

Transfer Pricing Audit and Corporate Income Tax Compliance Moderated by Technology Integration among Multinational Corporations in Westlands, Nairobi, Kenya

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Abstract

Corporate income tax (CIT) compliance in Kenya remains low, with only 50.2% of the registered firms being tax compliant as of June 2024. Multinational corporations (MNCs) are of particular concern due to complex cross-border operations and transfer pricing (TP) practices that enable profit shifting. The government revised transfer pricing regulations (TPRs) and introduced technology measures, but their effectiveness is unclear. This study investigated the relationship between transfer pricing audit, technology integration and CIT compliance among MNCs in Westlands, Nairobi, Kenya. Theoretically, the study was underpinned by Deterrence Theory. The study adopted an explanatory design and targeted 55 MNCs through a census approach. Structured questionnaires were used to collect data. The pilot study comprising 10% of target population, was carried out in Upper Hill, Nairobi. Analysis involved descriptive and inferential statistics, with hypothesis testing conducted at a 0.05 significance level. Regression results showed that Transfer Pricing audits ($\beta=0.241$, $p<0.05$) positively influenced CIT compliance. Technology integration moderated the relationship, strengthening the effects of TP audits ($\Delta R^2=0.03$, $\beta=0.185$, $p<0.05$). The study concluded that Transfer Pricing Audits are significant drivers of CIT compliance and technology integration amplifies its impact. The study recommended that tax authorities provide clear TP guidelines, invest in digital systems and support audits with technology driven tools. MNCs should also strengthen audits while linking tax functions across departments. Future studies should examine additional TPR elements, cultural factors and the long-term effects of digitization on compliance.

Keywords: *Transfer Pricing Audits, Technology Integration, Corporate Income Tax Compliance, Multinational Corporations*

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1. Introduction

Corporate Income Tax compliance involves how well corporations meet legal tax obligations, including correct income reporting, timely tax filing, and full remittance of dues (Wolters Kluwer, 2023). This compliance, in turn, generates public revenue and supports macroeconomic stability. However, for MNCs, fulfilling tax duties is increasingly complex due to diverse international tax regimes, regulatory variations, and numerous tax-saving opportunities available globally. Given the significant revenue losses that arise from corporate tax default, tax authorities worldwide have intensified their efforts to monitor and enforce compliance. The increasing sophistication of corporate tax evasion strategies and the ethical concerns surrounding tax planning have fueled ongoing debates on corporate tax fairness and the effectiveness of current regulatory frameworks (OECD, 2022).

Audit intensity pertains to the thoroughness and frequency with which tax authorities examine a company's TP practices. High audit intensity involves meticulous scrutiny of intercompany transactions, functional analyses, and benchmarking studies. Tax authorities frequently utilize risk-based assessment approaches to determine audit priorities, concentrating on indicators such as large-scale dealings with related entities in low tax regions, recurring financial losses, or notable year-end adjustments. For instance, dealings that involve payments to affiliated parties located in tax havens or jurisdictions with low tax rates can raise red flags for potential transfer mispricing, thereby triggering more rigorous audit scrutiny (Sikka & Willmott, 2016). The financial repercussions of TP audits can be substantial. Non-compliance may result in significant tax adjustments, penalties, and interest charges, which can severely impact a company's financial position. According to Greil and Eisgruber (2021), companies unprepared for audits could face double taxation or reduced corporate tax deductibility.

Kenya's tax system is also complex, with numerous rules and regulations that govern corporate taxation. Although the introduction of internet-based tax submission systems like iTax has simplified the procedure, many businesses, particularly smaller firms, find the regulatory framework difficult to navigate. According to KIPPRA (2020), this complexity results in compliance challenges, as businesses tussle to fully understand their tax duties, causing frequent errors in reporting and payments. To tackle these issues, Kenya has implemented several reforms aimed at improving corporate tax compliance. One of the most significant reforms is the introduction of the iTax system in 2014. This system permits businesses to carry out tax filing over the internet, track their tax records, and obtain real-time assessments. The move toward digital administration has enhanced efficiency and transparency, improving voluntary compliance rates (KRA, 2021).

