

The Effect of Access to Financial Institutions on Income Tax Compliance Among Small and Medium Enterprises in Marginalized Areas. Case Study of Tana River County

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Accepted: 18 September 2025 || Published: 10 November 2025

Abstract

This study aimed to assess the effect of financial institution access on income tax compliance among small and medium enterprises (SMEs) in marginalized regions with specific reference to Tana River County, Kenya. Although SMEs play a significant role in the economic growth and revenue collection, their rate of income tax compliance is very low, which is partially explained by the lack of access to financial institutions and digital financial services. The study adopted a quantitative research design where a sample of 267 SMEs was targeted with the help of structured questionnaires to gather primary data. With the aid of SPSS version 26, the data were examined using descriptive statistics, correlation, and regression analysis. The findings showed that access to financial institutions, as measured through financial inclusion, proximity to financial services, digital transaction capability, and mobile money platforms, has a significant effect on income tax compliance. In particular, better access to financial services by SMEs is associated with an increased possibility of timely, accurate, and consistent tax payments. The results are consistent with the Institutional Theory and Financial Intermediation Theory that put an emphasis on the role of institutional structures and financial access in the development of economic behaviour. The study emphasized the ability of financial inclusion in improving voluntary tax compliance, especially in marginalized areas where the formal financial infrastructure is not well developed. It concludes that by increasing access to financial services and increasing digital transactions, government revenue collection can be improved, as well as facilitate the growth of SMEs. The study suggests policy measures to increase financial infrastructure, management approaches to incorporate tax systems into financial platforms, and additional research on various types of taxes in different marginalized regions.

Keywords: *Access to financial institutions, Income tax compliance, SMEs, Financial inclusion, Digital transactions, Tana River County*

How to Cite: Muriuki, P. (2025). The Effect of Access to Financial Institutions on Income Tax Compliance Among Small and Medium Enterprises in Marginalized Areas. Case Study of Tana River County. *Journal of Finance and Accounting*, 5(10), 41-59.

1. Introduction

Tax compliance forms the foundation of long-term sustainable economic growth, as it determines the availability of enough revenue to fund public goods and services (Pererva et al., 2021). However, voluntary income tax compliance is still a challenge worldwide, especially in the case of Small and Medium Enterprises (SMEs), which are generally informal in nature (Valerian, 2023). Some researchers argue that one of the most critical aspects of this challenge is access to financial institutions, as they are critical in determining financial behaviour, record keeping, and tax accountability of businesses (Elumilade et al., 2022; Mpofu, 2022). Studies emphasize that financial institutions offer platforms for savings, credit, and digital transactions that, in addition to boosting business growth, also offer a framework of transparency that promotes adherence to tax laws (Oyegbade et al., 2022). This study aimed at analyzing the impact of financial institutions' accessibility on income tax compliance among SMEs in marginalized regions, using Tana River County in Kenya as a case study.

On a global front, exposure and access to financial institutions are major enablers of tax compliance. The World Bank (2022) report asserts that financial inclusion aids in the formalization of businesses as it helps in integrating them into the broader financial system, consequently enhancing the capacity to pay taxes. Insights from countries like Sweden and Singapore have shown that when financial services are widely penetrated and the tax systems of governments are closely linked to the financial sphere, evasion becomes minimal and voluntary compliance is more likely to occur (Juswanto & Abiyunus, 2022; Saltman et al., 2022). Moreover, researchers argue that the emergence of new financial technologies (FinTechs) has reduced transaction costs and enhanced accessibility, which makes tax compliance easier even among micro and small businesses (Omowole et al., 2024). These international experiences highlight the potential of financial institutions as a driver of tax compliance.

In Africa, limited access to financial institutions has been a major obstacle to tax compliance. A significant proportion of SMEs in Africa operate outside the formal banking sector, making the use of cash-based transactions a common and recurring activity that is hard to monitor and control. According to research by the African Development Bank (2021), only a small percentage of adults in Sub-Saharan Africa (43%) have access to formal financial services, which adversely affects the capacity of tax authorities to expand the tax base. Countries such as Rwanda and Nigeria have made deliberate efforts to correlate financial inclusion to tax reforms through the introduction of mobile payment systems to pay taxes, which have greatly enhanced the compliance rates (Mpofu, 2022; Okello et al., 2020). However, there are still gaps in marginalized areas where the level of banking penetration is still low, which continues to create informality as well as revenue leakages.

