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# Effect of Alternative Dispute Resolution (ADR) on Value Added Tax Compliance among Small and Medium Enterprises in Kitale Town, Kenya

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**Abstract**

Tax is an important source of revenue for the government's development projects; therefore, governments must ensure it is collected accurately and efficiently to support their operations. Modern organizations are central to these efforts. Despite several reform exercises the Kenya Revenue Authority (KRA) has undertaken to improve revenue compliance in recent years, it has failed to meet the targets set by the Treasury. The study aimed to determine the effect of Alternative Dispute Resolution on value-added tax compliance among small and medium enterprises in Kitale Town, Kenya. The study was anchored on the Ability-to-Pay Theory and the Conflict Resolution Theory. The study adopted an explanatory research design and the target population was 2048 small and medium enterprises in Kitale Town, Kenya, with a sample size of 334 respondents. Table 1 reflects a highly successful data collection effort, achieving an 82.3% response rate. Specifically, 275 of the 334 questionnaires distributed were fully completed and returned for analysis. The study used primary data collected through questionnaires administered via a drop-and-pick-up method. The data collected were analyzed using both descriptive and inferential statistics. Alternative Dispute Resolution had a significant positive effect on VAT compliance ($\beta = 0.158$, $p = 0.001$). The authority should strengthen its Alternative Dispute Resolution framework by establishing specialized tax mediation units staffed with trained mediators who can facilitate amicable resolution of tax disputes without resorting to litigation. The KRA should promote awareness of ADR mechanisms among SMEs and ensure that these processes are accessible, timely, and perceived as fair and transparent. Future studies should explore how SME owners' perceptions of government fairness, trust in tax authorities, social norms regarding taxpaying, and feelings of civic duty influence their VAT compliance.

**Keywords**: *Alternative Dispute Resolution, value added tax compliance and small and medium enterprises*

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## 1. Introduction

Governments require steady revenue streams for community investments and social initiatives in order to foster fiscal growth and development. In both rich and developing nations, taxes remain the primary source of government funding. Governments must devise a tax compliance system that does not deter citizens from paying taxes. Chow (2020). Tax is one of the fundamental sources of income for the government; hence, tax administration remains a critical role. Actual tax collected always differs by a large margin from the tax target.

This tax is imposed on the supply of taxable goods and services, whether Kenyan-made or imported. A person or company supplying taxable goods and services whose value is Kshs. 5 million or more in a year qualifies to register for VAT. Voluntary registration for persons below the annual 5 million threshold is also allowed by law to enable them to compete fairly for market share. According to Radhakrishanan (2020), VAT is a tax on the value added to the supply by the last seller. The current VAT rates are: 16% applicable to taxable supplies other than the zero-rated supplies, 8% on petroleum products that came into effect on 21st September 2018, and 0% applicable to zero-rated supplies listed in the second schedule (VAT Act 2013). Input tax incurred by suppliers in the course of trade can be claimed within six months, apart from suppliers of exempt goods & services (VAT Act 2013, first schedule) who do not charge VATon their supplies and cannot claim input tax. Compliance in taxation is when a taxpayer declares the correct income, files a return on time, and pays tax due. Tax compliance, according to James and Alley (2019), is the willingness of the taxpayer to act in accordance with tax laws and regulations without the application of enforcement activity.

Alternative Dispute Resolution (ADR) refers to the various mechanisms used to resolve conflicts and disputes outside the traditional judicial court system. These mechanisms include arbitration, mediation, negotiation, and conciliation, which aim to provide faster, more cost-effective, and amicable solutions to disputes (UNCTAD, 2021). According to Moore (2014), ADR emphasizes collaborative problem-solving and mutual agreement, promotes fairness, and helps maintain relationships between disputing parties, unlike adversarial court processes.

