



Issuance of Agency Notices and Tax Compliance of Small and Medium Enterprises in Nairobi County, Kenya

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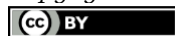
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Abstract

This study's purpose was to investigate the influence of the issuance of agency notices on tax compliance of small and medium-sized enterprises (SMEs) in Nairobi County, Kenya. SMEs in Nairobi County made up the research's study population, which was based on the fiscal psychology theory. The study used a targeted sample of 399 managers and owners of SMEs in Nairobi County using a descriptive cross-sectional design in accordance with the positivist research philosophy. The data from the respondents was gathered using a standardized questionnaire with closed-ended questions. Using Statistical Package for Social Sciences (SPSS), descriptive and regression analysis were performed on the collected data. The study findings determined that issuance of agency notices had a positive and significant effect on tax compliance of SMEs in Nairobi County, Kenya ($\beta = 0.543$, $t = 13.344$, $p < 0.05$). This study concluded that issuance of agency notices was vital in enhancing tax compliance of SMEs. The study recommends to tax authorities in Kenya to take the option of collecting unpaid taxes directly from the SME's bank when SMEs fail to comply within the negotiated period. Moreover, tax authorities should increase their tax debt recovery by increasing the usage and issuance of agency notices as soft enforcement measures, while enabling facilitation for enhanced tax compliance. This can be done by revamping the debt management organization (segmentation, centralization, digitalization, public sector partnership, and cooperation) and using call centres with functional customer relationship management (CRM). When equipped with a database with sufficient details about the debtors such as the telephone, mail, and physical addresses, CRM can fast-track the collection of the tax debt outstanding, especially from unreachable taxpayers.

Introduction

Tax compliance is the degree to which a taxpayer complies (or does not comply) with a country's tax regulations, such as by revealing income, filing a return, and paying taxes on time (Palil, 2011). According to Ocheni (2015), tax noncompliance is a spectrum of acts detrimental to a government's



tax system. This may include tax avoidance, which is the reduction of taxes by legal ways, and tax evasion, which is the illegal nonpayment of taxes due. The Kenyan government has attempted to broaden the tax revenue base by implementing many taxation policies which are intended to increase tax compliance. However, they have not generated the necessary tax income. The government collected 1.58 trillion Kenyan shillings for the 2018-2019 fiscal year (Kenya Revenue Authority, 2021). The average percentage of payment filers was 70.1% for individual income taxes, 41.6% for corporate taxes, and 23.3% for each tax obligation. Yet, the filing patterns were poor, with 38.4% of taxpayers being corporations, 47.0% being individuals, and 30% being value-added tax (VAT) filers. The wealthy taxpayers provided 78.52% of the total KES 1.58 trillion in revenue collected while SMEs accounted for just 21.48 percent (Kivuva, 2020). According to a study conducted by the Kenya National Bureau of Statistics (KNBS) in September 2016, SMEs in Kenya generated revenues totaling to KES 635 million each month, which equated to KES 7.62 billion per year, and the anticipated tax income was KES 2.29 billion (Kenya Revenue Authority, 2021). When transactional VAT and Pay-As-You-Earn taxes were included, the amounts were estimated to be much greater. In addition, it was anticipated that the estimates for succeeding periods would be much higher, given the rise in Kenya's economic growth rates in 2017, 2018, and 2019. Nevertheless, tax payments from SMEs were substantially smaller, accounting for a meager 20% of overall revenue collections (Rotich, 2020).

Tax compliance rates for the majority of SMEs in Africa are below 30% (Kassa, 2021). In the majority of African nations, including Kenya, there is still a dearth of information about the factors influencing tax compliance rates of SMEs (Rotich, 2020). The operational difficulties, necessity to stay afloat for SMEs, compliance costs and attitude towards compliance create compliance issues. However, large organizations with complex systems are not affected in the same way (Kimani, 2019). The proportion of tax income to GDP in Kenya decreased from 16.886 percent in 2014 to 15.06 percent in 2018. Despite Kenya's economic growth during the same time, from 5.37 percent in 2014 to 6.31 percent in 2018, this decline occurred (Kimani, 2019). For the 2015/2016 fiscal year, the KRA collected a record-breaking KES 1,210 trillion, representing a 13.2% increase. Unfortunately, this sum fell short of the exchequer's goal of KES 1,2174 trillion (Kivuva, 2020). For the 2017/2018 fiscal year, a total of KES 1.43 trillion was collected in revenue, representing a rise of 5.1%. Overall tax revenues for the fiscal year ending 30 June 2019 improved slightly to KES 1.44 trillion but fell short of the goal set by the Treasury by KES 72.7 billion (Kenya Revenue Authority, 2021). For the 2020 fiscal year, major taxpayers provided 78.52 percent of the total income collected, while SMEs contributed a meager 21.48 percent owing to severe noncompliance.