In recent years, Kenya has also focused on strengthening TPR interfaces, which are critical to corporate tax compliance. These interfaces connect domestic TPRs with global standards, helping to address the risks of profit shifting across jurisdictions (Kalra & Afzal, 2023). To implement this, KRA conducts audits of MNCs to ensure compliance with the arm's length approach, under which transactions among affiliates must be valued at market rates, just as independent entities would agree upon (Abigail & Dharmastuti, 2022). If discrepancies are found between declared profits and market-based pricing, the KRA can adjust taxable income and impose penalties. These practices emphasize the need for transparency to avoid legal penalties. In 2020, Kenya implemented the OECD's guidelines on TP, bringing its rules in line with international norms (Vet, 2023). This reform is part of Kenya's broader efforts to address

Base Erosion and Profit Shifting (BEPS), an occurrence where MNCs exploit gaps in tax laws to shift profits to low or no-tax jurisdictions. The adoption of OECD guidelines has strengthened Kenya's regulatory framework by improving transparency and enabling more effective audits.

1.1 Problem Statement

Corporate income tax (CIT) compliance among MNCs remains a recurring hurdle faced by tax agencies worldwide. In Kenya, despite intensified enforcement measures by KRA, the number of firms fulfilling their corporate tax obligations has significantly declined. In 2021, 509,058 firms filed tax returns, but by 2024, this number had dropped to 341,793, signaling a shrinking tax base. Even more concerning, only 171,585 firms paid corporate taxes in 2024, pointing to persistent tax avoidance, business closures, or deliberate underreporting. This trend raises urgent concerns about gaps in enforcement, the effectiveness of existing regulations, and the long-term sustainability of Kenya's tax system (Eastleigh Voice, 2024).

MNCs often adjust internal pricing arrangements to shift profits to tax-friendly regions in order to lower their overall tax liability (Elumilade *et al.*, 2022). The Kenyan government has placed heavy reliance on TPRs interfaces since most recently in 2023 to address this issue; enforcement remains challenging even with the establishment of the International Tax Office (Njuguna, 2021). Many MNCs continue to exploit complex intra-group transactions to minimize their tax liability. Technology has been proposed as a solution to this problem. Tools such as AI and data analytics offer real-time monitoring, automated audit trails, and digital reporting functionalities that can enhance compliance detection (OECD, 2022). While these technologies show promise globally, Kenya's implementation is still in its infancy. The full extent of these innovations on TPRs' interfaces and CIT compliance in Kenya is yet to be established. Given the concerns, this study purposes to fill in both contextual and conceptual research gaps through critically evaluating the association between TP audit and CIT compliance, with technology integration as a moderating factor, among MNCs in Westland, Nairobi, Kenya.

2. Literature Review

2.1 Theoretical Review

2.1.1 Deterrence Theory

Deterrence Theory was first proposed by Gary S. Becker in 1968, marking a vital shift in the application of economic theory to issues of law and crime. Becker (1968) introduced the concept that individuals and organizations behave rationally, making decisions by evaluating the expected costs and benefits of their actions. In the context of illegal or non-compliant behavior, such as tax evasion, actors are more likely to comply when the perceived probability of detection and the severity of punishment outweigh the expected gains from non-compliance.

Rahmayanti *et al.* (2020) established that both the observed likelihood of audit and the magnitude of penalties considerably influenced tax compliance decisions. Similarly, Slemrod (2007) emphasized that visible and consistent enforcement mechanisms, when backed by legal authority, play an important role in reducing non-compliance among both individuals and corporations. The application of Deterrence Theory to CIT compliance among MNCs is particularly relevant because of the difficulty and global environment of their operations. The risk of audit, combined with financial and reputational damage, functions as a powerful

restraining force against non-compliance. MNCs are more likely to conform when they perceive that tax authorities are vigilant, well-resourced, and technologically equipped to detect anomalies in their tax filings (Bevacqua, 2020).