In Kenya, the expansion of mobile money platforms, including M-Pesa, has led to improved access to financial institutions (Wachira & Njuguna, 2023). Nevertheless, Wanzala and Obokoh (2025) note that in marginalized counties like Tana River, access to banking services by many SMEs continues to be a challenge as a result of poor infrastructure, low financial literacy, and weak connections between financial institutions and tax authorities. These obstacles contribute to poor compliance rates among SMEs, despite governmental reforms aimed at increasing the tax base.

This study is timely and relevant as Kenya seeks to enhance domestic revenue mobilization in line with its Vision 2030 and the Sustainable Development Goals (SDGs). This study will shed light on how ease of access to financial institutions affects income tax compliance in marginalized communities, and therefore inform policymakers to formulate all-inclusive taxation policies that will not only boost revenue collection but also financial empowerment and economic development in underserved communities.

1.1 Problem Statement

Despite income tax being essential in financing government spending, the compliance among the Small and Medium Enterprises (SMEs) is still at a very low level (Judith et al., 2022; Peprah et al., 2020). In Kenya, the Kenya Revenue Authority (KRA) has been experiencing difficulty in achieving its income tax collection targets. For instance, during the financial year 2022/2023, KRA had an income tax target of KSh. 2.273 trillion, but was only able to collect Ksh. 2.166 trillion, reflecting a gap of more than Ksh. 107 billion (KRA, 2023). These deficits make the government unable to finance the fundamental services and development projects, particularly in the marginalized parts. The SMEs, which make up over 80% of Kenyan businesses, form a large chunk of the tax base, but compliance levels are not satisfactory (Yarow, 2020).

Access to financial institutions can be considered one of the critical factors that are associated with this issue. Research indicates that when SMEs have access to banking services, digital finance, and credit facilities, they tend to maintain accurate financial records and to honour their taxes (Balboa ET AL., 2024; Madan, 2020). Nevertheless, there is a poor penetration of formal financial institutions in marginalized regions like Tana River owing to infrastructural challenges and poor financial literacy (Wanzala & Obokoh, 2025). This perpetuates informality, cash transactions, and low levels of tax compliance.

Empirical studies on the association between financial access and tax compliance show mixed outcomes. Although some scholars consider access to financial institutions to be a key contributor to compliance through transparency and tax payment ease (Akang, 2023), there are reports of weak or insignificant relationships (Ozili, 2020). Such disparity points out a gap in the literature, especially in areas such as the Tana River, where limited research has been done. It is crucial to fill this gap in informing inclusive tax policies and strategies to mobilize revenue.

1.2 Hypothesis of the Study

H₀: Access to financial institutions has no significant effect on income tax compliance among SMEs in Tana River County.

H₁: Access to financial institutions has a significant effect on income tax compliance among SMEs in Tana River County.

2. Literature Review

The literature review presents a synthesis of the existing research and theoretical viewpoints regarding the impact of access to financial institutions on income tax compliance among SMEs. It investigates the global, regional, and local research findings to bring to the fore the role of financial inclusion in determining tax behaviour. The review critically analyses empirical data regarding the impact of access to banking services, digital financial platforms, and credit facilities on the level of compliance, also pointing out contradictions in the existing literature. By determining the recurring and contradictory results, this section defines the research gap

that justifies the current research on SMEs in underprivileged regions, with special interest in the Tana River County.

2.1 Theoretical Review

2.1.1 Institutional Theory

According to the Institutional Theory by Meyer and Rowan (1977), organizations are interwoven into the wider institutional setting consisting of sets of norms, rules, and cultural beliefs (Kauppi, 2022). The theory asserts that organizations conform to institutional pressures to achieve efficiency as well as attain legitimacy and survival in their operational environments. Organizations and individuals are influenced by institutions such as financial systems, legal frameworks, and regulatory bodies that create a system of structure that defines what is acceptable, rational, and legitimate (Kauppi, 2022). In essence, the theory stipulates that the need to conform to the institutional norms is a response to the outside pressures that ensure continuance and social acceptance.

Institutional Theory has been broadly used in the tax field to explain the behaviour of taxpayers about state laws and financial systems. Researchers who have adopted this theory demonstrate that tax compliance is not only an economic choice, but also depends on the institutional elements that comprise the effectiveness of the financial institutions, the perceived fairness of the tax systems, and the effectiveness with which they are enforced (Burdon & Sorour, 2020). For instance, SMEs tend to abide by the tax requirements when institutional frameworks such as banking systems, online payment systems, and record-keeping requirements are well integrated and established (Charo, 2020). Access to financial institutions brings about formalization, which subjects business to institutional structures that directly or indirectly strengthen adherence to tax regulations. This way, the Institutional Theory provided a lens through which to understand tax compliance as a socially and structurally determined action, but not solely an individual decision.