Thus, SMEs are more prone to engage in tax evasion and either operate totally outside the tax net or conceal a portion of their commercial operations. In nations with inadequate tax administration enforcement capabilities or a high degree of tax administration corruption, the likelihood of detecting such tax evasion tactics might be quite low (Kemunto, 2019). To dissuade taxpayers from violating tax regulations, governments often use enforcement strategies, including the issuance of agency notices. According to the OECD (2020), agency notices permit tax authorities to collect tax from a person who owes money to a delinquent tax payer. Tax authorities often issue agency notices to banks holding deposits on behalf of a tax payer, resulting in the bank freezing such cash and paying it to the tax authority. The purpose of this study was to determine the effect of issuance of agency notices on the tax compliance of SMEs in Nairobi County, Kenya.

In Kenya, taxation compliance is higher than its regional neighbors but lower than emerging and developed nations. Kenya's tax-to-GDP ratio is 18.2%, which is quite low. In OECD nations, the percentage is 34.2%, in South Africa it is 28.4%, in Rwanda it is 16%, and in Uganda it is 13.3% (OECD,



2020). This low tax-to-GDP ratio for Kenya is a result of poor revenue collection performance, which is a result of low compliance levels among SMEs and the complicated taxing structure that prevails in most developing nations (Vincent, 2021). The Kenyan government utilizes a self-assessment tax system, in which taxpayers voluntarily disclose their income, submit their tax returns, and pay the appropriate tax (Rotich, 2020). Nonetheless, there is a significant degree of tax noncompliance, which manifests itself in a number of ways, including the decrease of tax due, a negative attitude toward voluntary tax compliance, and a general sense of not honoring tax agreements. The noncompliance mentality decreases the government's capacity to generate tax income to the level intended to be collected, resulting in a budget deficit (Kemunto, 2019). Government of Kenya has instituted various measures such as issuance of agency notices, to improve tax compliance. The objective of this study was to examine the influence of debt management and policy framework components of issuance of agency notices on the tax compliance of SMEs in Nairobi County, Kenya.

The study tested the following null hypotheses:

H₀₁: Debt management has significant influence on tax compliance of SMES in Nairobi County, Kenya.

H₀₂: Policy framework has significant influence on tax compliance of SMES in Nairobi County, Kenya.

Justification, Scope and Limitations

Previous research on tax compliance of SMEs in Kenya is mostly comprise of extensive cross-sectional surveys that focus on socio-economic factors, behavioral factors and costs of compliance. Debt management and policy framework components of issuance of agency notices are one of the most coercive forms of enforcement since the taxpayer's bank account is frozen until the overdue tax is paid or reconciled. There is a dearth of empirical evidence relating this form of enforcement on tax compliance of SMEs. The study population comprised small and medium-sized taxpayers within Nairobi County. These are corporate organizations with an annual sales turnover of not more than Kshs 300 million, as reported in two financial periods ending December 31st 2018, and December 31st, 2019. Data were obtained from the filed tax returns sourced from the Kenya Revenue Authority, the National Treasury, and Nairobi County. This study relied on questionnaires to gather data and only focused on SMEs in Nairobi. This may hence limit the generalizability of the findings to SMEs operating outside Nairobi County, Kenya.

