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Moderating Effect of Tax System on Taxpayer Attitude and Turnover Tax Compliance Among SMEs in Thika Town, Kiambu County

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Abstract

The study sought to establish the effect of taxpayer attitude on turnover tax compliance among SMEs in Thika Town, Kiambu County. The study also sought to determine the moderating effect of the tax system on the relationship between Taxpayer attitude and turnover tax compliance among SMEs in Thika Town, Kiambu County. The study adopted a descriptive research design. The target population was 2400 small and medium enterprises in Thika Town. The sample comprised 343 managers of small and medium enterprises registered in Thika Town. Stratified random sampling was used. A proportionate sample of 343 small and medium enterprises (Yamane's formula) was drawn. The study collected data through self-administered questionnaires. After data collection, the data were entered into Excel, cleaned, and sorted. The data was then coded in Statistical Package for the Social Sciences (SPSS) software, which was used to analyze the data. This study used descriptive and inferential statistical methods. Results showed that taxpayers' attitude had a positive and significant effect on TOT compliance ($\beta = 0.501$, $p = 0.000$). The findings also showed that the tax system had a positive and significant effect on turnover tax compliance among SMEs in Thika town, Kiambu County ($\beta = 0.266$, $p = 0.000$). The study concluded that taxpayers' attitude had a positive and significant effect on TOT compliance. Taxpayer attitudes are heavily shaped by perceptions of tax fairness. When taxpayers view the tax system as fair and see the government put their tax revenue to good use, they develop a positive commitment to the system, which significantly improves compliance levels. Taxpayers who believe the government uses tax revenues effectively are more likely to hold a favorable attitude, which in turn leads to improved TOT compliance. Findings that a taxpayer's attitude positively and significantly affects Turnover Tax (TOT) compliance contribute to Economic Deterrence Theory by bridging the gap between purely coercive, rational-choice models and behavioral economics. While traditional deterrence theory focuses on extrinsic factors such as audit probabilities and penalty rates, these findings suggest that psychological factors (attitudes) act as a strong internal, or moral, deterrent that enhances compliance, even when formal enforcement is weak.

Keywords: *Taxpayer attitude, tax system, turnover tax compliance*

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1. Introduction

Tax plays a major role in the growth of economies and an increase in tax compliance translates to growth of an economy (Malonza, 2016). Taxpayers are thus required to observe and comply with the turnover tax obligations of their country. Key compliance items include declaring income, filing a return, and paying tax on time when due (Munyoro, 2017). In this regard, failure to comply with tax obligations poses a serious challenge to tax authorities, as it reduces the resources governments need to invest in critical areas of socio-economic development, including health, education, and infrastructure (Mukabi, 2014; Devos, 2014).

According to Brown and Mazur (2013), tax compliance is a multi-faceted measure, and theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting tax returns as required by the law of a particular country. Cobham, (2015), noted that, tax compliance is a problem to many countries as measured by tax to GDP ratio although it has been improving for many countries. The resulting loss of tax revenue may seriously disrupt the public sector's proper functioning, threatening its capacity to finance basic expenses if not well addressed.

Kandagor, Ogaga, and Koske (2025) highlight that human factors, including behavioral intentions, significantly influence whether an individual chooses to evade or comply with turnover tax requirements. When taxpayers perceive the tax authority as effective and fair, their inclination toward non-compliant behavior decreases, reinforcing the link between subjective norms and actual payment behavior. Furthermore, taxpayer knowledge is a key catalyst for improving compliance by reducing technical errors and boosting confidence in navigating the tax system. Putra and Mulyani (2025) affirm that higher levels of tax literacy led to more accurate reporting and timely filing, as knowledgeable taxpayers are better equipped to understand their specific obligations under turnover tax laws. Conversely, a lack of knowledge often results in unintentional non-compliance and a negative perception of the tax system, which taxpayers may view as overly complex or burdensome.

1.1 Problem Statement

SME tax compliance is vital for widening the tax base and ensuring sustainable revenue mobilization for the Kenyan government. SMEs contribute approximately 40% of Kenya's GDP and employ nearly 15 million people, yet a large portion remains in the informal sector. By formalizing these enterprises through TOT compliance, the government can generate the revenue needed to fund public infrastructure and services that directly improve the business environment (Kandagor, Ogaga, & Koske, 2024). Furthermore, compliant SMEs gain access to legal protections, government tenders, and financial incentives, such as reduced corporate tax rates for certified startups, which can lower their long-term tax burden and enhance business sustainability (Ronalds, 2026).