Institutional Theory was highly relevant to the current study. Studies argue that in regions like Tana River, where financial institutions are less accessible, the SMEs tend to be informal and unattached to any institutional structures, leading to low compliance (Ajewole, 2021). On the other hand, research suggests that better access to financial institutions incorporates SMEs in formal mechanisms as a way of strengthening legitimacy, transparency, and accountability, which consequently increases tax compliance (Muna, 2020). Using the Institutional Theory, this study sheds light on how financial institutions are embedded within the larger institutional landscape that influences the way compliance behaviour is formed, especially in a marginalized setting where such connections are still weak.

2.1.2 Financial Intermediation Theory

Gurley and Shaw (1960) developed the Financial Intermediation Theory, which stated that financial institutions provide an opportunity to connect savers and borrowers, which in turn contributes to the efficient allocation of resources in a particular economy (Gbadebo, 2024). According to the theory, financial intermediaries like banks, microfinance institutions, and credit cooperatives lower the transaction costs and risks and enhance liquidity by connecting surplus economic units with deficit units. Essentially, those institutions offer mechanisms which allow individuals and businesses to obtain credit, mobilize savings, and carry out

financial transactions in a more efficient way than they could when they had to directly borrow and lend to each other (Gbadebo, 2024).

Financial Intermediation Theory has been utilized in the tax field to explain how the availability and access to financial institutions affect the tax compliance behavior (Konstantakopoulou, 2023). The financial institutions offer SMEs and other businesses avenues through which records are kept, creditworthiness is determined, and online transactions, which leave a trail of financial transactions (Asah & Louw, 2021). Such transparency raises the chances of the authorities noticing underreporting or evasion and thus motivates compliance. In addition, SMEs that rely on financial institutions as sources of loans and other credit facilities are usually required to show compliance with taxes as one of the eligibility requirements. Financial intermediaries, therefore, provide economic facilitation as well as indirect provision of tax compliance, whereby access to finance is conditional on formal compliance with the formal obligations.

This study is well aligned with the Financial Intermediation Theory. In some areas, like the Tana River, accessibility to financial institutions has been minimal, and many SMEs continue to operate informally and out of regulated financial structures, thereby undermining compliance. Through the lens of this theory, it can be argued that better financial intermediation can bring SMEs into the formal economy, in which tax compliance becomes a necessity and a by-product of financial participation. The grounding of the study on the Financial Intermediation Theory makes it apparent that financial institutions not only contribute to economic growth but also play an important role in enhancing transparency, formalization, and, ultimately, income tax compliance.

2.2 Empirical Review

The empirical review explores previous relevant research studies that have been conducted to determine how access to financial institutions has been related to tax compliance in various settings. This section, by examining global, regional, and local research results, identifies the degree to which business formalization, record-keeping, and compliance behaviour among SMEs are affected by financial accessibility. It also establishes points of convergence and divergence in scholarly findings, thus giving a basis for the understanding of the current knowledge base. Besides, the review reveals gaps in the literature, especially on marginalized areas like the Tana River.

2.2.1 Financial Institutions

Recent empirical research provides insights into how financial institutions and their reporting or digitalization practices influence tax compliance. For instance, Kontkanen and Lindgren (2022) conducted a conceptual and policy-based discussion of reporting requirements and the good tax system criteria of financial institutions. They assert that increased third-party reporting (such as banks reporting client transaction data) strengthens the information base of tax administrations, lowers compliance costs, and improves fiscal efficiency, which is essential in promoting better tax compliance. Their research relies considerably on policy documents and regulatory evolutions and thus is particularly useful in comprehending how formal financialised reporting systems may be useful in supporting tax administration.

Chooi (2020) suggests a Compliance Risk Management (CRM) framework to enhance tax compliance, arguing that financial institutions and digital financial services are to be embraced

in risk assessment and taxpayer segmentation. In relation to the practice in international tax administration, Chooi asserts in his work that closer scrutiny of financial intermediaries and more effective use of their data could assist the tax authorities in focusing on high-risk businesses and potential compliance enhancement. A broader firm-level analysis in Sub-Saharan Africa, by Jibir et al. (2020), based on World Bank Enterprise Survey data, tests the extended slippery slope framework (eSSF) and reveals that trust in tax authorities is crucially important in encouraging compliance, but the perceived power of tax authorities is less predictive of compliance in high-informality and high-corruption environments. This implies that financial institutions can be used to establish trust (with the aid of transparency and formalization) and, by extension, encourage compliance.