Technological advancements have further enhanced the effectiveness of deterrence mechanisms. Tools like AI have allowed tax authorities to observe financial transactions in real time, identify inconsistencies, and target audits more effectively (Rahman *et al.*, 2024). The increased digitization of tax systems in Kenya, including platforms like iTax and the implementation of electronic tax invoice management systems (eTIMS), has enhanced KRA's capacity to monitor compliance. These systems act as modern deterrents, making it more difficult for MNCs to conceal income or underreport tax liabilities. The threat of penalties for inaccurate or late submissions, as well as routine and targeted audits, reinforces compliance behavior. Empirical studies by Alm (2021) and Abikoye *et al.* (2024) support the idea that systematic enforcement backed by advanced technologies improves voluntary compliance and reduces the incidence of fraud and evasion.

2.1.2 Technology Organization Environment (TOE) Framework

The TOE framework was advanced by Tornatzky, Fleischer, and Chakrabarti in 1990. It explains how establishments adopt and apply technological innovations. The structure identifies three factors that guide adoption: technological, organizational, and environmental. The technological context comprises features such as compatibility, intricacy, and relative advantage. The organizational context considers internal elements such as firm size, resources, management support, and communication systems, all of which define the organization's willingness and ability to embrace new technologies. The environmental context includes external forces such as regulatory requirements, market structure, and industry competition, which can drive or constrain technological adoption (Tornatzky *et al.*, 1990).

In tax research, TOE helps analyze how technology integration influences tax CIT compliance. Technologically, digital platforms and automation streamline documentation and submission, improving compliance, as shown by Ndumia (2019) on iTax adoption. From an organizational perspective, leadership support, IT infrastructure, and resource availability determine the ability to adopt systems for tracking compliance and audits (Awa, Ojiabo & Orokor, 2017). The environmental context is equally critical. Evolving regulations and enforcement pressures push MNCs to adopt responsive digital solutions. Studies indicate that technological competence and system quality significantly influence compliance, enabling real-time updates, alerts, and access to official guidelines (Martins & Picoto, 2020; Oliveira & Martins, 2011; Ifinedo, 2011)

2.2 Empirical Review

2.2.1 Transfer Pricing Audits and Corporate Income Tax

A study by Awoke *et al.* (2023) in Nigeria investigated the impact of TP audits on MNCs' tax conduct. It aimed to assess factors like the likelihood of a TP audit, corporate tax rates, combined with stringent tax penalties, and effective information sharing between authorities' impact on compliance levels of MNCs. The findings showed a positive correlation between TP audits and the level of tax compliance among MNCs. The study also found that corporate tax rates negatively affected compliance. The discoveries suggest that enhancing the value and efficiency of TP audits could lead to increased government revenue for domestic infrastructure

development, as MNCs comply. The study recommends that the government and FIRS prioritize TP audits, as they are important in boosting tax compliance among MNCs.

Additionally, the study by Kraievskyi and Muravskyi (2024) aimed to develop a structured framework for tax compliance in handling TP among MNCs. It emphasizes the need for effective collaboration between business entities and tax authorities, anchored in transparency, trust, and adherence to the arm's length concept. They proposed that tax compliance should be supported by two critical tools: the assessment of the value of a company's TP policy and internal control system, and the evaluation of the effectiveness of internal audits on TP. These mechanisms, when integrated, serve as both internal safeguards and external indicators of a corporation's commitment to responsible tax behavior. The study introduces the idea of standardized assessment criteria developed by tax authorities to certify these internal systems, thereby transforming tax compliance into a proactive, strategic function. The link between TP auditing and tax compliance is central to the study's findings. By embedding internal audit results into compliance monitoring, MNCs can demonstrate transparency, reduce their risk of tax audits, and build trust with authorities. This approach allows tax authorities to assess a company's tax risk and determine the need for external audits based on verified internal controls. The study concludes that this model encourages voluntary compliance, ensures timely identification of tax risks, and enhances the efficiency of TP governance.

2.2.2 The moderating Effect of Technology Integration on the Relationship between Transfer Pricing Audit and Corporate Income Tax Compliance

Nina *et al.* (2023) conducted a study to examine how digital technologies impact TP management systems. The research employed various methods such as calculating financial indicators, identifying and synthesizing specific data, conducting system analysis, and applying grouping and ranking techniques. These approaches facilitated the calculation of innovation and technical progress coefficients for 27 European Union countries. The study revealed that a major portion of survey participants (74%) observed positive changes in their financial outcomes after implementing digital technologies in TP. This impact was particularly noticeable in sectors like energy (76%), mechanical engineering (78%), and agriculture (68%). Additionally, the study highlighted the significance of the digital revolution in TP accounting, highlighting its role in identifying inefficiencies within the production chain and resource allocation. This change empowers managers to make smarter decisions and improve financial health by highlighting inefficiencies in spending and resource utilization.

