

**Moderating Effect of Tax Sensitization on the Relationship
Between Perception of Electronic Tax System and Value Added Tax
Compliance Among Small and Medium Enterprises in Kapsabet
Municipality, Kenya**

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Abstract

Tax is a source of government revenue in nearly all countries in the world because it makes sure that the government is able to provide goods and services to the citizens. Thus, compliance with tax is essential in any economy, and they are aware of the contribution of the revenue collected through tax in developing the country. This research was based on the Moderating Effect of Tax Sensitization on the Relationship between the perception of the electronic tax system and value-added Tax Compliance among SMEs in Kapsabet municipality, Nandi County, Kenya. Two theories used in the study include the Fiscal Psychology theory and the Theory of Planned Behavior. The study employed an explanatory research design. In a population of 846 Small and Medium enterprises, a sample of 272 respondents, who were based in Kapsabet municipality, was used as the target population. Following data collection and preparation, the 223 filled questionnaires were received, which led to a high response rate of 82 percent and a low response rate of 18 percent, which means that 49 respondents failed to respond to the questionnaire. The 5-point Likert scale questionnaires were used to collect primary data. Data was analyzed using descriptive and inferential statistics. It revealed that Tax Sensitization positively moderated the Relationship between perception of electronic tax system and Value Added Tax Compliance ($= 0.181$, $p = 0.000$). Based on the findings, the study recommends that the Kenyan government should prioritize investment in digital tax infrastructure and promote its benefits through national campaigns. Policymakers should allocate resources to enhance the reliability, user-friendliness, and accessibility of the electronic tax system. Further studies in this field should focus on the role of tax incentives like accelerated depreciation, deductions on investments, or special rates on small businesses. This is capable of giving information on the impact of fiscal policies on the compliance with VAT.

Keywords: *Perception of Electronic Tax System, Value Added Tax Compliance, Small and Medium Enterprise*

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1. Introduction

Taxation has been considered the best instrument, which most countries use to collect revenue. Governments generate revenue from taxation from both individuals and businesses. In most countries, SMEs form the largest taxpayer group as they represent more than 95% of all firms (OECD, 2015). Despite being the largest group, their tax contribution is not commensurate with their size since their level of tax compliance is low.

Worldwide, tax authorities are still facing a challenge in taxing SMEs because of the nature of their business and the attitude they have towards tax payment. Their low level of tax compliance affects tax collection. Research done by Soka (2019) reveals that in the US, tax evasion and avoidance cost the government 3.09 trillion US dollars from 2001 to 2010. On the other hand, each EU member state lost an average of 150 billion Euros per year as a result of tax evasion and avoidance. As per the above statistics, a low level of tax compliance is a big challenge even in developed countries, especially with value-added tax collection, which contributes to the overall low level of tax compliance.

Value Added Tax is considered to be a type of indirect tax in Kenya that is levied on taxable goods and services that are produced within a nation (Schenk, 2007). Moreover, VAT incorporates the expenditure and the overheads received by a trader respectively upon buying and selling taxable goods and services. VAT policies of both developed and developing countries can be modified occasionally depending on various factors, which include policies, economic, social, technological and ecological, and legal. Companies that conduct any business activities which may relate to production, distribution of goods, and giving of services are most likely to adhere to these taxation policies of the respective countries they are operating in (GoK, 2020).

Value Added Tax is a multi-level consumer tax on the sales of goods and services at all levels of production and distribution channels. The tax is imposed on the supply of taxable goods or services in Kenya, and the importation of taxable goods or services in Kenya. Registered traders collect and remit VAT to the Kenya Revenue Authority and pass the tax to the consumers in the form of high prices. The value-added tax is charged according to the VAT Act, Cap 476 of Kenyan laws. Tax compliance can be defined as a process where taxpayers comply with the regulations as provided by the respective tax authorities, including payment of taxes owed and submission of returns, in a way that revenue can be effectively realized. In Kenya, VAT was introduced in 1990 to expand the government revenue in the form of taxation by widening the tax base.