Lastly, a study by Brixiova et al. (2020) investigated the access to finance by SMEs in Sub-Saharan Africa and discovered that the imperfections of financial markets and lack of access to credit are significant limitations to the growth and diversification of firms. This suggests that in situations where financial access is high, firms can be more inclined to formalize their operations, which is argued to be linked to improved compliance and tax record-keeping behavior.

2.2.1 Income tax compliance

Empirical research on income tax compliance has attempted to answer the question as to why taxpayers, especially SMEs, either comply willingly or evade their obligations. For instance, Alm and Torgler (2011) conducted a cross-country survey to examine the determinants of tax compliance and discovered that the level of compliance is highly impacted by the perceptions of fairness, institutional trust, and enforcement mechanisms. Their analysis utilized a comparative design across OECD and the developing countries and presented that in the situations when the taxpayers feel that the system is fair and transparent, voluntary compliance usually turns out to be high. This demonstrates the importance of institutional legitimacy in determining compliance behaviour. It is worth acknowledging that recently empirical studies continue to shed light on the factors that determine income tax compliance among SMEs, with an increasing interest in digital tools, training of the taxpayers, as well as the institutional trust. In their descriptive survey in Nairobi City County of 641 manufacturing SMEs, Gichohi and Muchira (2023) conclude that electronic taxpayer education has a significant role in enhancing tax compliance. The increased accessibility of tax information by means of digital tools allowed the SMEs to more easily navigate filing procedures and comply voluntarily.

A literature review by Odongo (2025), which is a synthesis of multiple recent and policy-oriented empirical studies in Kenya, emphasizes that internal factors such as tax knowledge, record-keeping practices, and business size consistently influence compliance, while external factors such as digitization of tax services, administrative simplification, and corruption control play a moderating role. Muthuri and Maku (2025) conducted a quantitative survey using structured questionnaires and surveyed 235 SMEs in Meru County using regression analysis. They identified a significant positive correlation between the implementation of digital tax systems such as iTax and SME compliance: the digital platforms accounted for approximately 58.5% of the variance in tax compliance behavior. This implies that compliance can be greatly enhanced by making it easier to access more efficient digital filing systems.

In a broader assessment of tax compliance in Ethiopia based on PRISMA systematic review methodology, Tumoro & Pandya (2025) note common impediments to tax compliance:

complexity of taxes, ineffective IT tools, corruption, and lack of trust of taxpayers in their tax authorities. This highlights that compliance may be hampered by structural and institutional vulnerabilities, even in situations where taxpayers may be willing or enlightened. Lastly, a survey-based investigation by Appiah et al. (2024) indicates that ease of execution of tax processes, digital literacy, and size of a firm are good predictors of compliance, again indicating the need to alleviate procedural and technological burden on SMEs.

2.3 Critique of Existing Literature

An overview of the literature on financial institutions and income tax compliance shows a consistent trend stressing the importance of financial access, digitalization, and institutional trust in improving compliance. Studies like those by Kontkanen and Lindgren (2022) and Chooi (2020) point to the contribution of financial institutions, in reporting and compliance risk management frameworks, to increasing the effectiveness of tax administrations in monitoring and enforcing compliance. Similarly, African-based studies have demonstrated that improved access to finance and record-keeping is associated with enhanced compliance (Magasha et al., 2025; Brixiova et al., 2020). Specifically, in relation to income tax compliance, digital platforms and taxpayer education have been identified as key facilitators of compliance (Muthuri & Maku, 2025; Gichohi & Muchira, 2023), whereas institutional weaknesses, complexity, and corruption have been identified as obstacles (Odongo, 2025). An evident trend in both literature streams is the convergence towards formalization and digitalization as key forces of compliance, especially with respect to SMEs that comprise the largest part of many economies.

Despite these contributions, the literature is not without gaps. To begin with, the majority of research is conducted at the general national or regional levels, leaving marginalized regions such as the Tana River underexplored. Secondly, while a significant number of studies address tax knowledge, enforcement, and digitalization, relatively less research has attempted to pinpoint the actual role played by access to financial institutions, banking services, credit, or mobile finance in determining the SME tax compliance rates. Moreover, there is much contradiction and controversy in the literature: Some scholars argue for strong links between financial access and compliance, while others find only weak or insignificant associations. This inconsistency calls for further context-specific empirical work that investigates how financial access interrelates with compliance behavior in low-infrastructure and underserved areas. The current study, therefore, seeks to fill this gap by focusing on SMEs in Tana River County.