In tax administration, many revenue authorities, including the Kenya Revenue Authority (KRA), have adopted ADR to settle tax disputes efficiently and reduce the backlog of cases in tax tribunals and courts (KRA, 2023). ADR contributes to enhanced compliance and trust between taxpayers and tax authorities by fostering dialogue, transparency, and voluntary resolution of tax-related issues.

Kenya introduced value-added tax (VAT) in 1990 to replace sales tax. It was introduced to increase government revenue by expanding the tax base. The VAT Act, no 35 of 2013 of Kenyan law governs the administration of Value Added Tax. The VAT framework includes goods and services that are taxable, except for zero-rated products that comprise basic goods as well as exports. Value Added Tax was adopted with an ordinary rate of seventeen percent but incorporated with other fourteen rates, with the highest ever being two hundred and ten percent. Two hundred and ten percent rate made VAT look like a tax system that targeted differentiated commodities.

Kitale is the largest urban area and Trans Nzoia County's administrative capital. The Municipality's boundaries cover parts of Saboti Sub County (Tuwan, Kinyoro and Matisi Wards), Kiminini Sub County (Hospital, Sirende and Waitaluk Wards), and Kwanza Sub

County (Bidii and Kapomboi Wards). Kitale has ecologically sensitive areas, including rivers, forests, and green spaces.The main ecologically sensitive areas are Section 6 Forest, KCC Forest, Block 10 Forest, Museum Nature Trail, Koitobos River, Machinjoni River, and wetlands. Kitale Municipality has a cool and temperate climate, with mean maximum (daytime) temperatures ranging from 23.4 °C to 28.4 °C and mean minimum (nighttime) temperatures ranging between 11.0 C and 13.50 C.The maximum and minimum extreme temperatures are recorded in February about 34.20 C) and January (about 6.50 C). Rainfall within the municipality ranges between 1000 mm and 1700 mm.

### 1.1 Problem Statement

Despite a number of reform exercises the Kenya Revenue Authority (KRA) has undertaken to improve its revenue compliance in recent years, it has failed to meet the targets set by the Treasury. For instance, for the financial year 2022/2023, it stood at KShs. 272.452 billion (KRA 2023) against a target of KShs. 314.17 billion KShs (2023). In the 2023/2024 financial year, the VAT collected amounted to KShs. 478.2 billion against a target of KShs. 484.2 billion, missing the target by KShs. 6 billion, KRA (2024). Additionally, In the year 2024/2025 financial year, the VAT collected amounted to KShs. 481.3 billion against a target of KShs. 490.1 billion, KRA (2025), which shows a significantly low VAT collection compared to the preceding years.

These revenue shortfalls have been blamed on tax evasion and other behaviors of tax non-compliance by taxpayer. This worrying trend in revenue collection statistics, along with the knowledge gap, warrants research in this area. Underperformance on VAT, however, denies the government the much-needed revenue for growth and development. As a result, the primary goal of this research was to determine the effect of Alternative Dispute Resolution (ADR) on value-added tax compliance among small and medium enterprises in Kitale Town, Kenya.

## 2. Literature Review

### 2.1 Theoretical Review

#### 2.1.1 Ability to Pay Theory

Ability-to-Pay Theory is one of the most enduring principles in public finance, emphasizing that the burden of taxation should correspond to an individual's or entity's economic capacity. Classical economists such as Adam Smith (1776) advanced this theory, later refined by Musgrave and Musgrave (1989), which asserts that equitable taxation should be based on fairness: those with greater financial ability should contribute more toward public expenditure. Applied to Value Added Tax (VAT), this theory highlights an important policy tension between efficiency and equity. As a consumption-based tax, VAT applies uniformly across spending, which tends to place a heavier proportional burden on low-income groups because they spend a higher share of their income on consumption (Cnossen, 2020).