SMEs in Kenya operate in an informal sector, which is not well organized because most of their activities are carried out in an open place or in the streets in the urban areas. A good number of such businesses are sole proprietors who transact on a cash basis with few or no records maintained. They also have a few employees who are mostly on a casual basis, and they employ low technology (Ndaka & Angella, 2017).

The tax system is changing rapidly with information technology, and this necessitates the implementation of an electronic tax system (Umar & Masud, 2020). Implementing the e-tax system enhances the transparency of a firm's transactions (Night & Bananuka, 2020). Tax authorities have adopted an electronic tax system to ease the tax payment process among taxpayers by giving them an opportunity to access tax services such as application of KRA personal identification numbers, returns filing, payment registration, and printing of tax compliance certificates and application of tax refunds.

Tax sensitization is the act of educating or raising awareness on tax topics by taxpayers (Ahmed, 2016). It forms part of the strategies that most tax authorities have embraced with the aim of enriching taxpayers with tax knowledge. Poor information on issues of taxation has been attributed to a low rate of tax compliance among a large number of SMEs. Tax sensitization is one tax reform initiative identified by KRA in its effort to increase tax compliance in Kenya, as per the KRA 8th corporate plan. In the present case, KRA has welcomed the involvement of taxpayers to provide a good and reasonable knowledge of tax among taxpayers. Among the programs that KRA has been implementing to educate taxpayers, there are tax clubs in several schools, media activities that incorporate the radio and television talk shows, tax clinics, issue tax brochures, stakeholder interactions, and adverts in print media and television (Wanjiru, 2020). The level of compliance with taxes remains low, even though KRA has been implementing tax sensitization.

Kapsabet is a Kenyan municipality. It is the capital of Nandi County and is located 40 kilometres southwest of Eldoret, towards the direction of Chavakali. It is strategically placed and it links the cities of Eldoret, Kisumu, and Nakuru. It also links major towns such as Kericho and Kakamega. Kapsabet Municipality is an urban centre that is rapidly growing in the North Rift Valley and has numerous agricultural and trade activities. KNBS (2019) indicates that the region has 41,997 individuals, which is the largest in the other towns of the Nandi County.

1.1 Problem Statement

Despite taxation being perceived as the most effective tool in the collection of taxes, which is applied by developed and developing nations to raise revenues, tax authorities continue to experience the problem of tax collection due to low compliance with taxes, particularly among the informal business segments (Carsamer & Abbam, 2023). The subject of tax attitude among SMEs that appears to be influencing their tax compliance has raised a lot of concern among tax authorities. Their tax attitude could be influenced by tax behavior that could be shaping their perception towards the adoption of the electronic tax system, poor tax knowledge, and perception of the cost of tax compliance. Those SMEs that have a poor attitude towards tax do not file tax returns, declare an accurate amount of taxable income and claims of tax, and maintain business records (Biru, 2020).

The Kenya Revenue Authority (KRA), despite a series of reform exercises, has not achieved the treasury targets, despite making changes to enhance its revenue compliance over the past years. As an example, the VAT collection during the financial year 2022/2023 was KShs. 272.452 billion (KRA 2023) compared to the target of KShs. 314.17 billion KRA (2023). The VAT collected in the 2023/2024 financial year was KShs. 478.2 billion in comparison to the target of KShs. 484.2 billion, KRA (2024), which presents a very low level of VAT collection as compared to the previous years. Such revenue gaps have been attributed to tax evasion and other acts of tax non-compliance by taxpayers. The worrying trend in the revenue collection statistics and the lack of knowledge are what justify research to be conducted in this field.

2. Literature Review

2.1 Theoretical Review

2.1.1 Fiscal psychology theory

In this theory, tax collection is the problem, which demands that the tax authorities and the taxpayers be on a common understanding. To achieve this necessary cooperation, the tax

authority and the government must encourage the taxpayers by ensuring that they stimulate them positively by simplifying the tax system, being accountable, transparent, and creating tax awareness. Therefore, this stimulus influences the attitude of taxpayers positively, thereby improving voluntary tax compliance. It is reported that taxpayers who have a positive attitude towards tax tend to be more cooperative with the tax authority, and they are more inclined to adhere to the tax laws (Solomon, 2021). The theory is relevant to the research as it shows the duty of the tax authority and the government to offer positive stimulus to the taxpayers, and therefore get them to become more compliant.