Despite the re-introduction of TOT as a simplified tax regime for businesses with an annual gross turnover between KSh 1 million and KSh 25 million, many traders in Thika remain non-compliant or fall into tax arrears (Wachira, 2024). According to KRA (2018) total revenue collected from the TOT system in 2018 was Kshs. 221 million against a target of Kshs. 645 million. On TOT recruitment of new taxpayers, performance has averaged below 50%, with only 10,605 SMEs registered for TOT against a target of 18,347, raising concern (KRA, 2025). However, Muthoni (2025) revealed that tax compliance remains an issue for SMEs in Thika Town, as a study conducted in 2024 revealed that tax filing process, tax registration, tax

payment process and tax rates have a major impact on the tax compliance of SMEs, whereas online tax filing processes were seen to be difficult for certain small firms to understand. At the national level, KRA registered 10.56 million taxpayers in FY 2024/25, indicating a widening tax base, and tax revenues amounted to KSh 2.571 trillion in FY 2024/25.

1.2Objectives of the study

i. To establish the effect of taxpayer attitude on turnover tax compliance among SMEs in Thika Town, Kiambu County

ii. To determine the moderating effect of tax system between Taxpayer attitude and turnover tax compliance among SMEs in Thika Town, Kiambu County

2. Literature Review

2.1 Theoretical Review

2.1.1 Fischer tax compliance model

Tax compliance factors based on the Fischer model (Fischer, 1992) have been a major focus of research in developed countries during the last few years. The Fischer tax compliance model, shown in the figure below, provides a framework for examining how socioeconomic and psychological variables influence taxpayer compliance decisions. Because demographic characteristics affect noncompliance opportunities, attitudes, and perceptions, the Fischer model shows that they indirectly influence taxpayer compliance. According to the theory, noncompliance opportunity can affect taxpayer compliance directly through income level, source of income, and employment, as well as indirectly through attitudes and perceptions. Based on this model, as income grows, tax evasion rises across the board (Andreoni,1998).

Specifically, Mas'ud et al. (2014) argued that Fischer's model matters because it offers insight into tax system structure, particularly tax rates and penalties. In general, most taxpayers in developing countries who intend to evade tax first consider two factors, tax rates and penalties, and then decide whether to comply (Umar, Kasim & Martin, 2012). Therefore, tax rate and penalties are proposed to be included in the model of tax noncompliance.

As a result, Fishers' tax compliance model combines economic, social, and psychological aspects into a complete model that served as the study's major anchor. The Fishers' tax compliance model is the main theory underpinning this study, and it argues that a one-size-fits-all approach to companies is inappropriate. The theory predicts a link between non-economic factors and TOT compliance among SMEs.

2.2 Empirical Review

Kandagor, Ogaga, and Koske (2024) focused on effect of taxpayer knowledge on turnover tax compliance among small and medium enterprises in Kariokor Market in Nairobi, Kenya. This study adopted an explanatory research design. The target population for the study was 1382 Turnover Tax-registered SMEs in Kariokor Market in Nairobi. Data was analyzed using descriptive and inferential statistics. The findings revealed that taxpayer knowledge exhibited a positive influence on Turnover Tax Compliance, indicating that as tax knowledge among taxpayers increases, their compliance with tax regulations also tends to increase. The research established a positive connection between taxpayer knowledge and turnover tax compliance. When taxpayers possess greater knowledge of tax regulations and procedures, their compliance levels increase.

Damayanti and Subiyantoro (2020) focused on taxpayers' attitudes and tax compliance behavior in Kenya. This research was a survey involving business income earners among small and medium size enterprises in Kerugoya town, in Kirinyaga district. Data were collected from two hundred and sixty (260) small and medium-sized enterprise taxpayers, analyzed using descriptive statistics, and summarized and presented in the form of proportions, tables, and percentages. The following conclusions were also arrived at: First, most taxpayers view the Kenyan tax system as unfair. This was because most respondents disagreed that they are paying a fair share of tax; that their neighbors, friends, etc. are reporting and paying tax honestly; that tax laws are easy to understand, i.e., calculation of tax filing and payment dates. They were also indifferent to the payment of tax fines and penalties: the aggressive tax enforcement efforts by KRA, e.g., ensuring tax audits and prosecutions of tax evaders take place. Secondly, most taxpayers have complied with the possession of PINs; the taxpayers in the district have partially complied in terms of keeping up-to-date records and books of account. This is because most of them keep Cash receipts, cash book, Balance sheet, Invoices, and Profit and Loss accounts. But other records like the trial balance, journals, and Ledgers are not up to date.