In Kenya, the Kenya Revenue Authority (KRA, 2023) has incorporated equity considerations within the VAT framework by exempting basic commodities and small enterprises below a certain turnover threshold from VAT registration. This aligns with the ability-to-pay theory's objective of protecting vulnerable households while maintaining the tax system's efficiency and productivity. Similarly, James and Nobes (2022) argue that applying the ability-to-pay principle in VAT design promotes fairness, minimizes inequality, and strengthens public trust in the tax system. Moreover, Ebrill et al. (2001) note that equitable VAT reforms must balance

fiscal needs with social welfare objectives, ensuring that tax policy supports inclusive economic growth.

In conclusion, while VAT is a highly efficient and transparent revenue source, the Ability-to-Pay Theory remains critical to shaping its equitable application. Policymakers must continuously refine VAT systems to mitigate regressive impacts through targeted exemptions, social compensation mechanisms, and progressive adjustments that align tax burdens with taxpayers' financial capacities.

### 2.1.2 Conflict Resolution Theory

Conflict Resolution Theory provides a strong conceptual foundation for understanding and applying Alternative Dispute Resolution (ADR) mechanisms such as mediation, negotiation, and arbitration. Developed primarily by John Burton (1990) and later expanded by scholars such as Deutsch, Coleman, and Marcus (2011), the theory posits that conflicts often arise from unmet human needs, incompatible goals, or perceived injustices. Rather than focusing solely on resolving visible symptoms of conflict, the theory emphasizes addressing underlying interests and human needs such as security, recognition, and identity to achieve long-term, sustainable peace.

In the context of ADR, the Conflict Resolution Theory supports the idea that disputes are best resolved through collaborative, participatory, and interest-based processes rather than adversarial methods such as litigation. According to Burton (1990), ADR mechanisms allow conflicting parties to communicate openly, identify their core needs, and develop mutually acceptable solutions that promote reconciliation rather than mere settlement. Similarly, Deutsch et al. (2011) highlight that effective conflict resolution depends on cooperation, empathy, and constructive communication principles that are central to ADR practices.

Furthermore, Fisher, Ury, and Patton (1991) argue that ADR aligns with the human-needs-based perspective of conflict resolution because it encourages interest-based negotiation rather than positional bargaining. This approach increases the likelihood of outcomes that satisfy both parties, builds trust, preserves relationships, and supports sustainable peace. In addition, Mayer (2012) observes that ADR processes informed by conflict resolution theory transform conflicts from destructive confrontations into opportunities for learning, understanding, and institutional improvement.

Conflict Resolution Theory underpins ADR by emphasizing transforming conflicts through dialogue, understanding, and problem-solving rather than coercion or judgment. By addressing both the emotional and structural dimensions of disputes, ADR embodies the theory's goal of achieving positive, lasting resolutions that benefit all stakeholders.

## 2.2 Empirical Review

### 2.2.1 Alternative Dispute Resolution

Valladares Pacheco de Oliveira (2023) examined diversity and inclusion within Alternative Dispute Resolution (ADR) practices in the UK. Using a quantitative survey of ADR professionals, the study found that women and ethnic minorities were significantly underrepresented in ADR roles, and many training programs lacked inclusivity. Respondents highlighted the need for more equitable practices to ensure ADR processes are accessible to all parties. The study concluded that addressing diversity and inclusion barriers is essential to

ADR's legitimacy and effectiveness in the UK, and recommended targeted initiatives to increase representation, adopt inclusive policies, and regularly report on diversity metrics.

Parsly (2020), in his article, examined alternative dispute resolution (ADR) approaches used by the Internal Revenue Service (IRS) in the United States. He argues that the IRS has met demands for efficient tax administration through mediation, arbitration, and negotiation. The author concludes by advocating the development of mediation as a flexible dispute-resolution mechanism. This study is relevant because it offers recommendations to enhance efficacy, fairness, and satisfaction in tax disputes.

Claribel Lancaster (2021) conducted a study, Evaluation of Alternative Dispute Resolution in the South African Agricultural Environment, as part of her LLM in Alternative Dispute Resolution at the University of Pretoria. Supervised by Professor Rashri Baboolal-Frank, the research aimed to assess the current state of ADR within the agricultural sector's legislative and policy frameworks and to propose improvements. The study found that while ADR mechanisms are constitutionally supported as tools for enhancing access to justice, insufficient national legislation and policy hinder their application in agriculture. Lancaster recommended integrating ADR into the agricultural supply chain through third-party audits and international business standards to address power imbalances and promote sustainability.