Literature Review

Theoretical Review

This study was anchored on the fiscal psychology theory by Schmolders (1959) which explains how the taxpayer views the government as having a significant role in enabling tax compliance. According to fiscal psychology theory, the lack of tangible advantages from paying taxes causes taxpayers to lose incentive to do so (McGee & Yoon, 2014). The theory indicates that there is a psychological contract between government and its citizens. Thus, the perspective of the taxpayer is one of several factors that impact the strength of the psychological contract between them and the tax authorities (Groenland & van Veldhoven, 1983). By examining the influence of economic concerns and governmental action on community attitudes, fiscal psychology theory may better provide an understanding of how individuals behave in economic situations and promote ethical conduct that complies with tax laws (Ehrlich, 1982; Oladipupo & Obazee, 2016). Since the connection between the taxpayer and the tax authority is a contract that entails a complicated interaction between the taxpayer and the government in order to develop a fair reciprocal relationship, the taxpayer's impression of the government is significant. The relationship between taxpayers and the government has an impact on



the taxpayer's intent (Rahmayanti, Sutrisno, & Prihatiningtias, 2020). Therefore, the government should provide various incentives to taxpayers, attain their side of the psychological contract and educate taxpayers on how to comply (Bani-Khalid, Alshira'h, & Alshirah, 2022). However, when taxpayers hold the perception that the government is not keeping their side of the psychological contract, they can have low tax compliance rates (Nguyen, 2022). The low rates of tax compliance in such a case would lead the government employment punishment and deterrence practices such as issuance of agency notices. This theory was hence applied in this study to explain the role played by debt management and policy framework components of issuance of agency notices in enhancing tax compliance.

Empirical Review

A widening tax gap has adverse consequences to tax compliance. The failure of the collection agency to maintain effective administration of those areas of the tax system that require special assessment and auditing skills results in greater reliance being placed on revenue sources that are relatively easy to administer (Aumeerun, Jugurnath, & Soondrum, 2016). The issuance of agency notices has positively impacted the debt recovery strategy by aiding in collecting taxes. Agency notices have proved to be an excellent tool to persuade and compel the taxpayers to pay their debts softly (Kassa, 2021). These notices can be placed on the taxpayer's bankers and/or customers. Studies undertaken by OECD (2020) in the United Kingdom (UK), and Canada indicate that issuance of agency notices is uncommon in these countries since individuals and businesses are increasingly willing to pay their taxes on time. However, in various countries in Asia, Central America, and Africa, issuance of agency notices is common due to the low tax compliance rates.

In Vietnam, Le, Tuyet, Hanh, and Do (2020) that the complexity of tax laws and tax compliance costs has made many SMEs to avoid or evade tax. Some have had to hire accountants, auditors, and tax agents to adhere to and abide by the existing tax regulations, which require filing and paying taxes within strict stipulated timeframes. This is costly and demanding on the small-scale kind of business setups. A further problem has been the harsh realities being faced by SMEs in remaining afloat; nearly half do not celebrate their fifth birthdays. Therefore, keeping tabs on taxation compliance issues becomes a problem, and there are becoming susceptible to agency notices. In Jordan, Issuance of agency notices has been a method applied by tax authorities to enhance compliance which much success (AlAdham, Abukhadijeh, & Qasem, 2016). Besides, issuance of agency notices has been applied in Barbados where it has enabled the tax authorities to enhance tax compliance among SMEs (Alleyne & Harris, 2017)

In the African continent, agency notices have been applied in various counties including South Africa, Ghana, Nigeria, Ethiopia and Tanzania. In Nigeria, Vincent (2021) observed that enforcement instruments, including the agency costs and the punishment function, are also determinants of tax compliance, although these variables are rarely available for empirical studies. In South Africa, Smulders and Naidoo (2013) found that agency notices significantly affect tax compliance, but they found no significant deterrent effect. In Ghana, Ernest, Danie, and Nicholas (2022), based on studies of data generated from the Internal Revenue Service's Taxpayers Compliance Management Programme (TCMP), observed that due to the low probability of detection, even the threat of agency notices had no observable impact on the level of compliance. In Tanzania, (Tahir, Yusuf, & Hamad, 2022) observed that though issuance of agency notices has been in operation in the country, there is inadequate empirical evidence indicating whether they have an effect on tax compliance. However, a previous study in Tanzania by Ndalaha and Massawe (2021) indicated that the threat of issuance of agency notices made many SMEs to comply with tax regulations. There have been very minimal



studies that have been done looking at the relationship between placement of an agency notice on a taxpayer's bank accounts and/or clients as an enforcement tool towards promoting tax compliance.