In a similar study by Royalty Range (2024), it found that the institution of digitalization has considerably enhanced the capacity to gather and interpret large volumes of data from diverse sources, enabling more accurate and holistic TP analyses. The application of sophisticated analytics has empowered firms to uncover transactional trends, patterns, and anomalies, thereby enhancing the accuracy of TP adjustments. The study emphasized that digitalization through tools like Operational Transfer Pricing (OTP) systems helps firms handle complex pricing data across departments. This reduces inconsistencies and supports accurate, consistent audit responses. The adoption of OTP is especially valuable in aligning strategic pricing decisions with tax reporting requirements.

2.3 Conceptual Framework

According to Hassan (2024), a conceptual framework illustrates the variables and their interrelations within a study. The framework acts as a basis, connecting theoretical knowledge to research inquiries and procedures. The conceptual framework is depicted in Figure 1.

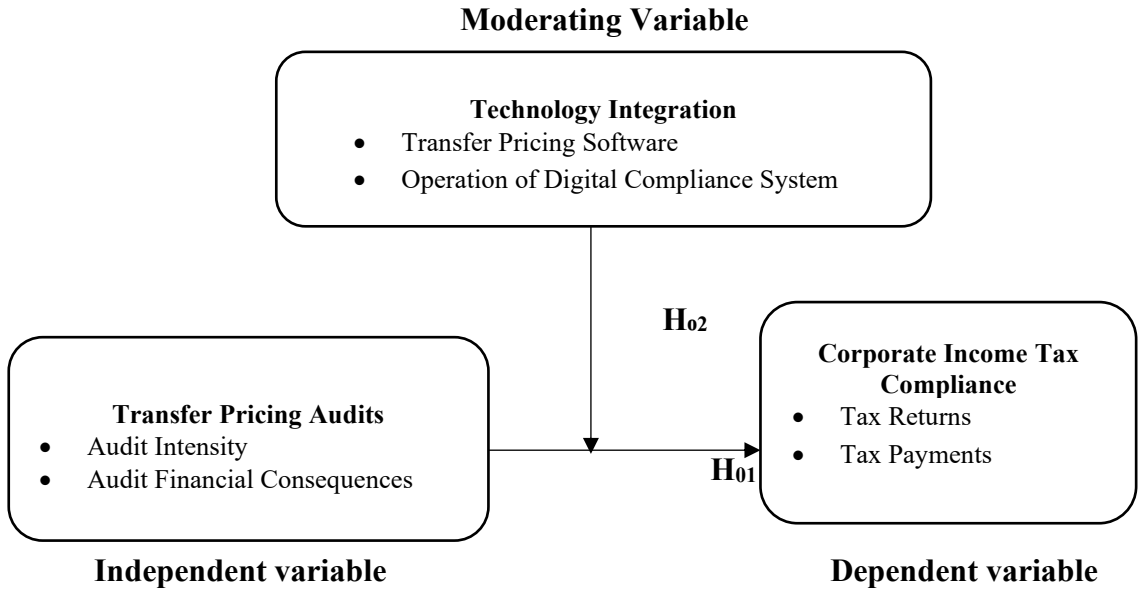


Figure 1: Conceptual Framework

3. Methodology

This study used an explanatory research design. By focusing on causal linkages and testing the moderating effect of technology integration, this design enabled the study to go beyond mere description, offering insights into how and why TP audits impact CIT compliance. The target population comprised 55 MNCs (KNBS, 2024). Given the small target group, sampling was unnecessary. Instead, a census approach was utilized, ensuring that the total population of 55 MNCs was included. Data was collected through structured questionnaires. All the questionnaires distributed were successfully collected and, after cleaning, found fit for analysis. Data analysis was carried out using descriptive and inferential statistics.