Kinyanjui (2019) assessed the impact of ADR mechanisms arbitration, mediation, litigation, and negotiation on tax revenue collection. The study found that all four mechanisms had a positive and significant relationship with tax revenue collection, with negotiation showing the strongest correlation ($\beta$=0.383, p=0.000). The research highlighted that taxpayers and Kenya Revenue Authority (KRA) officials commonly use ADR processes, particularly negotiation. It recommended that KRA invest in sensitizing taxpayers about ADR processes and embed the requisite skills, motivation, and resources to use ADR effectively.

### 2.2.2 Value added tax (VAT)

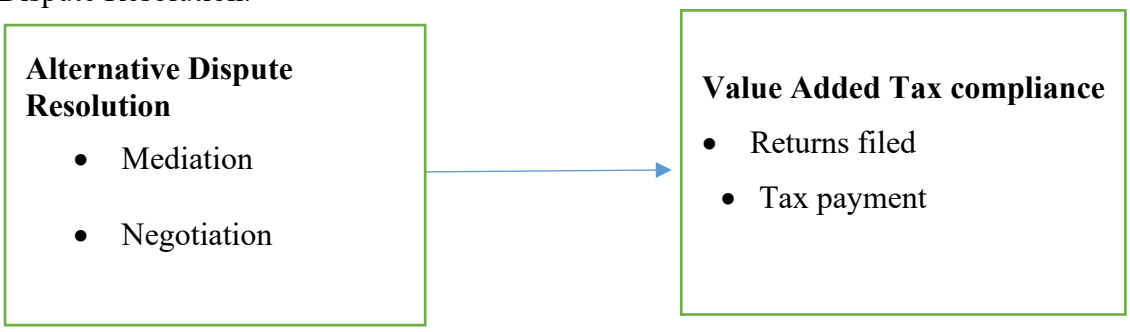
Value Added Tax (VAT) is an indirect tax levied on the value added to goods and services at each stage of production or distribution. The final consumer ultimately bears it, while businesses act as collection agents for the government. The core principle of VAT is that each business in the supply chain pays tax only on the value it adds to a product, after deducting the tax paid on inputs (OECD, 2023). According to Keen (2013), VAT is designed to ensure neutrality in the tax system by avoiding the cascading effect inherent in traditional sales taxes, thereby improving efficiency and transparency in tax administration.

In Kenya, the Value Added Tax Act, 2013 governs the VAT system and outlines procedures for registration, filing, and remittance to enhance compliance and revenue mobilization (Kenya Revenue Authority (KRA), 2022). VAT has become a major revenue source for many governments worldwide due to its broad tax base and relatively stable yield (Ebrill, Keen, Bodin, & Summers, 2001). France first introduced value-added tax (VAT) in 1954, and well over 100 countries have since adopted it. VAT rates and VAT registration requirements vary from one country to another. In the EU, all but two countries (Spain and Sweden) have registration thresholds. The UK's threshold of £81,000 is the EU's highest and is seen as a way for the government to reduce compliance costs for small businesses that do not wish to register for VAT. However, thresholds are generally much higher in countries that have introduced VAT more recently, such as Singapore, which currently has a threshold of about €540,000.

Despite the potential detrimental effects of size-dependent thresholds, evidence on the effects of VAT thresholds on small-business behavior remains limited (Decker, 2024).

### 2.3 Conceptual Framework

A conceptual framework is a diagrammatic research tool that helps the researcher categorize and describe concepts relevant to the study and map relationships among them (Cooper & Schindler, 2011). It explains how they relate to each other (Adom *et al.,* 2016). The dependent variable was value-added tax compliance, and the independent variable was Alternative Dispute Resolution.