A few scholars have investigated the effect of agency notices on tax compliance in Kenya. A study by Kiame (2019) sought to determine how enforcement actions affected the collection of tax debt in Kenya. The research specifically aimed to evaluate the impact of agency notice issuing, the use of restraint actions, the use of charges or/and security on real estate, and the use of legal proceedings as enforcement means on tax debt realization in Kenya. The study used a descriptive research approach to accomplish these goals. The research relied on secondary data that was collected from the Kenya Revenue Authority's monthly, quarterly, and annual debt reports, which covered the 11 years from 2006 to 2016. A statistically significant positive association between the enforcement actions and debt realization was shown by correlation and regression analysis. Strong positive correlation ($r=0.662$, $p>0.05$) between the usage of Agency notice as an enforcement mechanism. With a p-value of 0.000, or less than the 0.05 threshold of significance, the regression model was significant. Since it had the greatest positive correlation, the research advised using Agency notice effectively to enhance debt realization in order to encourage compliance.

A study by Kemunto (2019) investigated how tax enforcement methods, such as agency notifications, restraint measures, and charges on moveable property, affected corporate tax compliance. The benefit theory of taxation, which holds that taxpayers are only required to be compliant when they get the benefits of their tax payments, is one of the theories that were used to support the research. The study used a descriptive research approach and its target population of 40 respondents were from businesses in the county of Nyeri that had to deal with tax enforcement actions. Although primary data gathered using a questionnaire offered value to the research, particularly with regard to specific study goals, secondary data was obtained to determine the impact of enforcement actions on tax compliance of the businesses. Regression analysis was used in the research to determine how the dependent and independent variables related to one another. Agency notifications and charges on real estate were found to be significant in influencing tax compliance, whereas restraint measures were determined to be inconsequential in influencing tax compliance. The findings from this study, however, could not be readily generalizable to SMEs in Nairobi County due to the contextual differences between the two study locations.

Conceptual Framework

Figure 1 presents the conceptual framework which illustrates the hypothesized relationships. The independent variable is issuance of agency notices which are issued to third parties and a similar notice sent to the tax payer. Agency notices permit tax authorities to collect tax from a person who owes money to a delinquent tax payer (Ndalahwa & Massawe, 2021). Tax authorities often issue agency notices to banks holding deposits on behalf of a tax payer, resulting in the bank freezing such cash and paying it to the tax authority. This was measured through the policy framework guiding agency notices and how the tax debt is managed through third parties who hold tax payer deposits or debts. The purpose of this study was to determine the effect of issuance of agency notices on the tax compliance of SMEs in Nairobi County, Kenya. The study's dependent variable was tax compliance which was measured through filing tax returns, adherence to tax registration regulations, and making the right tax payments (Trung, Hang, & Le, 2021). The conceptual framework depicting the relationship between the study variables is provided in Figure 1.

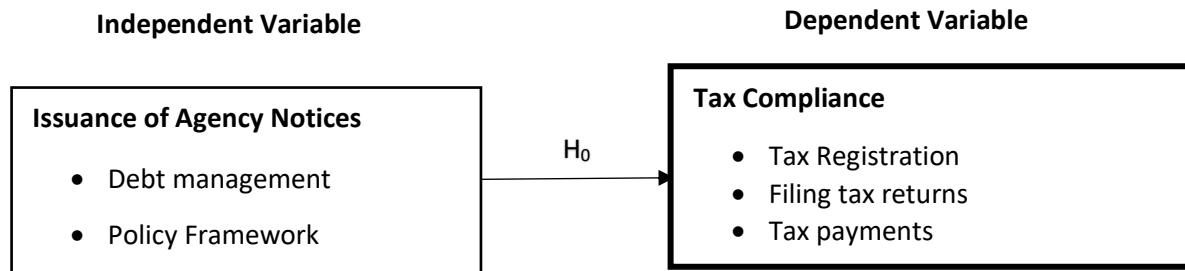


Figure 1: Conceptual Framework

Methodology

This research aimed to characterize, determine, and explain the impact of issuance of agency notices on the tax compliance of SMEs in Nairobi County, Kenya. To accomplish the aims of the study, a quantitative research approach was used. In quantitative research, numerical data is routinely acquired according to a predetermined plan, and categorical and numerical (continuous) data are systematically examined using statistical processes (Easterby-Smith, Thorpe, Jackson, & Lowe, 2019). Quantitative research studies reality in terms of measuring variables and making comparisons, focusing on quantities and connections between variables. In addition, the researcher used a descriptive study strategy to address the who, what, where, and how of the specific research aim. This methodology allowed the research to explain issuance of agency notices and tax compliance, as well as determine their connection.