The study achieved a 100% response rate, which is considered excellent for data analysis (Mugenda and Mugenda, 2003). The internal uniformity of the study instrument was measured using Cronbach’s Alpha. It was used as a measure to determine how the items included in the questionnaire were reliable. For this, an alpha value that was 0.7 or greater was considered acceptable (Hair *et al.*, 2010). Table 1 displays the results.

Table 1: Reliability Test

Study variables	Cronbach's α	Comment
Transfer Pricing Audits	0.702	Accepted
Technology Integration	0.788	Accepted
Corporate Income Tax Compliance	0.801	Accepted

4. Results and Discussion

4.1 Descriptive Statistics

The findings were based on the following thresholds: A mean between 3.41 and 4.20 reflected high agreement on a 5-point scale. A standard deviation (SD) above 1.0 indicated low consensus, while values closer to 1.0 suggested moderate distribution in responses.

4.1.1 Transfer Pricing Audits

Table 2 illustrates the effect of TP audits on CIT compliance. The intensity of TP audits is effective in ensuring that MNCs adhere to CIT compliance (mean = 3.71, SD = 0.89). TP audit intensity helps identify discrepancies in MNCs' CIT compliance (mean = 3.73, SD = 0.92). The financial consequences of TP audits, such as penalties or adjustments, motivate MNCs to comply with tax regulations (mean = 3.80, SD = 0.99). TP audits help tax authorities detect and address tax avoidance, and their financial outcomes affect compliance behavior (mean = 3.76, SD = 0.93). MNCs are more likely to comply with tax regulations due to the perceived likelihood of being audited, promoting CIT compliance (mean = 3.65, SD = 0.94). TP audits result in financial consequences that improve overall CIT compliance (mean = 3.55, TP = 1.02). The audit process, through its intensity and financial implications, discourages aggressive tax planning strategies, ensuring CIT compliance (mean = 3.89, SD = 0.90).

Table 2: Transfer Pricing Audits

Statement	N	Mean	Std. Deviation	Skewness	Kurtosis
The intensity of TP audits is effective in ensuring that MNCs adhere to CIT compliance.	55	3.71	0.89	-0.28	0.05
TP audit intensity helps identify discrepancies in MNCs' CIT compliance.	55	3.73	0.92	-0.25	-0.95
The financial consequences of TP audits, such as penalties or adjustments, motivate MNCs to comply with tax regulations.	55	3.80	0.99	-0.30	-0.76
TP audits help tax authorities detect and address tax avoidance, and their financial outcomes affect compliance behavior.	55	3.76	0.93	-0.19	-0.89
MNCs are more likely to comply with tax regulations due to the perceived likelihood of being audited, promoting CIT compliance.	55	3.65	0.94	-0.22	-1.04
TP audits result in financial consequences that improve overall CIT compliance.	55	3.55	1.02	-0.06	-0.69
The audit process, through its intensity and financial implications, discourages aggressive tax planning strategies, ensuring CIT compliance.	55	3.89	0.90	-0.77	0.31
Average		3.73	0.95		

4.1.2 Technology Integration

Table 3 highlights the results of technology integration as the study moderator. Use of TP software that incorporates AI and Machine Learning improves data accuracy and reduces audit penalties (mean = 4.04, SD = 0.90). Automation of compliance processes through digital tools minimizes human error and strengthens tax reporting (mean = 4.20, SD = 0.80). Blockchain-based systems support real-time compliance and enhance audit transparency (mean = 4.36, SD = 0.82). AI and big data analytics support timely responses to tax risks, improving compliance outcomes (mean = 4.15, SD = 0.95). Digital compliance systems allow tax authorities to detect risks early, reducing adjustments and penalties (mean = 4.15, SD = 0.80). IT systems foster trust between businesses and tax authorities, ensuring accurate reporting and strengthening CIT compliance (mean = 4.38, SD = 0.71). Technology helps businesses stay updated on legal changes, reducing penalties and promoting CIT compliance (mean = 4.22, SD = 0.79).