2.4 Conceptual Framework

Conceptual framework represents a collection of overarching ideas and foundational principles drawn from pertinent areas of study, serving to organize a subsequent presentation. Figure 1 shows the conceptual model depicting the nature of the relationship between the independent variable and the dependent variable, income tax compliance.

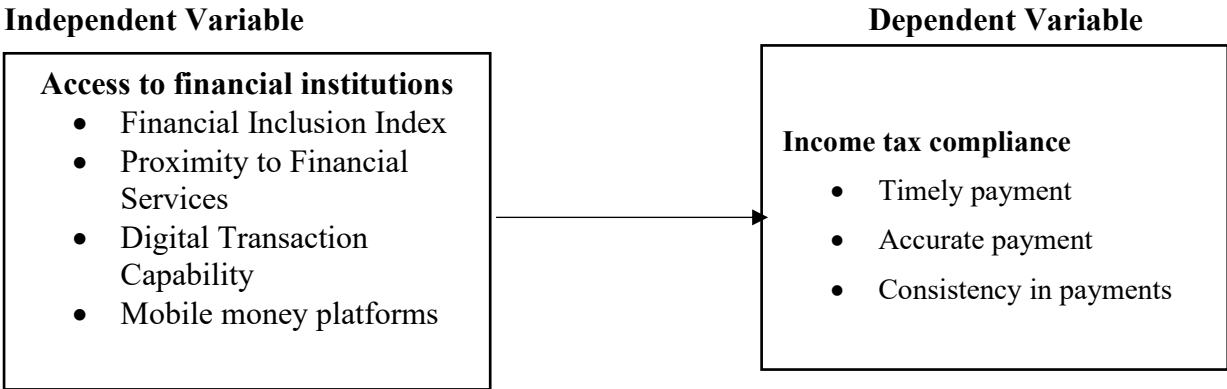


Figure 1: Conceptual Framework

3. Methodology

The research design used in this study to explore the impact that access to financial institutions has on income tax compliance among SMEs within Tana River County is the descriptive research design. The descriptive design was suitable for this study since it enabled the collection of quantitative data that displayed the real level of compliance of SMEs. Descriptive research design also allowed the researcher to quantify the association between the independent variable (access to financial institutions) and the dependent variable (income tax compliance) (Siedlecki, 2020). The design gives the research an aspect of objectivity, reliability, and replicability of results (Siedlecki, 2020). This approach is in line with earlier research in the field of taxation and compliance studies, and thus appropriate for this study.

The registered small and medium-sized enterprises (SMEs) in the Tana River County were the target population in this study. According to a report by The Standard in 2024, there are about 7500 registered SMEs in the North Eastern part of Kenya, and 1500 of these are in Tana River County, which was the target population. The stratified random sampling technique was used to ensure that enterprises in different fields, like retail, wholesale, and services, are represented sufficiently. The sample size was calculated using the Yamane (1967) formula to achieve statistical representativeness and make the study manageable. This sampling process enhanced the accuracy of the results and minimized sampling bias.

Calculation of sample size using Yamane’s (1967) formula

$$\begin{aligned} \text{Sample size} &= N / (1 + N(e)^2) \\ &= 1,500 / (1 + 1500(0.05)^2) \\ &= 1,500 / 4.75 \\ &= 315 \end{aligned}$$

Therefore, the sample size = 315.

This sample was distributed equally as shown in Table 1.

Table 1. Sample size distribution

| Category | Number |
|--------------|------------|
| Retail | 115 |
| Wholesale | 115 |
| Services | 115 |
| Total | 315 |

Primary quantitative data collected using structured questionnaires administered to SME owners and managers. The questionnaires included closed-ended questions using Likert scales to measure perceptions and practices towards access to financial institutions and tax compliance. The questionnaires were self-administered with follow-ups to maximize the response rate. This organized approach led to ease in the collection of data and organization of data for analysis. The quantitative data collected were coded and analyzed using the Statistical Package of Social Sciences (SPSS) version 26. Descriptive statistics such as frequencies, means, and standard deviations were used to summarize and present the data. To test the strength and direction of the relationships between access to financial institutions and income tax compliance, inferential statistics, especially correlation and regression analysis, were used. The test of the hypothesis was done at 5% level of significance to establish the statistical significance of the findings. This systematic analysis ensured accuracy and reliability in making conclusions.

