

## **Tax Administration Practices and Financial Performance of Small and Medium Enterprises in Nairobi Central Business District, Kenya**

Mika Kevin Omondi<sup>1\*</sup>, Albert Abanga<sup>1</sup>, Jacob Yego<sup>1</sup>

<sup>1</sup>Kenya School of Revenue Administration, Moi University, Kenya

Corresponding Author Email: [mikaomondi@yahoo.com](mailto:mikaomondi@yahoo.com)

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### **Abstract**

Small and Medium Enterprises in Nairobi's Central Business District remain critical to Kenya's economy but continue to experience fluctuating financial performance amid evolving tax administration practices. Intensified enforcement procedures, frequent audits, and complex filing requirements have increased administrative burdens, reducing profitability and threatening sustainability. This study sought to examine the effect of tax administration practices, specifically tax enforcement procedures, tax audit practices, and tax filing procedures, on the financial performance of SMEs in Nairobi CBD. The study was anchored on Compliance Cost Theory and supported by Tax Neutrality Theory and the Resource-Based View Theory, providing a comprehensive framework for understanding how administrative processes and internal capabilities influence financial outcomes. A descriptive and explanatory research design was adopted. The target population comprised 11,280 SMEs across sectors, including general business, transport and communication, agriculture, hospitality, and manufacturing, and Yamane's formula was used to determine a sample size of 384 respondents selected through stratified random sampling. Primary data were collected using structured questionnaires and analyzed using descriptive and inferential statistics, including correlation and multiple regression techniques, in SPSS Version 27. A total of 361 questionnaires were returned, representing a response rate of 94%, which was deemed adequate for statistical analysis. The regression results revealed a strong explanatory power with an  $R^2$  of 0.764, indicating that tax enforcement procedures, tax audit practices, and tax filing procedures collectively explained 76.4% of the variation in financial performance. The model was statistically significant ( $F = 385.686$ ,  $p < 0.001$ ), confirming its overall fit. Individually, all predictors had positive and significant effects on financial performance: tax enforcement procedures ( $B = 0.287$ ,  $p < 0.001$ ), tax audit practices ( $B = 0.336$ ,  $p < 0.001$ ), and tax filing procedures ( $B = 0.387$ ,  $p < 0.001$ ). The study concluded that effective tax enforcement, fair audit practices, and simplified filing procedures enhance SME financial performance by improving compliance and operational efficiency. The study recommends that the Kenya Revenue Authority adopt transparent, risk-based enforcement and audit frameworks, simplify and digitize filing systems, and implement targeted taxpayer education programs to reduce compliance burdens.

**Keywords:** *Tax administration practices, financial performance, tax enforcement procedures, tax audit practices, tax filing procedure, small and medium enterprises*

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## 1. Introduction

Small and Medium Enterprises (SMEs) are the backbone of many economies, particularly in developing countries, where they contribute significantly to employment creation, poverty reduction, and GDP growth. In Kenya, SMEs account for over 80% of employment and contribute approximately 30% to the national GDP, making them central to the country's economic resilience and recovery efforts (World Bank, 2023). Nairobi's Central Business District (CBD) hosts a high concentration of these businesses, especially in trade, retail, and services. However, the growing complexity of tax systems and the intensification of tax administration practices, including enforcement, audits, and filing requirements, by the Kenya Revenue Authority (KRA) have introduced administrative burdens that increasingly challenge these enterprises (KRA, 2024). Inefficient or complex administration procedures can significantly erode financial performance, particularly for SMEs that often operate with limited administrative and financial capacity (Schoeman & van Heerden, 2021). The motivation for this study is to understand how these evolving tax administration practices are influencing the financial sustainability of SMEs operating in this key urban economic hub.

Moreover, existing literature largely treats tax compliance dynamics as homogenous or negligible, often failing to disaggregate the specific elements of tax administration practices or to contextualize their impact on financial performance in regions such as Nairobi's CBD (Omondi et al., 2022). Most studies also predate the introduction of digital tax systems and updated administrative protocols enforced since 2021, leaving a critical gap in capturing the present-day realities of SMEs (Sawyer, 2021). Reports indicate that these businesses now spend thousands of shillings annually and lose considerable productive hours navigating enforcement actions, audit processes, and filing procedures, contributing to declining revenues, job losses, and, in extreme cases, business closures (IEA Kenya, 2022). With Kenya's economy still recovering from the effects of the COVID-19 pandemic, and SMEs playing a pivotal role in this recovery, it is crucial to investigate how tax administration practices affect their financial performance. This study aims to fill this empirical and contextual gap by examining the relationship between tax administration practices and SME financial performance in Nairobi's CBD while assessing the moderating role of tax compliance costs, with the ultimate goal of informing better tax policy and business practices.