The research focused on 195,000 active SMEs in Nairobi County, Kenya (KRA, 2020). The research adopted a stratified sample design, with the strata consisting of the functional activities in which the SME participants were engaged. They comprised SMEs in the general services sectors, manufacturing, information, communication, and technology (ICT), construction, and wholesale and retail. Using the Yamane (1967) sample calculation formula, sample of 399 SME owners/finance managers was selected proportionately from the functional activities using computer generated random numbers. Using structured questionnaires, primary data was collected in February to March of 2022, which was then analysed using descriptive statistics (means, percentages, and standard deviations) and ordinary least squares linear regression analysis.

Results and Discussion

Three hundred and forty-eight out of the sampled 399 owners/finance managers of the selected SMEs completed and returned the questionnaires after filling them. The response rate for this was therefore 87.22%. In terms of education, 32.5% of survey participants had bachelor's degrees, compared to only 2.6 percent who had just completed high school. Owners and financial managers who were 35 to 44 years old made up 30% of the group, while those under 25 made up 5%. However, just 6.9% of SMEs were in the wholesale and retail sector, compared to 42.5% in manufacturing. Construction (17%), IT (12.9%), and other services (20.7%) were also represented by SMEs in the survey. In terms of annual revenue, 51.7% of businesses had less than KES 10 million in 2017, while 60.6% of businesses had between KES 11 million and KES 30 million in sales in 2018. Besides, 48.3% of SMEs had a turnover of between KES 11 million and KES 30 million in 2020 as opposed to 59.2% of SMEs in 2019 who had a turnover of between KES 11 million and KES 30 million. Moreover, 64.4% of SMEs had been in business for more than 20 years, compared to 1.4% who had been in business for fewer than 5 years.



The study's findings also revealed that 67% of SMEs used clerks and/or accountants to maintain their company records and tax forms, while 0.6% used business owners.

Study participants were requested to describe their experience regarding issuance of agency notices amongst their SMEs. There were seven statements which were used to assess this, and the answers were evaluated using means (M) and standard deviations (SD). The statements were rated on a 5-point Likert scale (1 = Not at all; 2 = To a little degree; 3 = To a moderate extent; 4 = To a significant extent; 5 = To a very large extent). The descriptive statistics provided in Table 1 show that the Issuance of agency notices had a mean score of 2.69 (SD = 0.80). This is a moderate mean depicting that respondent were of the opinion that the statements applied to a moderate extent to the statements on the issuance of agency notices as appertaining the SMEs in Nairobi County. Specifically, respondents indicated that to a significant extent, tax compliance had been enhanced through agency notices (M = 3.81, SD = 0.56) and that agency notices are a fairer way of ensuring the taxes not paid can be collected directly from the bank/debtors (M = 3.62, SD = 0.60). The findings also indicated that to a moderate extent, the agency notice time given for paying the arrears is achievable (M = 3.28, SD = 0.59), and the placement of an agency notice has influenced SMEs to promptly declare and pay taxes (M = 2.80, SD = 1.04). However, findings indicated that rarely, SMEs had received undisputed agency notices for the businesses to comply with tax obligations (M = 1.32, SD = 0.78), that SMEs paid taxes after receiving agency notices (M = 1.63, SD = 0.89) and that SMEs were susceptible to agency notices due to harsh realities of their business operations (M = 1.43, SD = 0.89).