Diagnostic tests were carried out before regression analysis to ensure the data was suitable for statistical modelling. Checking whether the data followed a normal distribution was done using the normality tests, with the aid of the Shapiro-Wilk test. To determine the internal consistency of the measurement scales, reliability tests, including Cronbach's alpha, were used. These diagnostic checks increased the validity and strength of the results. Ethical research standards were upheld in all processes involved in this study. The respondents were informed of the purpose of the study, and informed consent was sought before their participation. Participation was voluntary, and respondents were allowed to withdraw their involvement at any stage of the study without any consequences. Confidentiality was maintained by ensuring that individual responses were not disclosed and only aggregated data were reported. Ethical clearance was also sought from the appropriate authority to ensure that all the institutional and professional standards were observed.

4. Results and Discussion

4.1 Response Rate

The researcher distributed 315 questionnaires to the selected SMEs in Tana River County. Out of these, 267 questionnaires were fully answered and returned. The results are shown in Figure 2 below.

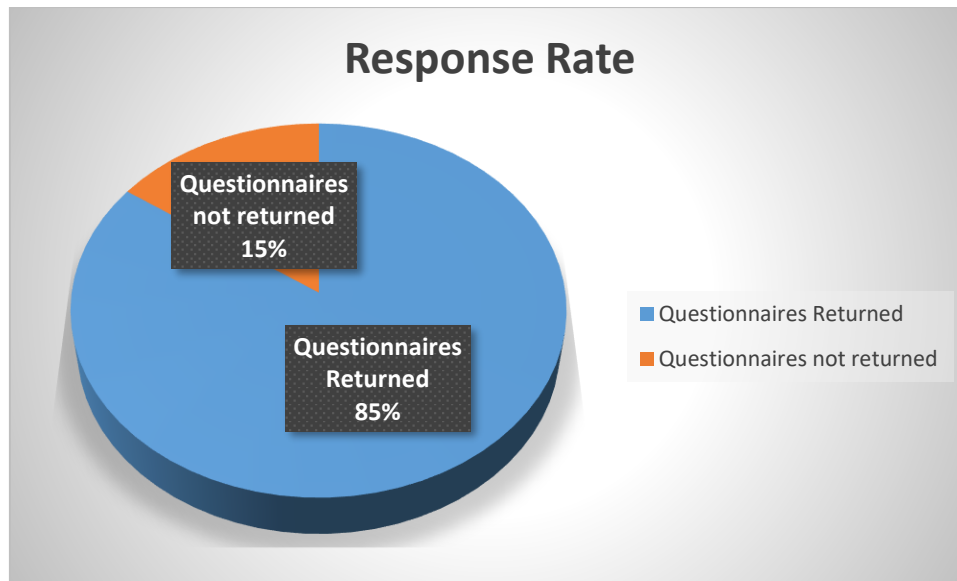


Figure 2: Response Rate

Figure 2 above shows a response rate of 85%. Only 15% of the respondents never returned their questionnaires. The response rate of 85% was considered adequate for data analysis. This is supported by Siedlecki (2020), who stated that a response rate of 60% and above is good, while over 70% is very good.

4.2 Reliability Analysis

Prior to data analysis, the assessment of the research instrument's reliability and internal consistency was a crucial step. Through reliability analysis, it was possible to check whether the items in the questionnaire would measure only the intended constructs (in this case, access to financial institutions and income tax compliance) in a consistent way. Cronbach's Alpha coefficient was applied as a reliability test. A value greater than 0.70 was regarded as acceptable for internal consistency. This step was necessary to ensure that the collected data was reliable and trustworthy enough for advanced statistical analysis.

Table 2: Reliability Analysis

| Factor | Number of Items | Cronbach's Alpha | Conclusion |
|----------------------------------|-----------------|------------------|------------|
| Access to Financial Institutions | 5 | 0.821 | Reliable |
| Income Tax Compliance | 4 | 0.793 | Reliable |

Reliability analysis was conducted to determine the internal consistency of the questionnaire constructs. Cronbach's Alpha was used, with a threshold of 0.7 considered acceptable for social science research. The results show that the Access to Financial Institutions factor, measured with five items, achieved a Cronbach's Alpha of 0.821, indicating high reliability. Similarly, the Income Tax Compliance factor, measured with four items, had a Cronbach's Alpha of 0.793, which also demonstrates good internal consistency. These results confirm that the measurement scales are reliable and can be used for further statistical analysis, such as correlation and regression.