Nkwe (2013) researched taxpayer attitudes and behaviour toward the taxation system to identify elements that impact taxpayer attitudes, establish a link between attitudes and tax compliance behaviour, and suggest tax compliance pathways. Small and medium-sized enterprises in Botswana need to change their attitudes and habits. A total of 200 small and medium-sized business taxpayers were surveyed for this study. Following the collection of data, descriptive statistics are used to assess it before it is summarized and presented using statistical techniques. The study's findings led to the conclusion that the taxpayer's mindset has an impact on compliance behavior.

Wameyo (2019) further established that taxpayers' attitude towards paying tax was poor. This had a direct effect on their rental income tax compliance. The study found that most respondents lacked knowledge of rental income tax regulations, which the study attributed to a lack of proper sensitization by the tax authorities. The study found a direct influence of knowledge of rental income tax regulations on rental income tax compliance. The study also established that culture influenced the behaviour of tax paying. However, peer influence had no influence on the behaviour of paying tax. The study recommended that the government should ensure it delivers services to its citizens to change the perception of taxpayers towards paying tax. The government and tax authority should intensify its rental income tax sensitization programme with the aim of making people understand the concept of rental income tax and to enhance tax payment compliance. The government needs to educate people to love their country and emphasize that paying taxes is everyone's obligation and benefits the country's development.

Kuria (2016) examined Kenyan taxpayers' perceptions and tax compliance. Kenya's top 100 mid-sized firms were the subject of the poll. The study aimed to better understand the factors that shape taxpayer views and compliance. This study used a cross-sectional design because the data were collected only once and reflected respondents' views at the time. "Taxpayers' assessment of the tax burden is a key predictor of taxpayer sentiments," the findings revealed. The study found that taxpayers' mindset has a substantial impact on tax compliance. Taxpayers' attitudes were unaffected by their perceptions of government reporting and their understanding of tax policy.

Wijaya (2019) researched taxpayers' views on the removal of tax sanctions as well as their knowledge of taxpayer compliance taxes in Yogyakarta. This research included a single taxpayer. As of the end of 2015, there were around 350,935 individual taxpayers. The research's findings show a favourable relationship between taxpayer attitudes and compliance. When it comes to tax compliance, however, the tax write-off variable demonstrates that there is no link between the abolition of tax fines and compliance. A study of the influence of tax awareness on taxpayer compliance finds a positive association between the two.

Helhel and Varshalomidze (2015) examined factors that shape taxpayer attitudes and concerns about tax compliance in Georgia's tourism sector. Based on earlier studies, the elements were divided into internal and external groups. Recent tax compliance studies have focused on individuals rather than enterprises. We utilize data from Georgia's tourist industry's small and medium-sized businesses in this study (SMEs). The questionnaire was created using a five-point Likert scale, and it was followed by a personal interview. This study found a Cronbach's alpha coefficient of 0.837, which is often used to gauge internal consistency. The data show that internal factors predict tax compliance significantly better than external variables. Their views on the current situation were not as disparate as they appeared. The capacity to pay taxes, pay taxes accurately, boost tax morale and understanding, and reassess preventative strategies all impact taxpayer behaviour (such as exemptions, exams, sanctions, and fines). Respondents' opinions and attitudes about taxes did not vary significantly by age or business location, although some differences emerged by ownership and subsector.

Rosidi and Roekhudin (2018) examined factors that influence tax compliance. This study focused on corporate taxpayers registered with the Directorate General of Taxes for the South Sulawesi Region. Proportionate random sampling is used to establish the sample size for this test. The analysis used Partial Least Squares (PLS). The outcomes of the study reveal that taxpayer behaviour has a positive and significant influence on compliance. The development of tax compliance behaviour may encourage taxpayers to engage in beneficial activities and so contribute to society's well-being. Subjective norms have a favourable and considerable impact on tax compliance intentions. Because this study focuses on corporate taxpayers, the researcher uses stakeholder theory to add social awareness.