Table 1: Descriptive Statistics of Issuance of Agency Notices

No.	Statements on issuance of agency notices	Mean	Std. Deviation
1	We have received undisputed agency notices for our business to comply with tax obligations	1.32	0.78
2	We have paid taxes for our business after receiving agency notices	1.63	0.89
3	We have been susceptible to agency notices due to harsh realities of our business operation	1.43	0.89
4	The placement of an agency notice has influenced us to promptly declare and pay taxes	2.80	1.04
5	Agency notices are a fairer way of ensuring the taxes not paid can be collected directly from the bank/debtors	3.62	0.60
6	The agency notice time given for paying the arrears is achievable	3.28	0.59
7	Tax compliance has been enhanced through agency notices	3.81	0.56
Average Mean Score		2.69	0.80

Tax compliance was the dependent variable of the study, and participants were asked to score many items on a five-point Likert scale (1 = Not at all; 2 = To a little extent; 3 = To a moderate extent; 4 = To a high extent; 5 = To a very large extent). Using means (M) and standard deviations (SD), the degree



of tax compliance among the participating SMEs was determined based on the responses. Table 2 displays the results, which indicate that the tax compliance statements obtained a mean score of 3.69 and a standard deviation of 0.91. The moderate mean score means that respondents felt that the supplied statements on tax compliance in Nairobi County applied to SMEs to a reasonable extent. Specifically, study participants indicated that SMEs pay tax freely and without pressure to a very high extent (M = 4.61, SD = 0.50). However, findings indicated that rarely, SMEs pay taxes after being informed of payment deadlines (M = 1.93, SD = 1.40). These study findings demonstrate that tax compliance among the studied SMEs was high.

Table 2: Descriptive Statistics for Tax Compliance

Statements on Tax Compliance	M	SD
We voluntarily pay tax for our business without coercion	4.61	.61
We disclose all the income for our business before paying the necessary tax	4.58	.64
We have always cooperated with KRA officials during the tax compliance process	4.31	.81
We pay taxes for our business after being reminded of payment deadlines	1.93	1.38
We have always believed that our taxes are utilized right by the tax authorities	2.93	1.86
We trust the government with the tax we pay	3.03	.95
The procedures and structures of tax compliance are friendly and convenience	3.53	.92
Our level of compliance is influenced by the level of awareness of the importance of paying taxes	4.57	.61
Average mean score	3.69	0.97

The objective of the research was to examine how issuance of agency notices influence tax compliance. This was attained by regressing tax compliance against issuance of agency notices. The hypotheses that were tested were;

H₀₁: Debt management has significant influence on tax compliance of SMES in Nairobi County, Kenya.

H₀₂: Policy framework has significant influence on tax compliance of SMES in Nairobi County, Kenya.

Two measures of issuance of agency notices were derived for the study (debt management and policy framework). These were used as the predictors in the regression. The OLS model fitted was;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$



Where; Y is tax compliance, β_0 is a constant, β_i are coefficients, X_1 is debt management and X_2 is policy framework.

The derived statistical results from the multiple linear regression analysis are presented in Table 3. The study findings demonstrate that there was a statistically significant and positive relationship ($R = 0.623$) between the debt management, policy framework and tax compliance. According to the coefficient of determination, debt management and policy framework explains 38.8% of tax compliance ($R^2 = 0.388$). The model was statistically significant (F-value = 109.527, $p < 0.05$) depicting that debt management and policy framework aspects of issuance of agency notices are key in determining tax compliance of SMEs in Nairobi County. Thus, the hypothesis that there was no significant relationship between the issuance of agency notices and tax compliance was rejected.

Table 3: Regression of Issuance of Agency Notices on Tax Compliance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.623 ^a	.388	.385	.52788

a. Predictors: (Constant), Debt management, Policy framework

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	61.042	2	30.521	109.527	.000 ^b
	Residual	96.138	345	.279		
	Total	157.180	347			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), Debt management, Policy framework

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	1.036	.165		6.268	.000
	Debt management	.544	.039	.584	13.873	.000
	Policy framework	.204	.039	.220	5.234	.000

a. Dependent Variable: Tax Compliance



The findings of the regression coefficients showed that debt management had a statistically significant influence on tax compliance of SMEs ($\beta = 0.544$, $p < 0.05$). These findings showed that a one unit change in debt management would lead to a corresponding change of 0.544 in tax compliance amongst SMEs. Besides, the findings portrayed that policy framework had a statistically significant influence on tax compliance of SMEs ($\beta = 0.204$, $p < 0.05$). These findings imply that a one unit change in policy framework would lead to a corresponding change of 0.204 in tax compliance amongst SMEs. The regression equation that resulted from the regression model is as;

$$\text{Tax compliance} = 1.036 + 0.544\text{Debt management} + 0.204\text{Policy framework} + \varepsilon$$

This regression equation implies that when tax authorities enhance their debt management and policy framework components of issuance of agency notices to SMEs, there would be an improvement in tax compliance amongst SMEs.

