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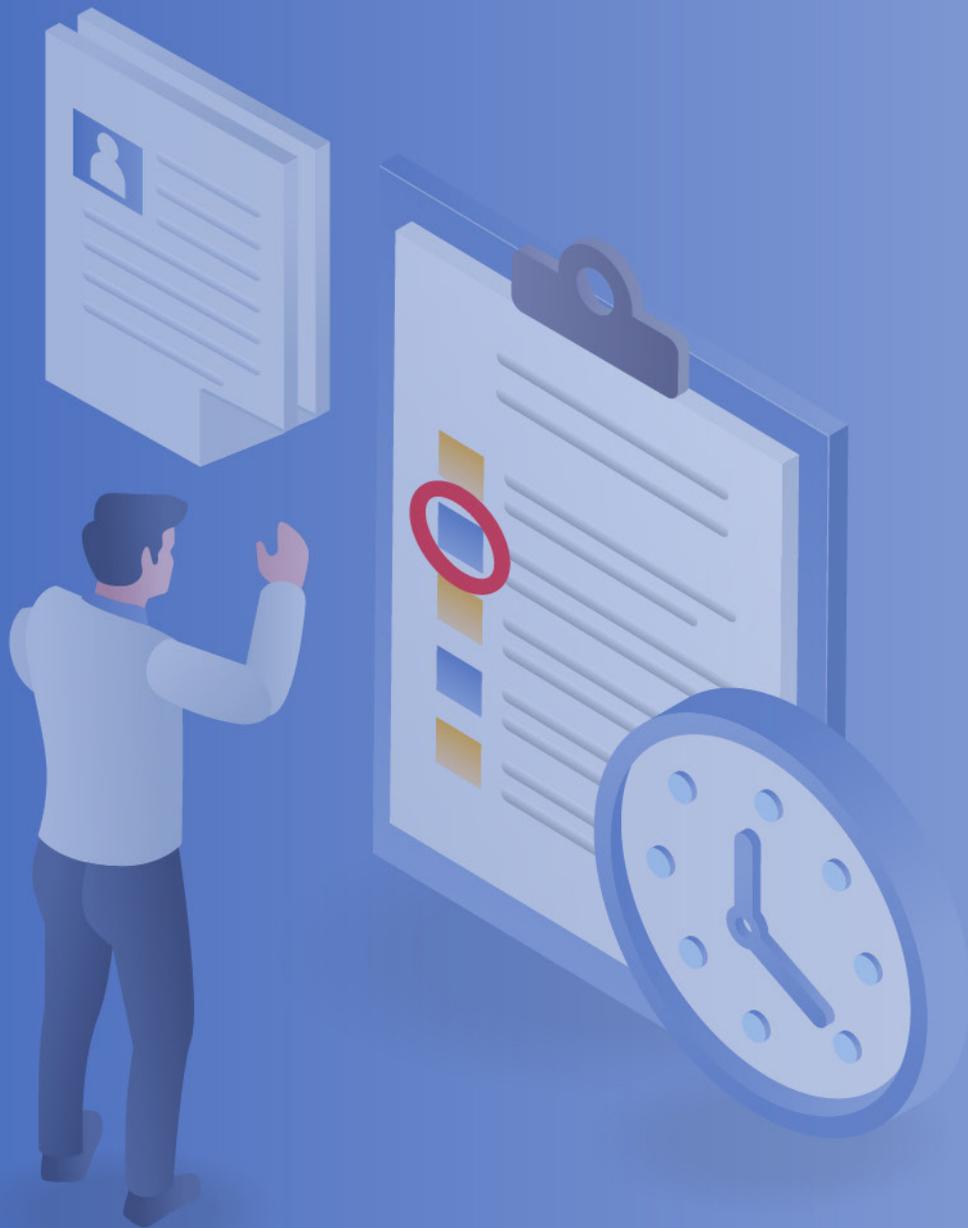
The Influence of Tax Service Quality, Government Trust, and Social Value Orientation on Tax Compliance among Small and Medium Enterprises in North Rift Economic Bloc, Kenya