4.3 Descriptive Statistics

Table 3: Descriptive Statistics for Access to Financial Institutions

| Statement | N | Mean | SD |
|--|-----|------|------|
| My business uses formal financial services such as bank accounts, SACCOs, or microfinance institutions | 267 | 3.98 | 0.82 |
| There are various financial institutions around me | 267 | 3.76 | 0.91 |
| I can comfortably transact digitally, using digital tools like M-Pesa and even pay my income tax digitally | 267 | 4.12 | 0.79 |
| I have been onboarded by various financial services, such as credits from financial institutions | 267 | 3.65 | 0.95 |
| My business relies on mobile money services (e.g., M-Pesa) for receiving or making payments | 267 | 4.21 | 0.73 |

The descriptive statistics for access to financial institutions indicate that respondents generally agreed with the statements provided. The highest-rated item was reliance on mobile money services ($M = 4.21$, $SD = 0.73$), highlighting the central role of mobile money platforms such as M-Pesa in facilitating business transactions. Similarly, the ability to comfortably transact digitally scored highly ($M = 4.12$, $SD = 0.79$), showing strong adoption of digital finance tools among SMEs. However, the lowest mean score was for access to credit facilities ($M = 3.65$, $SD = 0.95$), suggesting that many SMEs still face challenges in obtaining formal financing. The overall results suggest that SMEs in Tana River County have good access to financial services, especially through digital and mobile channels, but formal credit access remains limited.

Table 4: Descriptive Statistics for Income Tax Compliance

| Statement | N | Mean | SD |
|--|-----|------|------|
| I submit and pay my income taxes on time | 267 | 3.87 | 0.88 |
| I ensure the accurate submission of income taxes owed | 267 | 3.94 | 0.81 |
| The business has maintained consistency in submitting my VAT returns | 267 | 3.72 | 0.90 |
| I pay my income tax owed on time | 267 | 3.89 | 0.85 |

The descriptive statistics for income tax compliance show moderate to high levels of agreement across all indicators. The highest mean score was observed for accuracy in tax submission ($M = 3.94$, $SD = 0.81$), implying that most SMEs are keen on reporting their taxes correctly. Timely payment of income taxes also scored well ($M = 3.89$, $SD = 0.85$), though not as strongly as digital financial adoption in the earlier section. Consistency in submitting VAT returns had the lowest mean ($M = 3.72$, $SD = 0.90$), suggesting that while businesses attempt to comply, some inconsistencies exist in maintaining regular compliance. Overall, the results point to fairly good

compliance behavior among SMEs in Tana River County, although issues of timeliness and consistency still require further attention.

4.4 Correlation Analysis

Table 5: Correlation Analysis between Access to Financial Institutions and Income Tax Compliance

| | Income Tax Compliance | Access to Financial Institutions |
|----------------------------------|-----------------------|----------------------------------|
| Income Tax Compliance | 1 | 0.624** |
| Access to Financial Institutions | 0.624** | 1 |

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

The correlation analysis was conducted to examine the relationship between access to financial institutions and income tax compliance among SMEs in Tana River County. The results show a positive correlation ($r = 0.624$) between the two variables. This implies that businesses with greater access to financial institutions are more likely to comply with income tax requirements. The strong positive relationship suggests that financial inclusion, proximity to services, digital transaction capability, and mobile money adoption collectively contribute to enhancing compliance behavior.

4.5 Regression Analysis

To find out to what extent access to financial institutions affects income tax compliance of small and medium enterprises in Tana River Town, a regression analysis was performed. This statistical method helped determine the strength and the nature of the relationship between the predictor (access to financial institutions) and the dependent variable (income tax compliance). The analysis delivers important metrics, including the coefficient of determination (R^2), F-statistics, and significance levels, which together illustrate the role of financial access in influencing tax compliance behaviour among SMEs.

Table 6: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1 | 0.624 | 0.389 | 0.386 | 0.529 |

The model summary shows that access to financial institutions explains 38.9% of the variation in income tax compliance among SMEs in Tana River County ($R^2 = 0.389$). The adjusted R^2 of 0.386 indicates that after adjusting for the number of predictors, the model still explains a substantial portion of the variance. The correlation coefficient ($R = 0.624$) confirms a strong positive relationship between access to financial institutions and tax compliance. The standard error of 0.529 suggests moderate accuracy of the predictions, further validating the strength of the model.