Arunasalam (2019) explored the relationship between a person's personality and tax compliance in Malaysia. The researcher used personality traits from the Big Five to see how an individual's personality influences their decision to adapt. The researcher conducted this investigation as part of a qualitative study. Researchers classified taxpayers using interview questions based on their personality and level of compliance. This study shows a relationship between personality and compliance when people deem tax compliance unimportant because they are uninformed about their tax responsibilities.

Munga (2021) investigated the impact of psychological variables on micro and small business owners' tax compliance in Nairobi County, Kenya. The theory of planned behaviour, tax morale theory, Allingham and Sandmo theory, and Expectancy theory were all used in the study. In Nairobi Central Business, the study targeted 21,100 licensed small-scale merchants. The model results revealed a positive and significant relationship between taxpayer attitude and tax compliance (=0.41, p=0.000). Furthermore, there was a positive and significant relationship between tax knowledge and tax compliance (=0.254, p=0.000). Social norms and tax compliance were also shown to be positively and substantially associated (=0.464, p=0.000).

The findings show that psychological variables such as taxpayer attitude, tax knowledge, and social norms had a favorable and substantial impact on micro and small business owners' tax compliance in Nairobi County, Kenya. The government should ensure business owners are trained on the tax system so they are well-versed in the technical and legal aspects of tax administration. Business owners should be careful about who they engage with, as these relationships may affect tax compliance. In terms of policy, research, and practice, the study provides a substantial addition to the field of tax administration.

Oberholzer (2017), in a study of taxation in South Africa, highlights a threefold classification of government attitudes toward taxpayers: criminalized evaders, evader-forgiving, and group-norm leveraging. The first approach seeks to find and criminalize evaders and imposes heavy non-compliance fees, whereas the second issues amnesties to encourage willing issuance of taxes. The final approach leverages social norms, e.g., by shaming evaders, to maximize compliance. This highlighted classification is of pivotal importance, particularly so in light of the far-reaching effects of taxpayers' attitudes; in the event that taxpayers feel disgruntled as a result of ineffective provision of social amenities, for instance, a government applying a criminalization approach to taxation risks aggravating the situation, thereby increasing both non-compliance and risking social unrest.

3. Methodology

The study adopted a descriptive research design. The target population was 2400 small and medium enterprises in Thika town. The sample comprised 343 managers of small and medium enterprises registered in Thika town. Stratified random sampling was used. A proportionate sample of 343 small and medium enterprises (Yamane's formula) was drawn. The study collected data through self-administered questionnaires. After data collection, it was entered into Excel, then cleaned and sorted. The data was then coded in Statistical Package for the Social Sciences (SPSS) software, which was used to analyze the data. The study used descriptive and inferential statistical methods. The descriptive statistics that were analyzed included mean, standard deviation, kurtosis, mode, and skewness. Inferential statistics comprised both correlations and regression. The correlation analysis was used to assess the strength of the association between the independent variables and the dependent variable. Further multiple regression analyses were used to test the relationship between the independent variables and the dependent variable. The relationship was tested at a 5% significance level. The results for the study were presented in tables and charts.

4. Results and Discussion

4.1 Descriptive Statistics

This section contains descriptive statistics.

4.1.1 Taxpayer Attitude

The respondents were asked to indicate their level of agreement with statements on taxpayers' attitude. Results are shown in Table 1.

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Table 1: Descriptive Statistics on Taxpayers' Attitude

Statement	very small extent	small extent	moderate extent	large extent	very large extent	Mean	std. dev
I am willing to comply with the turnover tax laws, even if it is costly.	10.30%	16.90%	11.9%	34.1%	26.80%	3.50	1.32
Overall, I have a positive attitude towards complying with the turnover tax system.	12.30%	3.00%	22.2%	46.7%	15.90%	3.51	1.17
My attitude towards the tax system significantly influences my actual compliance behavior.	8.30%	7.00%	16.9%	44.4%	23.50%	3.68	1.15
I believe paying turnover tax is a civic duty and a moral obligation for all business owners.	17.20%	7.90%	17.5%	39.1%	18.20%	3.33	1.34
Tax evasion is a serious offense that should be punished severely	17.20%	7.00%	18.2%	48.7%	8.90%	3.25	1.24