Globally, SMEs account for over 90% of businesses and more than 50% of employment, making them critical to economic development and poverty alleviation (OECD, 2021). However, these enterprises often face significant administrative burdens in meeting tax obligations due to limited financial, technical, and human resources, especially in developing and transitional economies (World Bank, 2023). Studies from countries such as Australia, the United Kingdom, and the United States reveal that SMEs bear a disproportionately high administrative and filing burden compared to larger firms, mainly due to economies of scale in compliance (Evans et al., 2021). The average SME spends substantial time and money on understanding and fulfilling tax obligations, with these requirements becoming more complex

when tax systems are fragmented or continuously evolving (Sawyer, 2021). These findings underline the global relevance of understanding tax administration practices and their effects on business financial performance, especially among vulnerable enterprise groups.

Within the African context, SMEs play a pivotal role in promoting industrialization and reducing unemployment, yet they operate in environments characterized by weak institutional frameworks and burdensome tax administration systems (Awasthi & Engelschalk, 2020). In sub-Saharan Africa, many SMEs report high costs and operational strain in complying with tax enforcement, audits, and filing obligations, citing frequent regulatory changes, limited access to tax knowledge, and the cost of hiring external professionals for tax matters (Lignier, Evans & Tran-Nam, 2020). For example, in Nigeria and South Africa, studies show that SMEs often divert a considerable portion of their profits to cover expenses related to tax audits and filing procedures, which compromises their financial sustainability (Maseko, 2021). Moreover, digital tax systems introduced across the region have imposed new administrative demands that many SMEs are ill-equipped to handle, given limited IT infrastructure and low digital literacy (Mutemeri, 2021). These regional realities demonstrate the pressing need to investigate the influence of tax administration practices within specific African economies.

In East Africa, governments have intensified efforts to improve tax compliance through digitalization and stricter administration, yet these reforms have simultaneously increased the operational burden for small enterprises (AfDB, 2022). In Tanzania and Uganda, for instance, SMEs have reported that the cost of professional tax services, digital record-keeping tools, and filing platforms has risen sharply since the implementation of e-tax systems (Tibenda & Ouma, 2022). While these reforms aim to boost revenue mobilization, they often lack proportionate support mechanisms for SMEs, leading to a widening gap between administrative expectations and SME capacity (Wambua, 2021). Furthermore, empirical evidence indicates that many SMEs in the region face financial distress due to complex enforcement and audit requirements, which affect financial performance and discourage business formalization (Nzomo, 2022). These challenges provide a relevant backdrop for exploring how similar dynamics are unfolding in Kenya, particularly in urban centers.

In Kenya, SMEs are a cornerstone of economic growth and resilience, yet they face mounting financial pressure from tax administration practices, especially after KRA intensified enforcement measures post-2020 (KRA, 2024). The shift to digital tax systems, though intended to streamline compliance, has introduced technical and financial barriers for small businesses with limited access to ICT infrastructure and skilled personnel (IEA Kenya, 2022). A recent report indicated that SMEs in urban centers such as Nairobi spend an average of KSh 50,000 annually on activities related to audits, enforcement, and filing (Kamau & Njuguna, 2023). These requirements have been linked to reduced profit margins, job cuts, and increased business closures, particularly in high-cost areas like the Central Business District (Muthoni, 2024). The local context is thus ripe for in-depth investigation, given the scale and implications of the administrative burden on small businesses.

Nairobi's CBD is a vital commercial hub, home to thousands of SMEs that drive the city's retail and service sectors (IEA Kenya, 2022). However, the rising complexity of tax administration, frequent regulatory updates, and the cost of hiring tax consultants have made compliance increasingly expensive for these businesses (Ochieng et al., 2023). Furthermore, SME owners in the CBD report that significant time is lost to navigating audits, enforcement

activities, and filing procedures, reducing attention on strategic business functions and limiting revenue generation (Kamau & Njuguna, 2023). Data from KRA shows a sharp increase in tax arrears and bankruptcy filings among Nairobi-based SMEs between 2022 and 2024, highlighting the operational and financial risks posed by complex administrative requirements (KRA, 2024). The combination of high operating expenses, administrative burdens, and declining revenues underscores the urgent need for evidence-based interventions tailored to Nairobi CBD's urban SME ecosystem.