Table 3: Technology Integration

Statement	N	Mean	Std. Deviation	Skewness	Kurtosis
Use of TP software that incorporates AI and Machine Learning improves data accuracy and reduces audit penalties.	55	4.04	0.90	-0.70	-0.19
Automation of compliance processes through digital tools minimizes human error and strengthens tax reporting.	55	4.20	0.80	-0.61	-0.50
Blockchain-based systems support real-time compliance and enhance audit transparency.	55	4.36	0.82	-1.19	-0.78
AI and big data analytics support timely responses to tax risks, improving compliance outcomes.	55	4.15	0.95	-0.84	-0.30
Digital compliance systems allow tax authorities to detect risks early, reducing adjustments and penalties.	55	4.15	0.80	-0.72	0.15
IT systems foster trust between businesses and tax authorities, ensuring accurate reporting and strengthening CIT compliance.	55	4.38	0.71	-0.71	-0.68
Technology helps businesses stay updated on legal changes, reducing penalties and promoting CIT compliance.	55	4.22	0.79	-0.65	-0.32
Average		4.21	0.83		

4.1.3 Corporate Income Tax Compliance

Table 4 highlights the findings of CIT compliance, the dependent variable. Timely submission of accurate tax filings reflects corporate income tax compliance by MNCs (mean = 4.13, SD = 0.75). The arm's length principle helps prevent profit shifting and supports CIT compliance (mean = 3.98, SD = 0.97). Risk-based audits improve the accuracy of tax payments and prevent aggressive tax planning, and promote CIT compliance (mean = 3.95, SD = 0.93). Frequent

audits promote accuracy in reported income and discourage TP manipulation, ensuring CIT compliance (mean = 3.89, SD = 0.88).

Table 4: Corporate Income Tax Compliance

Statement	N	Mean	Std. Deviation	Skewness	Kurtosis
Timely submission of accurate tax filings reflects corporate income tax compliance by MNCs.	55	4.13	0.75	-0.49	-0.15
The arm's length principle helps prevent profit shifting and supports corporate income tax compliance.	55	3.98	0.97	-0.59	-0.65
Risk-based audits improve the accuracy of tax payments and prevent aggressive tax planning, and promote corporate income tax compliance.	55	3.95	0.93	-0.60	-0.41
Frequent audits promote accuracy in reported income and discourage transfer pricing manipulation, ensuring corporate income tax compliance.	55	3.89	0.88	-0.30	-0.69
Regulatory awareness is crucial for ensuring a multinational corporation's compliance with corporate income tax laws.	55	3.95	0.97	-0.90	0.58
Average	3.98	0.90			

4.2 Correlation Analysis

Table 5 depicts the correlation analysis results. TP audits were shown to be positively correlated with CIT compliance ($r=0.402$, $p=0.01$); this relationship suggested that rigorous auditing of TP contributes to improved compliance by deterring profit shifting and enforcing the arm's length principle. Technology integration had the strongest relationship with CIT compliance, with a coefficient of $r=0.489$ ($p=0.003$). This suggests that integration of technology is strongly connected with higher levels of CIT compliance.

Table 5: Correlation Analysis

	CIT(Y)	TPA(X ₁)	TI(M)
CIT Compliance	1		
Transfer Pricing Audits	.402**	1	
Technology Integration	.489**	.445**	1

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

4.3 Multiple Regression Analysis without a Moderator

The results in Table 6 revealed that TP audits show a positive correlation with CIT compliance. This was shown with a correlation coefficient of 58.75% ($R=0.587$). The findings of the study

suggest that the model explains 34.5% ($R^2=0.345$) of the changes in CIT compliance. This also showed that the remaining 65.5% are affected by other factors not captured in the model.

Table 6: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.587 ^a	.345	.332	.42791

- a. Predictors: (Constant), transfer pricing audits
b. Dependent Variable: CIT Compliance

The study further conducted ANOVA analysis to show that the model was suitable for determining the link between the variables. Findings in Table 7 revealed an F statistic of 45.766, which was significant at the level of 0.000, less than the threshold of 0.05.