2.1.2 Theory of Planned Behaviour

This theory was developed by Ajzen (1985) to build on his previous theory of Reasoned Action. The scholar added the element of perceived behavioral control that was not present in the previous theory to explain the various cases when individuals are not in a position to regulate their actions (Conner & Armitage, 1998). TPB has been embraced in numerous sectors, such as the health sector and in businesses, to describe consumer and employee behavior and predict future effects (Ajzen, 1991). TPB believes that individual intentions affect the behavior of an individual, which subsequently affects their attitudes.

Thirdly is the perceived behavioral control, which is a reflection of the attitude of the individuals to have the capability to demonstrate particular behavior with the consideration of the availability of facilitators and hindrances (Ajzen, 1991). TPB holds that attitude, subjective norms, and behavioral control explain the intention of people to act in a particular way. It is presumed that in a controlled setup, individuals will implement their intentions when there is an opportunity (Ajzen, 1991). TPB is a powerful theory of social psychology and can be applied in order to predict the behavior of taxpayers. This theory plays a major role in this study in establishing the influence of tax attitude (perception of income level and perception of the cost of tax compliance) on tax compliance intention.

2.2. Empirical Review

2.2.1 Perception of Electronic Tax System

Night & Bananuka, (2020) work was to determine if the electronic tax system mediates tax attitude and tax compliance. A cross-sectional research design was used. A questionnaire was used to collect data, and the Krejcie and Morgan formula was used to compute the sample size. Respondents were selected using simple random sampling. Descriptive and inferential analysis were adopted to analyse data. They found a significant positive relationship between attitude towards the electronic tax system and tax compliance. According to the study, when taxpayers view the electronic tax system as favourable, for example, time saving, effective in terms of returns filing, and secure and comfortable to use, they develop a positive attitude towards it, hence improving tax compliance.

Salawu et al. (2024) examined the extent of adoption of the electronic tax system by SMEs in Nigeria. Challenges of the electronic tax system were also investigated, which include taxpayers' inability to access the internet. Research employed a descriptive survey design; data were collected using a questionnaire and a purposive sampling technique in computing the sample size. The study concluded that although there is a great extent of adoption of electronic tax filing, challenges such as inadequate tax training hinder the adoption of online tax filing among SMEs.

Mwiriki et al. (2025) explored the Moderating Effect of Digital Tax Systems on Sociological Attributes and Tax Compliance in Kenya. Sample size was obtained by use of Yamane's (1967) formula, and data were collected by use of a questionnaire. An explanatory research design was adopted, and data analysis was done using descriptive and inferential analysis. The conclusion of the study is that firms with more advanced digital tax systems have a higher tax compliance level.

2.2.2 Tax Sensitization

Tax sensitization is the process of informing or creating awareness on tax matters among taxpayers (Ahmed, 2016). It is one of the strategies adopted by many tax authorities to enrich taxpayers with tax knowledge. The low level of tax compliance amongst many states has been linked to inadequate information relating to tax matters among the taxpayers. To enhance tax compliance in Kenya, KRA has identified tax sensitization as part of tax reform initiatives put in place as per the KRA 8th corporate plan. Currently, KRA has embraced taxpayers' engagement to equip taxpayers with good and reasonable knowledge on tax matters. Some of the programs KRA has been organizing to train taxpayers include tax clubs in various schools, media engagements which cover radio and television talk shows, tax clinics, issuance of tax brochures, stakeholder engagements, and adverts through print media and television (Wanjiru, 2020). Tax compliance is still low despite the implementation of tax sensitization by KRA.

Tax sensitization helps to enrich taxpayers with an understanding of the tax authority's administrative processes, tax heads, existing and changes in the tax laws, available tax amnesty, and any other relevant tax information that may enhance tax compliance. One of the KRA's core values is "Trust," which means the authority is ready to interact with taxpayers in a way that gives them confidence in their intentions and those of the organization, hence emphasizing the reason behind tax sensitization. As highlighted by Netia and Omwenga (2023), when taxpayers' power is increased and trust is built in both the tax system and the government, compliance automatically increases.