### **1.1 Problem Statement**

Small and medium enterprises are central to Kenya's economy, accounting for over 90% of businesses and contributing about 30% of GDP (KNBS, 2023). Within Nairobi's Central Business District (CBD), these enterprises provide essential employment and revenue streams (World Bank, 2023). However, their financial performance has increasingly come under strain, with recent reports showing that over one-third of SMEs in the CBD experienced a 20 % revenue decline in 2023 (Ochieng et al., 2023).

Kenya Revenue Authority reforms, such as digital tax systems and intensified enforcement after 2020, were meant to improve compliance but have simultaneously heightened administrative demands (KRA, 2024; IEA Kenya, 2022). SMEs now face frequent audits, complex filing requirements, and delayed refunds, factors that divert managerial time and increase operating costs (Kamau & Njuguna, 2023). Industry data show that many SMEs spend an average of KSh 50,000 annually on compliance activities and lose up to 120 hours per year on tax tasks (IEA Kenya, 2022; KRA, 2024). While previous studies have examined general compliance trends, empirical evidence directly linking tax administration practices such as enforcement intensity, audit procedures, and filing requirements to SME financial performance remains scarce, particularly in urban high-cost zones like Nairobi CBD (Omondi et al., 2022; Wambua, 2021). Addressing this knowledge gap is critical for designing tax policies that enhance revenue collection without undermining the financial sustainability of SMEs in Nairobi's primary commercial hub.

### **1.2 Research Objectives**

- i. To determine the effect of tax enforcement procedures on the financial performance of SMEs in Nairobi Central Business District.
- ii. To assess the effect of tax audit practices on the financial performance of SMEs in Nairobi Central Business District.
- iii. To evaluate the effect of tax filing procedures on the financial performance of SMEs in Nairobi Central Business District.

## **2. Literature Review**

### **2.1 Theoretical Review**

This section presents the key theories underpinning the study, providing a conceptual foundation for understanding how tax administration practices influence the financial performance of Small and Medium Enterprises.

#### **2.1.1 Compliance Cost Theory**

The Compliance Cost Theory, advanced by Sandford et al. (1989) and later refined by Evans (2020), explains that tax compliance imposes costs on firms beyond the actual tax liability, including administrative, time-related, and professional service expenses. The theory posits

that these costs increase with the complexity and frequency of tax administration requirements such as filing procedures, audits, and reporting obligations, thereby diverting financial and managerial resources away from productive business activities (Sawyer, 2021). SMEs are disproportionately affected due to limited economies of scale, weaker administrative capacity, and constrained financial resources (Schoeman & van Heerden, 2021). Although the theory has been criticized for emphasizing measurable financial costs while underplaying psychological and behavioral burdens and firm-specific differences (Awasthi & Engelschalk, 2020; Mutemeri, 2021), it remains highly relevant in explaining how burdensome tax administration frameworks can erode profitability and weaken financial performance, particularly among SMEs operating in cost-sensitive environments (World Bank, 2023).

### **2.1.2 Tax Neutrality Theory**

Rooted in classical taxation principles articulated by Adam Smith and later formalized by Musgrave and Musgrave (1989), the Tax Neutrality Theory posits that an efficient tax system should not distort business decisions, investment choices, or operational structures. Under neutrality, taxation functions purely as a revenue mobilization tool, imposing minimal compliance costs and administrative interference, thereby allowing firms to focus on production and growth (OECD, 2021; Evans, 2020). However, critics argue that complete neutrality is practically unattainable because all tax systems introduce some level of economic distortion, with SMEs often bearing disproportionate compliance burdens relative to large corporations (Schoeman & van Heerden, 2021; Mutemeri, 2021). Modern tax regimes also incorporate targeted incentives and sector-specific policies that deviate from neutrality (World Bank, 2023). Within this study, the theory provides a lens for understanding how complex tax administration procedures, frequent audits, and high compliance expenditures in Kenya create non-neutral conditions that redirect SME resources from investment and expansion toward compliance, thereby constraining financial performance (IEA Kenya, 2022).