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ABSTRACT

Strengthening domestic resource mobilization has become critical for governments globally as fiscal space for growth and development spending continues to shrink. Effective tax collection is vital for state financing, but it is equally important to improve how revenue is raised. The purpose of this study was to determine the effect of tax service quality, government trust, and social value orientation on tax compliance of small and medium enterprises (SMEs) in the North Rift Economic Bloc, Kenya. Using a positivist research philosophy and explanatory design, a sample of 393 SME owners/managers was drawn from a target population of 21,232 registered SMEs through stratified sampling. Data was collected via a self-administered questionnaire, and reliability and validity were confirmed with a Cronbach's alpha coefficient of 0.7 and factor analysis. Descriptive and inferential statistics were employed, with multiple regression analysis conducted using the Andrew Hayes Process macro. The study found that tax service quality (β =.541, p =.0000<0.05), government trust (β =.375, p =.000<0.05), and social value orientation (β =.234, p =.0000<0.05) had a positive and significant effect on tax compliance. The study underscores the importance of enhancing tax service quality and fostering government trust as key strategies to improve tax compliance among SMEs. Additionally, incorporating social value orientation into tax policy design is essential for optimizing revenue collection. This research offers new insights into the dynamic interplay between tax service quality, government trust, and social value orientation, providing a comprehensive understanding of their combined impact on tax compliance in the SME sector.

INTRODUCTION

Tax compliance is a critical issue faced by governments worldwide, particularly in developing countries. Non-compliance with tax obligations leads to significant government revenue losses, adversely affecting the provision of public goods and services (Adefunke & Ivie, 2024). Effective tax compliance is essential for any nation to function optimally, as it ensures that governments have the necessary resources to invest in infrastructure, social programs, healthcare, education, and other public services (Alshira'h *et al.*, 2021). Raising sufficient tax revenues is vital for creating fiscal flexibility, reducing reliance on foreign aid, and sustaining long-term economic growth (Junquera-Varela & Lucas-Mas, 2024). As a core element of fiscal policy, taxation plays a major role in economic development, enhancing governmental legitimacy, and ensuring accountability (Sebele-Mpofu, 2020). Thus, effectively and equitably mobilizing domestic resources is a central objective for nations globally (Hujo & Bangura, 2020). Despite these fiscal goals, tax non-compliance remains widespread, particularly among individuals and businesses, undermining the integrity of tax systems and hindering socio-economic progress by diminishing government revenues (Taddesse, 2023).

Compliance with tax regulations entails adherence to the laws governing tax obligations, which include accurate income reporting, timely filing of returns, and prompt payment of taxes (Santoro & Waiswa, 2024). It signifies conformity to the legal standards set by tax authorities, ensuring that taxpayers fulfil their responsibilities following established rules and procedures. In contrast, tax non-compliance occurs when taxpayers, either deliberately or inadvertently, fail to meet their obligations (Azmi & Daud, 2024). Such non-compliance can manifest in forms such as underreporting earnings or inflating deductions, which impairs the provision of public services, diminishes governmental legitimacy, and exacerbates social distrust (Di Nola *et al.*, 2021).

Globally, tax non-compliance poses a significant challenge, especially in developing nations, where it results in revenue losses ranging from 6% to 13%, compared to just 2% to 3% in OECD countries (Dabla-Norris *et al.*, 2020). Worldwide, the costs associated with non-compliance are estimated to account for approximately 5.1% of global GDP (Bourton, 2024). The shadow economy, where taxes are evaded, represents between 16% and 45% of GDP, depending on the region (Gërxhani & Wintrobe, 2021). Tax-to-GDP ratios vary across regions, averaging 32% in Europe and Central Asia, while remaining around 14% in Sub-Saharan Africa and the Middle East (Oppel *et al.*, 2021). In the United States, tax non-compliance results in an annual loss of about $1 trillion, predominantly involving large corporations and affluent individuals (Edwards, 2023). In Europe, significant VAT-related losses due to non-compliance are experienced in Italy, Germany, and France (Murphy, 2019). Tax non-

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compliance continues to pose significant fiscal challenges for African countries, leading to substantial revenue losses. Recent estimates suggest that Africa loses approximately US$25 billion annually due to tax non-compliance, which represents around 7% of the continent's total tax revenue (Monyake *et al.*, 2023). Nigeria faces losses of nearly US$856 million due to tax evasion, exacerbating its budget deficits (Alao, 2021). South Africa incurs daily losses of around R250 million (Koloane & Bodhlyera, 2022), while Tanzania suffers from annual losses of US$7.6 billion between 2013 and 2020, stemming from harmful tax incentives, illicit financial flows, and non-compliance (Makundi *et al.*, 2024). In Kenya, persistent tax collection challenges have resulted in 65% of potential tax revenue going uncollected, leading to losses of over Kshs. 90 billion in 2019 (Masaku, 2019). Despite several tax reforms, Kenya's tax-to-GDP ratio has declined from 18% in 2013/14 to 14% in 2023/24 (Hugger *et al.*, 2024). These fiscal challenges have led to ongoing budget deficits, often financed through borrowing (Murunga *et al.*, 2021). The growth of the informal sector, which contributes minimally to tax revenues, further weakens the government's ability to finance sustainable development (Dom *et al.*, 2022; Prichard *et al.*, 2019; Söderström & Wangel, 2023).