2.2.3 Value Added Tax Compliance

In Kenya, Value Added Tax (VAT) was implemented in 1990 to substitute the sales tax. It was put in place as a strategy to raise government revenue by expanding the tax base. Value Added Tax is administered by the Value Added Tax Act, No 35 of 2013, of Kenyan laws. Goods and services form part of the Value Added tax framework, but not all services and goods are taxable, with some of them being zero-rated products that include both basic goods and export goods. Value Added Tax was implemented with the ordinary rate of seventeen percent and included fourteen other rates, with the maximum ever being two hundred and ten percent. Value-added Tax was set at a rate of two hundred and ten percent to resemble a differentiated commodity targeted tax regime.

The Value Added Tax Act was adopted and implemented in 2013; during this period, the Value Added Tax policy had a number of disadvantages to both the business owners and the government. Among the most remarkable changes, one must mention the exclusion of the Value Added Tax remission; the exclusion of a lower rate of twelve percent, the synthesis of previous subordinate regulations and the primary regulations, decreasing the timing from 8 to 2 and the increase of the rates of zero-rated tax charges, the exclusion of basic (Ernst & Young, 2019). Value-added tax is paid at certain points by registered persons who submit it to the

Commissioner. Because the end-user of products is the one who pays the tax, the registered persons are just Value Added Tax agents in the collection and payment of the tax.

2.3 Conceptual Framework

Conceptual framework refers to a graphic display or illustration that describes variables that should be examined and the interactions that should exist between them (Mugenda & Mugenda, 2019). As presented in figure below, the independent variable is the perception of the electronic tax system. Tax sensitization is a moderating variable between tax independent variables and the dependent variable was value-added tax compliance as shown in Figure 1.