### **2.1.3 Resource-Based View Theory**

The Resource-Based View Theory, introduced by Penrose (1959) and formalized by Barney (1991), explains firm performance in terms of internal resources and capabilities that are valuable, rare, inimitable, and non-substitutable. The theory argues that organizational competencies such as financial management systems, skilled personnel, technological capacity, and institutional knowledge determine a firm's ability to navigate operational challenges and sustain competitive advantage (Wernerfelt, 2021). In the context of tax administration, SMEs with stronger internal systems are better equipped to manage compliance demands efficiently, thereby minimizing financial strain (Evans et al., 2021). While RBV has been critiqued for its inward focus and limited attention to external regulatory forces, as well as measurement challenges surrounding the VRIN framework (Awasthi & Engelschalk, 2020; Schoeman & van Heerden, 2021), it remains relevant in demonstrating that the financial performance impact of tax administration practices varies depending on the internal capacity of SMEs to absorb compliance costs and adapt to regulatory requirements (World Bank, 2023; IEA Kenya, 2022).

## **2.2 Empirical Review**

This section reviews empirical literature on tax administration practices and SME financial performance, drawing on global, regional, and local studies. The review synthesizes prior findings on how tax enforcement procedures, tax audit practices, and tax filing procedures influence SME financial outcomes, highlighting methodological approaches, consistencies,

and contextual gaps that justify the focus on SMEs operating within Nairobi's Central Business District.

### **2.2.1 Tax Enforcement Procedures and Financial Performance**

Empirical evidence demonstrates that tax enforcement procedures significantly influence SME financial performance, particularly where enforcement is intensive and compliance demands are high. Lignier, Evans, and Tran-Nam (2020) established that stringent inspection and reporting requirements in Australia forced SMEs to redirect financial resources toward compliance activities at the expense of productive investment. Similar findings were reported in South Africa, where Schoeman and van Heerden (2021) observed that frequent inspections and penalty regimes strained SME cash flows and constrained reinvestment capacity. In Nigeria, Maseko (2021) found that aggressive enforcement actions disrupted business continuity and increased compliance expenditure, ultimately weakening profitability. In East Africa, Nzomo (2022) reported that SMEs subjected to frequent enforcement activities incurred higher operational costs and liquidity challenges, while Wambua (2021) noted that intensified enforcement reforms in Kenya compelled firms to invest heavily in internal controls and professional advisory services, thereby eroding net margins. Despite these insights, most studies generalize findings nationally without isolating high-cost commercial zones. Consequently, limited empirical attention has been given to Nairobi's Central Business District, where compliance expectations and operating costs are uniquely elevated (IEA Kenya, 2022), thereby necessitating focused investigation.

### **2.2.2 Tax Audit Practices and Financial Performance**

Existing literature indicates that tax audit practices exert measurable effects on SME financial performance by increasing operational costs and increasing revenue uncertainty. Sawyer (2021) found that SMEs in New Zealand experience substantial financial strain during audit periods due to documentation preparation and response requirements. Evans et al. (2021) similarly reported that Australian SMEs incur consultancy and professional fees arising from complex audit procedures and evolving regulatory requirements. Lignier, Evans, and Tran-Nam (2020) further noted that digital reporting systems, while enhancing transparency, have not eliminated audit-related costs such as staff training and record management. In Africa, Awasthi and Engelschalk (2020) observed that SMEs face technological and administrative challenges during audits, particularly in environments with inconsistent enforcement practices. Nzomo (2022) documented rising audit compliance costs in Kenya following the strengthening of post-filing review systems, while Wambua (2021) highlighted that audit engagements divert managerial time from revenue-generating activities, disrupting cash flows and profitability. However, empirical evidence focusing specifically on Nairobi CBD remains limited, with prior studies rarely disaggregating audit impacts within high-density commercial hubs characterized by intense regulatory scrutiny and competition (IEA Kenya, 2022).