Table 7: ANOVA

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Pr > F
1	Regression	8.421	1	8.421	45.766	.000 ^b
	Residual	9.776	53	0.184		
	Total	18.197	54			

- a. Dependent Variable: CIT compliance
b. Predictors: (Constant), transfer pricing audits

As presented in Table 8, regression coefficients revealed that TP audits ($\beta = 0.452$, $p = 0.000$) are a significant positive predictor of CIT compliance.

Table 8: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	.540	.135			4.000	.000
Transfer Pricing Audits	.310	.072	.452		4.305	.000

- a. Dependent Variable: CIT compliance
b. Predictors: (Constant), transfer pricing audits

4.4 Hierarchical Model Process for Moderation Effect

This study made use of the hierarchical procedure that was proposed by Baron and Kenny (1986) to determine the effect of moderation. The analysis was done in three different steps. First, the analysis was focused on investigating the relationship between the TP audits and CIT compliance. In the second phase, technology integration (moderator) was introduced into the regression analysis to examine both its individual contribution to TP audits and CIT compliance and its potential moderating effect. The third phase involved generating interaction terms by

finding the product of each independent variable with the moderator. These interaction terms were then added into the hierarchical regression model one at a time to test if they produced statistically significant effects.

The results in Table 9 revealed that TP audits, technology integration, and the interaction term show a positive correlation with CIT compliance. This was shown by a correlation coefficient of 71.3% ($R=0.713$). The results indicated that the model explained 50.8%, leaving 49.2% of the change attributed to factors not included in the model.

Table 9: Model Summary with Moderator

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.713 ^a	.508	.472	.40722

- a. Predictors: (Constant), transfer pricing audits, technology integration, TPA*TI
b. Dependent Variable: CIT Compliance

The study conducted ANOVA with the moderator. The results in Table 10 showed a statistically significant F-statistic ($p<0.05$). This confirmed that the models used predicted CIT compliance. While the F-statistics dropped progressively from 45.766 to 17.617, the results showed that the model remained statistically valid. All the models showed their p-values being less than the threshold of 0.05, confirming their significance.

Table 10: ANOVA-With Moderator

ANOVA ^a						
Model 1		Sum of Squares	df	Mean Square	F	Pr > F
1	Regression	8.421	1	8.421	45.766	.000 ^b
	Residual	9.776	53	0.184		
	Total	18.197	54			
Model 2		Sum of Squares	df	Mean Square	F	Pr > F
1	Regression	8.706	2	4.354	23.923	.000 ^b
	Residual	9.489	52	0.182		
	Total	18.197	54			
Model 3		Sum of Squares	df	Mean Square	F	Pr > F
1	Regression	9.248	3	3.083	17.617	.000 ^b
	Residual	8.949	51	0.175		
	Total	18.197	54			

The regression coefficients result in Table 11 revealed that, with p-values well below 0.05, as additional interaction term was introduced in successive models, the individual coefficients for the main predictors decreased slightly, which is typical in hierarchical regression as shared variance increases, and multicollinearity may modestly affect estimates (Yu *et al.*, 2015). Despite this, the predictors remained statistically significant, indicating that each variable, including the interaction, contributes uniquely to explaining variations in CIT compliance. The findings confirm that technology integration directly influences CIT compliance as well as

significantly moderates the effects of TP audits, supporting the idea that digital tools enhance regulatory adherence and compliance effectiveness (Abikoye *et al.*, 2024).

Table 11: Regression Coefficients- With Moderator

Model 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.540	.135		4.000	.000
Transfer Pricing Audits	.310	.072	.452	4.305	.000

Model 2	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.580	.127		4.567	.000
Transfer Pricing Audits	.245	.067	.310	3.657	.001
Technology Integration	.220	.052	.298	4.231	.000

Model 3	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.560	.133		4.211	.000
Transfer Pricing Audits	.225	.061	.241	3.690	.001
Technology Integration	.190	.050	.258	3.820	.000
TPA*TI	.110	.034	.185	3.235	.002

The results of the hierarchical model are summarized in Table 12.