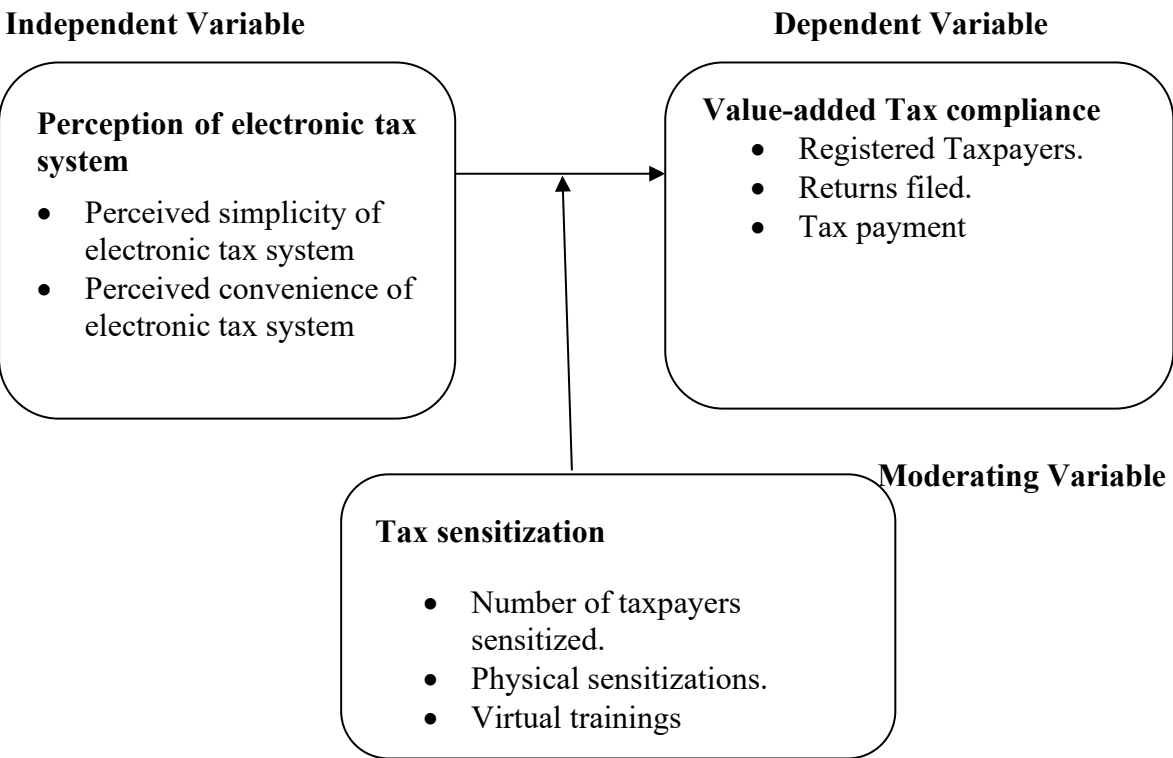


Figure 1: Conceptual Framework

3. Methodology

A research design is a procedure that seeks to offer a coherent method of obtaining inferences that is reliant on the demands of research (Cooper & Schindler, 2012). This research design took the explanatory research design. The explanatory study was conducted to build the concepts to explain and predict ordinary and collective behaviors (McNabb, 2017). This was a design that assisted in providing a detailed picture as to why some things happened or do happen, inferring the causes and effects of a vast number of constructs and elucidating the variances of more than a bunch of responses. Cooper and Schindler (2000) defined a study population as a group of people, households, or organizations that share common characteristics that a researcher would like to make inferences about. Primary data was collected through a 5 point – Likert scale questionnaires and explanatory research design was adopted. Descriptive and inferential statistics was used to analyze data. According to Blumberg et al. (2003), the target population is the entire grouping of people or articles that a research study makes the object of study. The study's estimated target population was that of 846 registered SMEs. Because not all SMEs in the Kapsabet municipality could be targeted, a

sample of 272 SMEs was targeted. Table 1 indicates that 223 of the 272 respondents returned the questionnaires in their entirety, with a high response rate of 82% and a non-response rate of 18% meaning that 49 respondents did not fill out the questionnaire.

Table 1: Response Rate

	Number	Percent
Response rate	223	82%
Non-Response	49	18%
Targeted sample	272	

Reliability analysis

According to Blumberg et al. (2008), reliability is used to indicate the degree to which the measurement of a variable is not affected by random error. The internal consistency of the scale has also been assessed using the Cronbach's alpha method. The Cronbach's alpha value of 0.7 or above means that a scale is considered to be reliable on a certain sample. Table 2 results revealed that, specifically, the construct-measured instrument of compliance with value-added taxes exhibited excellent reliability ($\alpha = .894$), as did the four-item measure of this instrument. The same was the case of the perception of the electronic tax system ($=.880$) and tax sensitization ($=.944$). The values imply that the remaining instruments were very strong in the measurement of the respective constructs.

Table 2: Test of Reliability of Questionnaire

Factor	Number of Items	Cronbach's Alpha score	Conclusion
Value added tax compliance	4	0.894	Acceptable
Perception of electronic tax system	5	0.880	Acceptable
Tax Sensitization	5	0.944	Acceptance

4. Results and Discussion

4.1 Descriptives Analysis

4.1.1 Descriptive statistics for Perception of Electronic Tax System

Table 3: showed the descriptive statistics of perception of the electronic tax system. For the statement, "Our organization believes that the electronic tax system eases tax payment process," the mean was 3.97 (SD = 0.811), indicating a high level of agreement. For the statement, "E-tax system is more convenient and time saving," the mean was 4.00 (SD = 0.814), indicating agreement. The moderate standard deviation suggests some variability in responses. The statement, "Our firm prefers using the e-tax system the manual system because it eliminates errors," returned a mean of 3.98 (SD = 0.841), indicating agreement. The slightly higher standard deviation suggests a greater degree of variability in responses compared to other items. For the statement, "I pay actual tax as assessed because I trust in the tax system,"

the mean was 4.02 (SD = 0.827), indicating agreement. The moderate standard deviation suggests some variability in responses. The statement, "Our business views the E-tax system as simple and easy to understand," had the highest mean of 4.03 (SD = 0.827), indicating strong agreement. The moderate standard deviation suggests some variability in responses. The aggregate mean of 4.00 indicates a consistent level of agreement across all statements regarding the perception of the electronic tax system, suggesting that respondents generally view the e-tax system favorably in terms of ease, convenience, reliability, and trustworthiness.