**Independent Variable** **Dependent Variable**

**Figure 1: Conceptual Framework**

## 3. Methodology

A research design is a scheme, outline or plan that is used to generate answers to a research problem. It is the master plan that specifies the methods and procedures for collecting and analyzing the required information. Furthermore, research design is a researcher's plan for achieving research objectives. This study employed an explanatory research design. According to Kothari (2004), a population refers to a group of individuals, things, elements, or households that are well-defined and being examined. Research should have a population to which the study's findings are generalized. The target population for this study was 2048 small and medium enterprises in Kitale Town, Kenya (KRA, 2025). The data analysis included descriptive statistics, correlation and regression analysis. Table 1 reflects a remarkably successful data collection effort, achieving a response rate of 82.3%. Specifically, 275 of the 334 questionnaires distributed were fully completed and returned for analysis. The study recorded a non-response rate of 17.7%, with 59 questionnaires not submitted for various reasons, including respondents being unreachable, opting out of participation, or providing incomplete answers.

**Table 1: Response Rate**

| Target population (N) =2048<br>Sample size (n) =334 | Frequency | Percent |
|---|---|---|
| Filled and submitted questionnaires | 275 | 82.3% |
| Unsubmitted questionnaires | 59 | 17.7% |

***Reliability Analysis***

Reliability means the consistency, steadiness, or steadfastness of the information. At any point a researcher measures a variable; the person in question needs to be certain that the estimation yields reliable, consistent outcomes (Wikman, 2006).The questionnaire were exposed to generally reliable quality examination with consistency. The coefficient of consistency was estimated using Cronbach's alpha. Cronbach Alpha coefficients of above 0.7 were the cut–off reliability for this study. Table 2 showed that 4 items measuring value added tax compliance had a Cronbach's alpha value of 0.728 (> 0.7), indicating a high level of internal consistency in the measurement instrument. For the independent constructs, the 5 items for Alternative Dispute Resolution resulted in an alpha of 0.904, which denotes excellent reliability

**Table 2: Test of Reliability of Questionnaire**

| Factor | Number of Items | Cronbach Alpha score | Conclusion |
|---|---|---|---|
| Value Added Tax Compliance | 4 | 0.728 | Reliable |
| Alternative Dispute Resolution | 5 | 0.904 | Reliable |

## 4. Results and Discussion

### 4.1 Descriptive Statistics

#### 4.1.1 Descriptive Statistics for Alternative Dispute Resolution

**Table 3**: The results showed that for the first statement (I trust the outcomes of negotiation processes), the mean of 4.15 indicated that respondents generally agreed with the statement. The standard deviation of 0.603 indicated low variability in responses. For the second statement (Negotiation saves time compared to litigation), the mean of 4.27 indicated that respondents generally agreed with this assertion. The standard deviation of 0.561 showed very low variability, indicating that responses clustered closely around the mean. The third statement (ADR processes are supported by adequate legal frameworks) recorded a mean of 3.94, the lowest among all statements in this construct, yet still indicating that respondents generally agreed with this assertion, though the mean was closer to neutral than other statements. The standard deviation of 0.540 reflected low variability among responses, suggesting relatively consistent perceptions regarding the legal backing of ADR processes. For the fourth statement (Negotiation reduces conflict escalation), the mean of 4.12 indicated that respondents generally agreed with this perspective. The standard deviation of 0.472 showed the lowest variability among all statements in this construct, indicating that responses clustered tightly around the mean with minimal dispersion. The fifth statement (Negotiation allows for flexible and creative solutions) recorded a mean of 4.09, indicating that respondents generally agreed with this assertion. The standard deviation of 0.566 demonstrated low variability among responses. The composite mean for the Alternative Dispute Resolution construct was 4.11, reflecting generally high agreement among SME respondents in Kitale Town regarding the effectiveness and accessibility of ADR mechanisms.

