispute Resolution (ADR) approaches such as arbitration and mediation, alongside formal litigation. Streamlining transfer pricing compliance costs through simplified procedures and transparent guidelines will ensure tax policies remain investor-friendly while safeguarding revenue. Policymakers should also benchmark global best practices, especially from countries with mature APA and dispute resolution frameworks, and adapt them to the Kenyan tax environment. Stakeholder consultations will remain vital to ensure reforms are both practical and inclusive.

6.3 Theoretical Implications

The study advances tax compliance theory by demonstrating that predictability, efficiency, and affordability in tax administration strongly influence taxpayer behavior. It reinforces institutional theory by showing that when administrative agencies like KRA implement transparent and efficient systems, compliance trust among taxpayers improves. Additionally, the study supports compliance cost theory by illustrating that lowering both direct and indirect costs is key to sustaining voluntary compliance. Within the developing-country context, the results provide empirical evidence that structured reforms in tax administration can modernize compliance practices, reduce disputes, and attract multinational investment.

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