Discussion of Findings

The objective of this study was to investigate the effect of debt management and policy framework components of issuance of agency notices on tax compliance of SMEs in Nairobi County, Kenya. The study results showed that debt management have a statistically significant influence on tax compliance. These findings concur with the fiscal psychology theory by Schmolders (1959) which explains that low rates of tax compliance where tax payers feel that the government has not done its part in the psychological contract would lead the government employment punishment and deterrence practices such as issuance of agency notices. The findings also agree with the findings by Aumeerun et al. (2016) that tax collection has been aided by the issue of agency notifications, which has a favourable effect on the debt collection approach. Besides, the findings support the findings by Le et al. (2020) that agency notices were extensively applied in Vietnam to enhance tax compliance amongst SMEs. Other studies with similar include AlAdham *et al.* (2016) in Jordan which determined that tax officials have used the issuance of agency notifications to increase compliance with great success.

The findings from this study that debt management component of issuance of agency notices enhance tax compliance are also supported by findings by Alleyne and Harris (2017) who determined that the issuance of agency notices has been used in Barbados, where it has allowed the tax authorities to improve tax compliance among SMEs. Besides, issuance of agency notices has a significant effect on tax compliance in the African continent. Vincent (2021) discovered in Nigeria that enforcement mechanisms, such as the agency notices are a significant predictor of tax compliance, despite the fact that these mechanisms are seldom accessible for empirical investigations. Smulders and Naidoo (2013) also showed that agency notifications had a considerable impact on tax compliance in South Africa whilst in Tanzania, Ndalaha and Massawe (2021) revealed that the prospect of agency warnings drove many SMEs to comply with tax requirements. However, Ernest, Danie, and Nicholas (2022) reported that in Ghana, the fear of agency notices had no discernible effect on the level of compliance owing to the low chance of discovery. Besides, OECD (2020) indicated that in the UK and Canada, the issuance of agency notices is rare due to the growing propensity of people and companies to pay their taxes on time.

Conclusion

This study determined that debt management and policy framework components of issuance of agency notices had a positive and significant effect on the tax compliance of SMEs. Based on these



findings, the study makes the conclusion that debt management and policy framework that guides issuance of agency notices is instrumental towards tax compliance. Giving SMEs adequate time to clear their arrears helps to increase the rate of tax compliance. Also, the hiring of tax experts in SMEs enhances tax compliance among the SMEs. This study also concluded that agency notices ensures that unpaid taxes can be collected directly from the SMEs' banks. The findings of this study have several ramifications for business owners, managers and tax authorities. First, this study recommends that the governments should increase their tax debt revenue recovery by increasing the usage and issuance of agency notices as soft enforcement measures while enabling facilitation for enhanced tax compliance. This can be done by revamping the debt management organization (segmentation, centralization, digitalization, public sector partnership, and cooperation) and using call centers with functional customer relationship management (CRM). When equipped with a database with sufficient details about the debtors such as the telephone, mail, and physical addresses, CRM can fast track the collection of the tax debt outstanding, especially from the unreachable taxpayers.

This research aimed to determine how agency notice affect the tax compliance behavior of small and medium-sized enterprises. The study was restricted to placement of agency notices as stipulated in the current Kenyan tax law framework, and the inquiry sample consisted exclusively of small and medium-sized enterprises (SMEs) in Nairobi County. For future study, it is recommended to investigate different tax enforcement measures and tax policy frameworks and to consider utilizing a bigger sample size to include SMEs in Kenyan counties other than Nairobi County. In addition, future research should investigate using qualitative data collection techniques, such as focus group discussions and interviews with key informants, to give a more in-depth explanation of the impact of agency notices on tax compliance.

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