Table 7: ANOVA

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|------------|----------------|-----|-------------|---------|-------|
| Regression | 52.481 | 1 | 52.481 | 168.749 | 0.000 |
| Residual | 82.293 | 265 | 0.311 | | |
| Total | 134.774 | 266 | | | |

- a. Dependent Variable: Income Tax Compliance.
b. Predictor: (Constant), Access to Financial Inclusion

The ANOVA results indicate that the regression model is statistically significant ($F = 168.749$, $p < 0.001$). This means that access to financial institutions significantly predicts income tax compliance among SMEs. Since the significance value is less than 0.05, the null hypothesis that there is no relationship between the two variables is rejected. The results confirm that financial access has a meaningful effect on tax compliance behavior in the study area.

Table 7: Regression Coefficients

| Variable | Unstandardized β | Std. Error | Standardized β | t-Statistic | Prob. |
|----------------------------------|------------------------|------------|----------------------|-------------|-------|
| Constant | 1.214 | 0.187 | – | 6.493 | 0.000 |
| Access to Financial Institutions | 0.657 | 0.048 | 0.624 | 13.688 | 0.000 |

The regression coefficients show that access to financial institutions has a positive and statistically significant effect on income tax compliance ($\beta = 0.657$, $t = 13.688$, $p < 0.001$). This means that a one-unit increase in access to financial institutions leads to a 0.657-unit increase in income tax compliance, holding other factors constant. The standardized beta coefficient ($\beta = 0.624$) indicates that access to financial institutions is a strong predictor of compliance. The constant term (1.214) represents the baseline level of compliance when access to financial institutions is absent. Overall, the regression analysis confirms that improving financial access substantially enhances tax compliance among SMEs in Tana River County.

4.6 Discussion of Findings

The results of this study have indicated that access to financial institutions positively and significantly impacts income tax compliance among Tana River County SMEs. This means that in cases where businesses have access to formal banking services, microfinance institutions, and mobile money platforms, there is an increase in the chances of them paying taxes on time and correctly. The findings are consistent with the Resource-Based View (Barney, 1991), which suggests that access to financial resources is a strategic asset that can be utilized to promote the performance of an organization, including meeting statutory requirements. This also substantiates the findings of Akang (2023), who discovered that limited access to financial institutions is a key factor discouraging compliance as SMEs struggle to make payments on time and keep accurate financial records.

In addition, the findings support earlier empirical research that digital financial services and institutional support systems enhance compliance behaviour (Muturi and Kiarie, 2015; Maseko, 2014). This study builds upon previous research by demonstrating that mobile money and formal access to finance substantially determine compliance, and this applies to the Kenyan environment, especially in a rural community such as Tana River County. These results are also consistent with the theory of planned behaviour (Ajzen, 1991), according to which the intention and the ability to pay taxes directly depend on access to the enabling resources. Quite to the contrary, the research questions earlier research, including Fjeldstad and Heggstad (2012), who stated that institutional inefficiencies diminish compliance regardless of financial access. In the present study, access itself proved crucial, implying that financial inclusion can result in better tax compliance outcomes.

5. Conclusion

The study concludes that access to financial institutions plays a critical role in ensuring compliance with income tax among small and medium enterprises in marginalized regions. The results from Tana River County indicate that financial inclusion, financial proximity, digital transactions, and mobile money platforms are all instrumental in the development of the compliance behaviour. The results indicate that the more SMEs can access financial resources and tools, the more likely they are to pay taxes promptly, accurately, and at a consistent rate. This highlights the need to enhance the financial infrastructure, facilitate digital financial services, and increase financial inclusiveness as viable measures towards enhancing tax compliance in the underserved areas. Ultimately, the study indicates that the ease of access to financial institutions not only fosters business development but also helps to generate some sustainable incomes for the government development programs.

6. Recommendations

Based on the findings, this study recommends that policymakers intensify financial inclusion policies by increasing the presence of banks, SACCOs, and microfinance institutions in marginalized regions, including Tana River County, and also encourage the adoption of digital payment systems in remitting taxes. From a managerial perspective, tax authorities, such as the Kenya Revenue Authority (KRA), ought to strengthen partnerships with financial institutions to incorporate tax compliance tools into mobile money services and banking applications to make the process easier and more accessible to SMEs. Capacity-building should also be initiated to educate the business owners on how to use the digital financial services in compliance. For future research, researchers ought to investigate the long-term consequences of financial access to other forms of tax other than income tax and conduct a comparative analysis of various marginalized regions to draw broader generalizations of the findings.

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