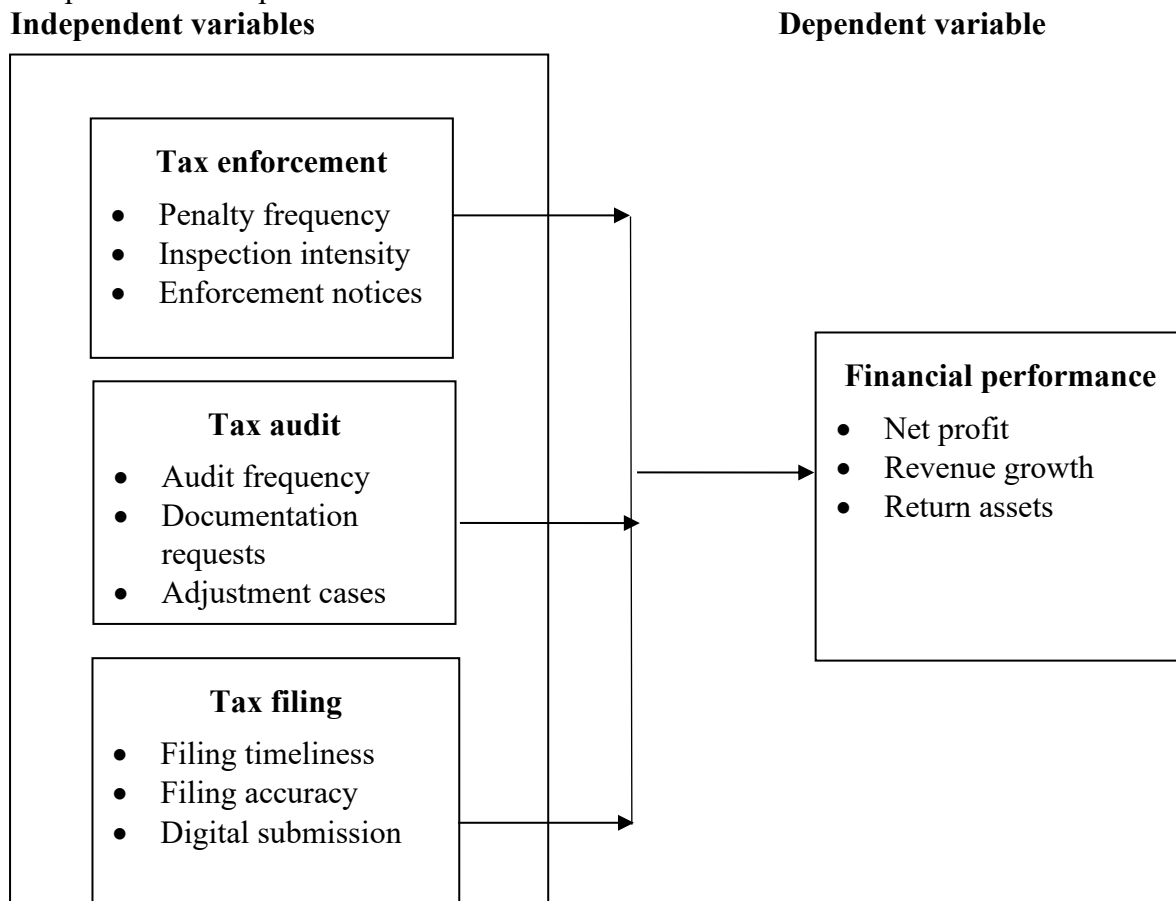
### **2.2.3 Tax Filing Procedures and Financial Performance**

Empirical studies also confirm that tax filing procedures shape SME financial performance by imposing administrative and financial burdens. Awasthi and Engelschalk (2020) found that SMEs in developing economies incur high preparation and submission costs where filing systems are complex and frequently updated. Evans et al. (2021) reported that Australian SMEs continue to face software, training, and consultancy expenses despite the availability of digital filing platforms, thereby reducing profit margins. In South Africa, Schoeman and van Heerden

(2021) established that filing obligations consume a significant proportion of SME revenues, limiting reinvestment capacity. Regionally, Wambua (2021) observed that Kenyan SMEs increasingly rely on external tax professionals to navigate digital filing systems, thereby increasing recurring compliance costs, while Nzomo (2022) highlighted the financial strain associated with filing multiple statutory returns, such as VAT, PAYE, and income tax. Mutemeri (2021) further emphasized that smaller firms experience disproportionate administrative pressure from filing requirements. Nonetheless, the empirical literature has paid limited attention to SMEs in Nairobi’s Central Business District, where regulatory oversight and professional service costs are particularly high (IEA Kenya, 2022), thereby necessitating localized analysis of filing procedures and financial performance outcomes.