Results showed that most respondents (60.9%) indicated they were willing to comply with the turnover tax laws, even if it is costly (mean = 3.50, std. dev. = 1.32). Further results showed that most of the respondents (62.6% indicated that they have a positive attitude towards complying with the turnover tax system to a large extent (mean=3.51, std.dev=1.17). In addition, results showed that many of the respondents (67.9% indicated that their attitude towards the tax system significantly influences actual compliance behavior to a large extent (mean=3.68, std.dev=1.15). Further results showed that many respondents (57.3%) believed paying turnover tax is a civic duty and a moral obligation for all business owners to a large extent (mean=3.33, std.dev=1.34). In addition, most respondents (57.6%) agreed to a large extent that tax evasion is a serious offense that should be punished severely (mean=3.25, std.dev=1.24).

4.1.2 Tax System

Respondents were asked to indicate their level of agreement with statements on the taxpayers' system. Results are shown in Table 2.

Table 2: Descriptive statistics of the Taxpayers System

Statement	very small extent	small extent	moderate extent	large extent	very large extent	Mean	std.dev
There is a probability of detection and penalties	4.00%	11.30%	6.00%	39.10%	39.70%	3.99	1.13
High complexity of tax system	15.90%	3.00%	11.60%	40.40%	29.10%	3.64	1.35
The tax rates are too high	14.90%	4.00%	9.90%	45.40%	25.80%	3.63	1.31
The SMEs are not fully conversant with the Tax system & structure	11.90%	4.00%	9.90%	46.00%	28.10%	3.75	1.25

Results showed that most respondents (78.8%) indicated a probability of detection and penalties (mean = 3.99, std. dev. = 1.13). Further results showed that the majority of the respondents (69.5% indicated that there is high complexity of the tax system (mean=3.64, std.dev=1.35). Results showed that the majority of the respondents (71.2% indicated that there is a probability of detection and penalties (mean=3.63, std.dev=1.31). Further results showed that the majority of the respondents (74.1% indicated that there is high complexity of the tax system (mean=3.75, std.dev=1.25).

The respondents were asked to indicate which other factors affected compliance with Turnover Tax (TOT) among SMEs in Kiambu County. Respondents indicated that many small businesses consider compliance costs, such as hiring professionals for filing, high. In addition, business size and structure directly affect how businesses handle tax compliance, with smaller, informal businesses having lower compliance rates.

4.1.3 Turnover Tax (TOT) Compliance

The respondents were asked to indicate their level of agreement on statements on Turnover Tax (TOT) Compliance. Results are shown in Table 3.

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Table 3: Descriptive Statistics on Turnover Tax (TOT) Compliance

Statement	very small extent	small extent	moderate extent	large extent	very large extent	Mean	std. dev
Timeliness of payment of taxes	7.30%	18.50%	6.00%	39.10%	29.10%	3.64	1.28
Commitment in tax paying	5.30%	20.20%	7.60%	38.10%	28.80%	3.65	1.24
Amount of taxes paid	17.90 %	10.30%	10.90%	34.10%	26.80%	3.42	1.44
Annual tax turnover	4.00%	12.90%	24.80%	43.40%	14.90%	3.52	1.02
Non-compliance rate	11.60 %	7.00%	2.00%	70.20%	9.30%	3.59	1.13

Results showed that the majority of the respondents (68.2% indicated that the timeliness of payment of taxes was a measure of TOT to a large extent (mean=3.64, std.dev=1.28). Further results showed that the majority of respondents (66.9%) indicated that commitment to paying taxes was a measure of TOT to a large extent (mean=3.65, std.dev=1.24). In addition, results showed that the majority of the respondents (66.9% indicated that the amount of taxes paid was a measure of TOT to a large extent (mean=3.42, std.dev=1.44). Results also showed that the majority of the respondents (60.9% indicated that Annual tax turnover was a measure of TOT to a large extent (mean=3.42, std.dev=1.44). Results also showed that the majority of the respondents, who were 79.5%, indicated that the non-compliance rate was a measure of TOT to a large extent (mean=3.59, std.dev=1.13).

Respondents were asked what measures should be taken to improve compliance with Turnover Tax (TOT) among SMEs in Kiambu County. Many respondents noted that compliance is low simply because SME owners do not fully understand the how and why of TOT. KRA should conduct training sessions in local languages (Gikuyu/Swahili) at the sub-county level (e.g., Thika, Ruiru, Kikuyu) to reach grassroots traders.