**Table 3: Descriptive Statistics: Alternative Dispute Resolution**

| | N | Mean | Std. Deviation |
|---|---|---|---|
| I trust the outcomes of negotiation processes | 275 | 4.15 | 0.603 |
| Negotiation saves time compared to litigation | 275 | 4.27 | 0.561 |
| ADR processes are supported by adequate legal frameworks | 275 | 3.94 | 0.540 |
| Negotiation reduces conflict escalation | 275 | 4.12 | 0.472 |
| Negotiation allows for flexible and creative solutions | 275 | 4.09 | 0.566 |
| **(Mean of questionnaire responses)** | | **4.11** | |

### 4.1.2 Descriptive Statistics for Value Added Tax Compliance

**Table 4:** The results show that for the first statement, [I always file return on time and as required by law], the mean of 4.20 indicates that, in general, respondents agreed with the statement. The standard deviation of 0.586 indicated low variability in responses, suggesting consistent filing practices among SME respondents. For the second statement, [I declare correct VAT], the mean of 4.25 indicated that respondents generally agreed with this assertion about the accuracy of their VAT declarations. The standard deviation of 0.859 showed moderate variability, notably higher than the first statement, indicating that perceptions of the correctness of VAT declarations varied somewhat among respondents. Additionally, the third statement, [As a business owner, I file tax returns every Month], recorded a mean of 4.26, the highest among all statements in this construct, indicating that respondents strongly agreed with the practice of filing tax returns monthly. The standard deviation of 0.857 showed moderate variability, suggesting that while most respondents agreed, filing practices varied somewhat. For the fourth statement, I enjoy paying taxes and I am always tax compliant, the mean of 3.20 was the lowest among all statements in this construct, indicating that respondents were relatively neutral regarding their enjoyment of paying taxes and their self-perceived compliance. The standard deviation of 0.932 showed moderate variability, the highest among all statements, indicating that perceptions of tax enjoyment and compliance varied widely among respondents. The composite mean for the Value Added Tax Compliance construct was 3.98, reflecting generally high agreement among SME respondents in Kitale Town regarding their VAT compliance behaviors, including timely filing, accurate declarations, and adherence to monthly return requirements.

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**Table 4: Descriptive Statistics: Value Added Tax Compliance**

| | N | Mean | Std. Deviation |
|---|---|---|---|
| I always file return on time and as required by law | 275 | 4.20 | 0.586 |
| I declare correct VAT | 275 | 4.25 | 0.859 |
| As a business owner, I file tax returns every Month | 275 | 4.26 | 0.857 |
| I enjoy paying taxes and I am always tax compliant | 275 | 3.20 | 0.932 |
| **(Mean of questionnaire responses)** | | **3.98** | |

### 4.2 Correlation Analysis

The correlation analysis sought to determine the nature of the relationships between Alternative Dispute Resolution and value-added tax compliance among small and medium enterprises in Kitale Town, Kenya. The correlation matrix in Table 5 showed a positive and significant correlation between Alternative Dispute Resolution and value-added tax compliance ($r = 0.557$, $p = 0.041$). This finding implies that the availability and effectiveness of ADR mechanisms, including negotiation and mediation, are directly linked to enhanced compliance behavior among SMEs. This suggests that when business owners in Kitale Town perceive ADR processes as accessible, time-saving, and supported by adequate legal frameworks, their willingness to resolve tax disputes amicably and maintain compliance with VAT obligations increases markedly. This positive correlation highlights ADR's importance in reducing conflict escalation, fostering trust in tax administration, and promoting voluntary compliance, as SMEs are more likely to engage with the tax system when they trust fair, efficient dispute-resolution channels (Parsly, 2020).