### 2.3 Conceptual Framework

Figure 1 shows the study's conceptual framework, illustrating the interrelation between the independent and dependent variables.



**Figure 1: Conceptual Framework**

### 3. Methodology

This study adopted a descriptive and explanatory research design to examine the effect of tax administration practices on the financial performance of Small and Medium Enterprises operating within Nairobi’s Central Business District. The descriptive design enabled systematic documentation of prevailing tax administration procedures and SME financial

outcomes, while the explanatory component facilitated the testing of causal relationships between tax enforcement procedures, tax audit practices, and tax filing procedures and financial performance. The target population comprised 11,280 registered SMEs across key sectors, including general business, transport and communication, agriculture, hospitality, and manufacturing. A combination of stratified and simple random sampling techniques was employed to ensure sectoral representation, and a sample size of 384 respondents was determined using Yamane’s formula at a 95% confidence level. Primary data was collected using structured questionnaires administered to SME owners and managers, with items measured on a five-point Likert scale. A pilot test involving 10% of the sample was conducted to refine the instrument, while validity was ensured through construct, content, and face validity assessments, and reliability was confirmed using Cronbach’s alpha coefficients above the acceptable threshold.

Data collection was conducted after securing institutional approvals and a research permit from the National Commission for Science, Technology, and Innovation, with questionnaires distributed via Google Forms and in physical form to enhance response rates. Collected data were coded and analyzed using SPSS Version 27, employing descriptive statistics, correlation analysis, and multiple regression analysis to examine relationships between study variables. Diagnostic tests, including normality, multicollinearity, heteroscedasticity, and linearity assessments, were conducted to validate model assumptions and ensure robustness of results. Ethical standards were upheld throughout the study by ensuring informed consent, voluntary participation, confidentiality of respondent information, and use of data strictly for academic purposes.

#### 4. Results and Discussion

The model summary (Table 1) shows that the direct regression model fits the data exceptionally well, with a correlation coefficient (R) of .874, indicating a strong positive relationship between tax administration practices and financial performance. The R Square value of .764 suggests that approximately 76.4% of the variation in financial performance among SMEs in Nairobi’s Central Business District can be explained by tax enforcement procedures, tax audit practices, and tax filing procedures collectively. The Adjusted R<sup>2</sup> of .762 further confirms that the model retains its strength even after adjusting for the number of predictors, indicating that the inclusion of these three independent variables meaningfully enhances explanatory power.

**Table 1: Model Fitness**

Model	R	R Square	Adjusted R-Square	Std. Error of the Estimate
1	.874 <sup>a</sup>	.764	.762	.209562262736878

a. Predictors: (Constant), Tax filing procedures, Tax enforcement procedures, Tax audit practices

The ANOVA results (Table 2) further validate the model’s strength. The results show that the F-statistic is 385.686 with an associated p-value < 0.001, signifying that the model is statistically significant at the 1% level. This implies that at least one of the independent variables, tax enforcement procedures, tax audit practices, or tax filing procedures, has a significant influence on SMEs’ financial performance.

**Table 2: Analysis of Variance**

Model		Sum Squares	of df	Mean Square	F	Sig.
1	Regression	50.814	3	16.938	385.686	.000 <sup>b</sup>
	Residual	15.678	357	.044		
	Total	66.492	360			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Tax filing procedures, Tax enforcement procedures, Tax audit practices

The coefficients table (Table 3) provides insights into the individual contribution of each predictor variable. All three predictors—tax enforcement procedures ( $B = 0.287$ ,  $\beta = .401$ ,  $p < .001$ ), tax audit practices ( $B = 0.336$ ,  $\beta = .336$ ,  $p < .001$ ), and tax filing procedures ( $B = 0.387$ ,  $\beta = .218$ ,  $p < .001$ )—are statistically significant and positively related to financial performance. The standardized beta values show that tax enforcement procedures exert the greatest unique influence on financial performance, followed by tax audit practices and tax filing procedures. This suggests that SMEs that experience consistent, transparent enforcement, fair audits, and efficient filing processes tend to perform better financially. The positive coefficients align with empirical evidence by Evans et al. (2021) and Nzomo (2022), who found that effective tax administration enhances compliance confidence and operational performance among SMEs. The results, therefore, indicate that streamlining enforcement, audit, and filing procedures can yield measurable gains in SME profitability and sustainability within Nairobi’s CBD.