Table 3: Perception of Electronic Tax System

	N	Mean	Std. Deviation
Our organization believes that the electronic tax system eases the tax payment process	223	3.97	.811
The E-tax system is more convenient and time-saving		4.00	.814
Our firm prefers using the e-tax system over the manual system because it eliminates errors.		3.98	.841
I pay actual tax as assessed because I trust in the tax system.		4.02	.827
Our business views the E-tax system as simple and easy to understand		4.03	.827
Aggregate Mean		4.00	

4.1.2 Descriptive statistics for Tax Sensitization

Table 4: For the statement “Through KRA physical tax engagements (tax seminars, ETIMS trainings, and Ushuru mashinani), our business has learnt a lot on the tax payment process,” the mean was 4.11 (SD = 0.976). This indicates a level of agreement leaning toward strong agreement with the statement. For the statement, “Understanding the role of taxation has changed our perception as a business on how the government utilizes tax collected,” the mean was 3.90 (SD = 0.963), indicating agreement. The high standard deviation reflects a notable spread of responses. The statement, “Sensitization through broadcast media like radio and television has helped our business to know timelines for filling returns,” yielded the highest mean score of 4.18 (SD = 0.948), indicating strong agreement. For the statement, “Our organization has learnt a lot from KRA virtual trainings on social media like Facebook on any changes of tax laws,” the mean was 4.10 (SD = 0.897), indicating agreement. The moderate standard deviation suggests a fair degree of consensus, though some variability remains. Regarding the statement, “Our organization is aware that the applicable turnover tax rate is 3% of gross sales on SMEs whose income is more than 1 M but less than 25 M in a year,” the mean was 4.02 (SD = 0.951), indicating agreement. The high standard deviation points to a wide dispersion of awareness levels among the businesses. The aggregate mean of 4.06 indicates a general level of agreement across all statements concerning tax sensitization. This suggests that, on average, businesses perceive the Kenya Revenue Authority's various sensitization and educational initiatives as effective and informative.

Table 4: Tax Sensitization

	N	Mean	Std. Deviation
Through KRA physical tax engagements (tax seminars, Etims trainings, and Ushuru mashinani), our business has learnt a lot about the tax payment process	223	4.11	.976
Understanding the role of taxation has changed our perception as a business on how the government utilizes the taxes collected.		3.90	.963
Sensitization through broadcast media like radio and television has helped our business to know the timelines for filing returns.		4.18	.948
Our organization has learnt a lot from KRA virtual trainings on social media like Facebook on any changes to tax laws.		4.10	.897
Our organization is aware that the applicable turnover tax rate is 3% of gross sales on SMEs whose income is more than 1 M but less than 25 M in a year.		4.02	.951
Aggregate Mean		4.06	

4.1.3 Descriptive statistics for Value Added Tax Compliance

Table 5. showed that for statement "Our business pays the tax liability that arises from my VAT Tax obligation without failure" had the highest mean score ($M = 4.19$, $SD = 0.765$). This indicates a strong level of agreement with the statement, suggesting that the majority of respondents feel their business is highly diligent in meeting its VAT payment responsibilities. The statement "Our business files my tax returns on time" also had a high level of agreement ($M = 4.14$, $SD = 0.712$). The moderate standard deviation indicates some variability in responses. For the statement "Our business has registered for VAT Tax obligation," the mean was 4.08 ($SD = 0.752$), which shows a high level of agreement. The standard deviation is moderate, indicating a consistent level of consensus among respondents. The statement "The tax system in place motivates me to voluntarily comply with tax obligation" received the lowest mean of the four ($M = 4.07$, $SD = 0.819$), which implies a strong agreement. The aggregate mean of 4.12 across all VAT compliance statements indicates a strong overall level of agreement. This suggests that, on average, respondents perceive their businesses as highly compliant with VAT regulations and obligations.