**Table 5: Correlation Statistics**

| | Value Added Tax Compliance | Alternative Dispute Resolution |
|---|---|---|
| Value Added Tax Compliance | 1 | 0.557** |
| Alternative Dispute Resolution | 0.557** | 1 |

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

### 4.3 Regression Analysis

Table 6 showed that alternative dispute resolution had a positive correlation with Value Added Tax Compliance up to 55.7% or (R= 0.557). The results show that alternative dispute resolution explained 31% of the variation in Value Added Tax Compliance (R2 = 0.310; adjusted R2 = 0.306). The remaining 69% of the variation is explained by factors not included in the model.

**Table 6: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .557[a] | .0.310 | .306 | .35389 |

a. Predictors: (Constant), alternative dispute resolution _mean

Table 7 shows an F statistic of 308.800 and a p-value of 0.000<0.05, indicating that the model significantly explains the variance in Value Added Tax Compliance.

**Table 7: ANOVA**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 156.253 | 1 | 156.253 | 308.800 | 0.000 |
| | Residual | 138.201 | 273 | 0.506 | | |
| | Total | 294.454 | 274 | | | |

a. Dependent Variable: Value Added Tax Compliance

**Table 8** showed that a unit change in alternative dispute resolution caused a 0.158 increase in Value Added Tax Compliance. The study found that alternative dispute resolution had a positive and significant effect on Value Added Tax Compliance β = 0.158; p-value =0.001<0.05. Consequently, we rejected the null hypothesis.

**Table 8: Regression Coefficient analysis**

| Variable | Standardized β | Std. Error | t-Statistic | Unstandardized β | Prob. |
|---|---|---|---|---|---|
| Constant | 1.201 | 0.240 | 5.004 | | 0.000 |
| Alternative dispute resolution | 0.158 | 0.045 | 3.511 | 0.157 | 0.001 |

### 4.4 Discussion

The study objective sought to determine the effect of Alternative Dispute Resolution on Value Added Tax compliance among small and medium enterprises in Kitale Town, Kenya. The correlation matrix showed that alternative dispute resolution had a positive, statistically significant relationship with VAT compliance ($r = 0.557$, $p = 0.041 < 0.05$). This finding suggests that the availability and effectiveness of ADR mechanisms, including negotiation and mediation, are associated with higher VAT compliance among SMEs, implying that accessible dispute resolution channels may build taxpayer trust and encourage voluntary compliance. The study showed that Alternative Dispute Resolution had a significant positive effect on VAT

compliance (β = 0.158, p = 0.001). This confirms that ADR processes remain an important driver of VAT compliance outcomes, supporting the argument that fair, efficient dispute resolution mechanisms reduce taxpayer anxiety, resolve conflicts amicably, and promote voluntary compliance without resorting to costly, time-consuming litigation. In concurrence, Parsly (2020) examined ADR approaches used by the Internal Revenue Service in the United States and found that the IRS has been able to meet demands for efficient tax administration by using mediation, arbitration, and negotiation, advocating for the development of mediation as a flexible dispute resolution mechanism

## 5. Conclusion

Regarding the objective, which sought to determine the effect of Alternative Dispute Resolution on Value Added Tax compliance among small and medium enterprises in Kitale Town, Kenya, this study concludes that accessible and effective ADR mechanisms, including negotiation and mediation, reduce conflict escalation, save time compared to litigation, and provide flexible and creative solutions to tax disputes, all of which collectively contribute to improved compliance behavior. This finding adds to the existing body of knowledge by empirically validating that Alternative Dispute Resolution (ADR) mechanisms, when effectively implemented, serve as crucial institutional frameworks that directly affect VAT compliance outcomes for small and medium-sized enterprises (SMEs) in developing countries.

## 6. Recommendations

The authority should strengthen its Alternative Dispute Resolution framework by establishing specialized tax mediation units staffed with trained mediators who can facilitate amicable resolution of tax disputes without resorting to litigation. The KRA should promote awareness of ADR mechanisms among SMEs and ensure that these processes are accessible, timely, and perceived as fair and transparent.

Future studies should explore how SME owners' perceptions of government fairness, trust in tax authorities, social norms regarding taxpaying, and feelings of civic duty influence their VAT compliance.

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