**Table 3: Regression Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.070	.195		.360	.719
	Tax enforcement procedures	.287	.037	.401	7.743	.000
	Tax audit practices	.336	.056	.336	6.029	.000
	Tax filing procedures	.387	.063	.218	6.147	.000

a. Dependent Variable: Financial performance

## 5. Conclusion

The study concludes that tax enforcement procedures have a significant and positive effect on the financial performance of SMEs in Nairobi’s Central Business District. Effective and transparent enforcement by the Kenya Revenue Authority (KRA) enhances compliance, instills fiscal discipline, and promotes sound financial management among SMEs. The findings indicate that enforcement mechanisms, such as timely notice issuance, fair penalties, and consistent inspections, motivate businesses to adhere to tax regulations and maintain accurate financial records. However, excessive or poorly coordinated enforcement can increase

operational costs and strain liquidity, thereby reducing profitability. The study therefore concludes that an optimal enforcement framework, one that balances deterrence with taxpayer facilitation, encourages voluntary compliance, strengthens financial accountability, and improves the financial sustainability of SMEs.

The study further concludes that tax audit practices significantly influence SME financial performance. When audits are conducted transparently and fairly, they reinforce compliance, promote accountability, and improve financial management systems. The results showed that while audits may initially increase administrative workload and costs, they ultimately enhance record accuracy and operational efficiency. This supports the argument that well-structured audits can strengthen SMEs' financial systems and build trust with regulatory bodies. Nevertheless, overly frequent or unpredictable audits can disrupt operations and increase compliance fatigue. The study thus concludes that strategic, risk-based, and well-communicated audit programs promote not only compliance but also sustainable financial performance by encouraging SMEs to institutionalize internal controls and adopt best accounting practices.

On tax filing procedures, the study concludes that efficient and user-friendly filing systems contribute significantly to financial performance. Simplified filing procedures, particularly those introduced by KRA, enhance efficiency and reduce the administrative burden of tax compliance. The results demonstrated that SMEs that timely and accurately file their tax returns are less likely to incur penalties and enjoy smoother financial operations. However, complexities in filing processes and frequent regulatory updates increase compliance costs, especially for smaller firms lacking digital proficiency or professional support. The study, therefore, concludes that streamlined, consistent, and well-supported filing systems enhance compliance, improve financial predictability, and free up resources for reinvestment, ultimately strengthening SME profitability and growth.

## **6. Recommendations**

The study recommends that policymakers and the Kenya Revenue Authority strengthen tax enforcement frameworks to make them more transparent, predictable, and facilitative rather than punitive. Enforcement mechanisms should be designed to encourage voluntary compliance while minimizing disruptions to business operations. This can be achieved through the timely issuance of clear enforcement notices, proportional penalties, and consistent communication of enforcement procedures. The study also recommends that KRA adopt a differentiated enforcement approach that takes into account SMEs' size and capacity to ensure fairness. Collaborative initiatives such as compliance workshops, taxpayer education programs, and advisory sessions can enhance understanding of enforcement obligations and improve compliance behavior without compromising business continuity.

Regarding tax audit practices, the study recommends that KRA implement risk-based audit systems that prioritize high-risk sectors and taxpayers rather than applying frequent or random audits across all businesses. This approach would reduce the administrative burden on compliant SMEs while enhancing the effectiveness of audit resources. Audits should also be conducted transparently, with clear guidelines and open communication to minimize uncertainty and mistrust. The study further recommends increased use of digital audit systems that streamline documentation and reduce manual processes, thereby lowering compliance costs. Additionally, integrating post-audit feedback mechanisms would help taxpayers

understand errors and corrective measures, improving future compliance and fostering a cooperative relationship between KRA and SMEs.

Concerning tax filing procedures, the study recommends continued investment in digitalization and simplification of the filing process. KRA should enhance the functionality and reliability of its iTax system to make filing faster, more intuitive, and less prone to technical disruptions. Simplifying return forms, providing automated error checks, and expanding online taxpayer support would improve filing efficiency and reduce administrative costs for SMEs. Furthermore, continuous taxpayer sensitization and training on new filing procedures and digital systems should be prioritized to build confidence and strengthen SME operators' compliance capacity. Policymakers should also consider integrating incentives for consistent and timely filers, such as expedited tax clearance or reduced audit frequency, to further promote voluntary compliance.

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