4.2 Inferential Analysis

Inferential statistics helped gauge associations among variables; this included correlation analysis and regression analysis. The inferential analysis was undertaken after subjecting the data to various tests.

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4.2.1 Correlation Analysis

Table 4: Outcomes for Correlation

		TOT Compliance	Taxpayer attitude
TOT Compliance	Pearson Correlation	1	
	Sig. (2-tailed)		
Taxpayer attitude	Pearson Correlation	.806**	1
	Sig. (2-tailed)	0.000	

Results showed a positive and significant association between taxpayer attitude and turnover tax compliance among SMEs in Thika town, Kiambu County (r=0.806, p=0.000). The findings imply that improving taxpayer attitude can significantly enhance turnover tax compliance among SMEs.

4.2.2 Regression Analysis Results before Moderation

Table 5: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0.267	0.145		-1.837	0.067
Taxpayer attitude	0.512	0.042	0.501	12.053	0.000

Results showed that taxpayers' attitude had a positive and significant effect on TOT compliance (β=0.501, p=0.000). The first objective**, H01,** stated that taxpayer attitude has no significant effect on Turnover Tax (TOT) compliance among SMEs in Kiambu County. Since the p-value was less than 0.05, the null hypothesis was rejected, and it was concluded that taxpayer attitude significantly affects compliance with the Turnover Tax (TOT) among SMEs in Kiambu County.

4.2.3 Regression Analysis Results after Moderation

The following hierarchical regression models were used to assess the moderating effect of the tax system on the relationship between taxpayer attitude and turnover tax compliance among SMEs in Thika Town, Kiambu County.

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Table 6: Coefficients of Regression

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.267	0.145		-1.837	0.067
	Taxpayer attitude	0.512	0.042	0.501	12.053	0.000
2	(Constant)	-0.310	0.136		-2.280	0.023
	Taxpayer attitude	0.359	0.046	0.352	7.868	0.000
	Tax system	0.225	0.034	0.266	6.702	0.000
3	(Constant)	-0.033	0.177		-0.188	0.851
	Taxpayer attitude	0.246	0.065	0.241	3.764	0.000
	Tax system	0.107	0.059	0.127	1.802	0.073
	X1.M	0.036	0.015	0.231	2.405	0.017

The findings show that the tax system had a positive and significant effect on turnover tax compliance among SMEs in Thika town, Kiambu County ($\beta = 0.266$, $p = 0.000$). This implies that the tax system enhances turnover tax compliance among SMEs in Thika town, Kiambu County. Further, the coefficient for the interaction term between tax attitude and turnover tax compliance (X1.M) was 0.231, with a p-value of 0.017. Therefore, the study rejected the null hypothesis H0, which states that the tax system does not moderate the relationship between taxpayer attitudes and turnover tax compliance among SMEs in Thika town, Kiambu County. This means the tax system significantly moderated the relationship between taxpayer attitude and turnover tax compliance among SMEs in Thika town, Kiambu County.

5. Conclusion

The study concluded that taxpayers' attitude had a positive and significant effect on TOT compliance. Taxpayer attitudes are heavily shaped by perceptions of tax fairness. When taxpayers view the tax system as fair and see the government use their tax revenue well, they develop a positive commitment to the system, which significantly improves compliance levels. Taxpayers who believe tax revenues are used effectively by the government are more likely to hold a favourable attitude, which in turn leads to improved TOT compliance.

6. Recommendations

Findings that a taxpayer's attitude has a positive and significant effect on Turnover Tax (TOT) compliance contribute to the Economic Deterrence Theory by bridging the gap between purely coercive, rational-choice models and behavioral economics. While traditional deterrence theory focuses on extrinsic factors such as audit probabilities and penalty rates these findings suggest that psychological factors (attitudes) act as a strong, internal, or moral deterrent that enhances compliance, even when formal enforcement might be weak.

Since automated systems significantly improve compliance and reduce costs, SMEs should fully adopt KRA's electronic systems, such as i-tax and the Electronic Tax Invoice Management System (eTIMS). Actively learning these systems will help turn a negative attitude toward technology into a positive, compliant behaviour. KRA should continuously upgrade the i-tax system to make it less tedious, easier to navigate, and more user-friendly for SME operators who may not be tax/accounts professionals.

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