Table 5: Value Added Tax Compliance

	N	Mean	Std. Deviation
Our business files my tax returns on time	223	4.14	.712
Our business has registered for VAT Tax obligation.		4.08	.752
Our business pays the tax liability that arises from my VAT Tax obligation without failure.		4.19	.765
The tax system in place motivates me to voluntarily comply with my tax obligation.		4.07	.819
Aggregate Mean		4.12	

4.2 Correlations Analysis

The correlation on the Moderating Effect of Tax Sensitization on the Relationship between perception of electronic tax system and value-added Tax Compliance was also positive and statistically significant ($r = 0.510$, $p = 0.004$) and ($r = 0.547$, $p = 0.033$). indicating that SMEs with a more favorable view of the digital tax platform are more likely to be compliant. Further, these underscore the importance of awareness programs, a result consistent with the work of the Kenya Revenue Authority's (2023) outreach initiatives in the county.

Table 6: Correlation Statistics

		Value-added tax compliance.	Perception of the electronic tax system	Tax sensitization
Value added tax compliance	r	1		
	Sig.			
Perception of electronic tax system	r	.510**	1	
	Sig.	.004		
Tax sensitization	r	.547**	.368**	1
	Sig.	.033	.000	
	N	223		

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

4.3 Regression Analysis

The interaction between perception of electronic tax system and tax sensitization had ($X_1 * M$) ($R^2 = 0.834$), resulting in a modest but statistically significant increase in R^2 to 0.696. This indicates that tax sensitization moderates the relationship between perception of the electronic tax system and VAT compliance, consistent with Rotich and Mengich's (2023) findings on technology acceptance in Kenyan SMEs.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.834 ^a	.0696	.688	.36194

a. Dependent Variable: Value Added Tax Compliance

b. Predictors: (Constant), perception of electronic tax system, tax sensitization _mean

Table 8 showed that there was an F statistic of 234.858 and a p-value of $0.000 < 0.05$, which indicates that the model was significant in explaining the variance caused by Value Added Tax Compliance.

Table 8: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	66.231	2	33.115	234.858	0.000
	Residual	31.218	220	0.141		
	Total	97.449	222			

a. Predictors: (Constant), perception of electronic tax system, tax sensitization

In Table 8, the interaction between perception of electronic tax system and tax sensitization ($X_1 * M$) shows a positive moderating effect ($\beta = 0.181$, $p = 0.000$), indicating that tax sensitization enhances the positive relationship between perception of electronic tax system and VAT compliance.

Table 9: Regression Coefficient analysis

Variable	Standardize d β	Std. Error	t-Statistic	Unstanda rdized β	Prob.
Constant	4.202	0.026	161.615		0.000
Perception of the electronic tax system	0.086	0.038	2.263	0.086	0.047
Tax sensitization	0.181	0.037	4.892	0.144	0.000

4.4 Discussion of the Findings

The study was to find out the moderating effect of tax sensitization on the relationship between Perception of the electronic tax system and value-added tax compliance among small and medium enterprises in Kapsabet municipality, Kenya. The interaction between perception of electronic tax system and tax sensitization ($X_1 * M$) shows a positive moderating effect ($\beta = 0.181$, $p = 0.000$), indicating that tax sensitization enhances the positive relationship between perception of electronic tax system and VAT compliance. Supporting findings by Cheruiyot and Rotich (2022) on technology adoption in North Rift Valley businesses.

5. Conclusion

The study's main objective was to determine the moderating effect of tax sensitization on the relationship between electronic tax system perception and value-added tax compliance among SMEs in Kapsabet municipality, Nandi County, Kenya. The study concludes that tax sensitization significantly moderates the effects of electronic tax system perception on VAT

compliance. Collectively, this research advances tax compliance literature by integrating technological, educational, and behavioral perspectives within Kenya's SME sector. The findings provide empirical evidence that improving technological infrastructure, enhancing tax literacy, reducing compliance burdens, and implementing targeted sensitization campaigns can collectively improve tax adherence among small businesses.

6. Recommendations

Based on the findings, the study recommends that the Kenyan government should prioritize investment in digital tax infrastructure and promote its benefits through national campaigns. Policymakers should allocate resources to enhance the reliability, user-friendliness, and accessibility of the electronic tax system.

Future research should investigate the role of tax incentives, such as accelerated depreciation, investment deductions, or preferential rates, for small businesses could provide insights into how fiscal policies affect VAT compliance.

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