Table 12: Hierarchical Model Summary

Variable	Model (i)	Model (ii)	Model (iii)
Constant (Intercept)	0.540 (0.135)**	0.580 (0.127)**	0.560 (0.133)**
Transfer Pricing Audit (TP A)	0.452 (0.072)**	0.310 (0.067)**	0.241 (0.061)**
Technology Integration (TI)	-	0.298 (0.052)**	0.258 (0.050)**
TP A × TI	-	-	0.185 (0.034)**
R ²	0.345	0.478	0.508
Δ in R ²	-	0.133	0.03
F-Statistic	45.766	23.923	17.617
P-Value (ANOVA)	0.000	0.000	0.000

4.5 Hypothesis Testing

Table 13 summarizes the results of the hypothesis testing, showing the beta values, p-values, and decisions based on a 95% confidence interval ($p < 0.05$).

Table 13: Testing of Hypotheses

Hypotheses	Beta Coefficient	p value	Decision on H ₀
H ₀₁ : Transfer pricing audits have no significant effect on corporate income tax compliance among MNCs in Westlands, Nairobi, Kenya.	0.241	0.001	Reject H ₀
H ₀₂ : Technology Integration has no significant moderating effect on the relationship between transfer pricing audits and corporate income tax compliance among MNCs in Westlands, Nairobi, Kenya.	0.185	0.002	Reject H ₀

H₀₁: Transfer pricing audits have no significant effect on CIT compliance among MNCs in Westlands, Nairobi, Kenya. The independent variable was shown to have a positive association with CIT compliance, with a beta coefficient of 0.241. The results revealed that Transfer pricing audits had a p value of 0.001 below 0.05. This suggests that the relationship was statistically significant, leading to the rejection of the null hypothesis.

H₀₂: Technology integration does not significantly moderate the relationship between TP audits and CIT compliance among MNCs in Westlands, Nairobi. The interaction term showed a positive relationship with CIT compliance, with a beta coefficient of 0.185. The results in Table 12 revealed that the p -value was less than 0.0, $p = 0.002$. This suggests that the moderation effect was statistically significant, hence rejection of the null hypothesis. The nature of moderation for **H₀₂** is enhancing, as technology integration increases the influence of TP audits on CIT compliance.

4.6 Discussion

TP audits were found to influence CIT compliance positively, with a significance level of 0.001. These findings are supported by the work of Awoke *et al.* (2023), which revealed that TP audits contribute to compliance by increasing the likelihood of detection, imposing effective penalties, and strengthening enforcement mechanisms. Additionally, technology integration was found to positively moderate the relationship between TP audits and CIT compliance with a significance level of 0.002. The study agrees with Nina *et al.* (2023), who found that adopting digital technologies enhanced transfer pricing management systems.

5. Conclusion

The study established that TP audits and technology integration each have a positive effect on CIT compliance among MNCs. The findings showed that compliance is strongest when these factors are operating together, making compliance a continuous and multidimensional process rather than a legal formality. The study further found that technology enhances the effect of TP audits but works better when combined with the institutional knowledge and structured compliance frameworks.

6. Recommendations

Tax authorities should strengthen the effectiveness of TP audits as a way of improving CIT compliance. This can be made possible through setting clear guidelines on audit procedures, application of consistent enforcement measures, and development of frameworks that encourage cooperative compliance. These approaches can help reduce disputes, enhance fairness in tax practices, and create a regulatory environment that is predictable for MNCs. Investment in technology is recommended for both the administration of taxes and MNCs. For tax authorities, advanced digital tools can improve risk assessment, data analysis, or audit targeting, in turn increasing certainty of detection and supporting stronger compliance. Conversely, MNCs should incorporate technology in their operations to improve accuracy, streamline reporting, and facilitate real-time sharing of data across departments. This can strengthen internal controls, enable timely identification of compliance risks, and reduce exposure to penalties.

Drawing from theory, authorities should combine consistent enforcement with digital innovations. Deterrence theory supports consistent TP audit enforcement strengthened by digital tools to raise detection and promote compliance. The TOE framework emphasizes MNCs' adoption of integrated technologies such as real-time reporting, while authorities provide interoperable systems and training to reduce compliance barriers.

Future studies should examine other TP components, such as comparability analysis and Cost Plus. The impact of CbCR, APAs, and cultural factors on compliance should also be explored. Additionally, the long-term role of AI and the digital readiness of tax authorities in shaping CIT compliance warrant investigations.

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