Small and Medium Enterprises (SMEs) are crucial in global economic growth, accounting for 90% of businesses and generating over 50% of employment worldwide (Mugano, 2024; Ndiaye *et al.*, 2018; Obi *et al.*, 2018). In the European Union, SMEs represent 99% of enterprises and contribute to more than half of the region's GDP (DiBella *et al.*, 2023). However, tax compliance among SMEs remains uneven, with a small proportion of taxpayers shouldering the majority of tax revenues, highlighting the need for more effective tax policies (Herce *et al.*, 2024). In Asia, particularly within the ASEAN region, SMEs constitute over 96% of businesses and are major contributors to GDP (Sudibyo *et al.*, 2023), but many struggle with tax compliance due to the complexity of regulations and limited resources (Hamid *et al.*, 2022). Similarly, SMEs in Africa, particularly in Kenya, significantly contribute to employment and economic output but continue to face ongoing tax compliance challenges (Odongo & Munene, 2023). While SMEs are highly adaptable and can respond swiftly to technological advancements, they encounter substantial challenges, including high compliance costs, administrative burdens, and narrow profit margins (Dom *et al.*, 2022). Many SMEs struggle to formalize their operations and comply with tax regulations, largely due to limited knowledge and the complexity of tax systems (Mayega *et al.*, 2019). Addressing these challenges is crucial for enabling SMEs to maximize their potential in driving economic growth (Bani-Khalid *et al.*, 2022; Naicker & Rajaram, 2019).

The literature on tax compliance reveals a complex and multifaceted understanding of the factors influencing individuals and businesses. Tax compliance is not merely a function of economic incentives; it involves a dynamic interplay of economic, social, psychological, and institutional factors (Ho *et al.*, 2023; Mohamed & Gan, 2024). Traditional economic theories, such as Allingham and Sandmo (1972), view taxpayers as rational agents whose behaviour is determined by the perceived likelihood of audits and the severity of penalties. Empirical studies show that stringent auditing and penalties tend to reduce tax non-compliance by increasing accountability and scrutiny (Downing & Langli, 2019; Mohamed & Gan, 2024). However, not all findings align with this deterrence model. The phenomenon of voluntary compliance, even in low-audit environments, suggests that factors beyond deterrence, such as trust, legitimacy, and moral values, also play a significant role (Esposito & Mastromatteo, 2024; Feld & Frey, 2019).

Social psychology provides further insights into the factors affecting tax compliance, emphasizing the importance of trust in government institutions, perceptions of legitimacy, and individual moral values (Fotiadis & Chatzoglou, 2021; Kandie & TAX, 2023). Trust in institutions can lead to higher voluntary compliance, as taxpayers are more likely to fulfil their civic duties when they perceive the government as legitimate and just (Mebratu, 2024). Psychosocial factors, including moral responsibility and social context, complement economic incentives in shaping compliance behavior (Alshira'h *et al.*, 2020; Baeli, 2021). Despite these insights, research on tax compliance remains somewhat fragmented, lacking a comprehensive integration of both deterrence-based and social-psychological perspectives (Azmi & Daud, 2024; Dom *et al.*, 2022).

Social contract theory offers a useful framework for understanding tax compliance, suggesting that governments and citizens engage in a mutual agreement whereby citizens pay taxes in exchange for public goods and services(Makovicky & Smith, 2020). Taxpayer compliance is often linked to the quality of public services and the efficiency with which tax authorities meet citizens' expectations (Nurkholis *et al.*, 2020). Simplifying administrative procedures and improving the quality of tax services can encourage compliance by reducing the burden associated with tax payments (Darmayasa & Hardika, 2024). Additionally, when taxpayers observe that their contributions are effectively utilized for public services, trust in the government increases, leading to higher compliance rates (Falsetta *et al.*, 2024; Gebrihet *et al.*, 2023). This reciprocal relationship between government accountability and taxpayer compliance is essential for a functional society, as the government's role in delivering public goods reinforces the social contract (Castañeda *et al.*, 2020; Makovicky & Smith, 2020).

The quality of tax services has become a critical focus in recent years, especially in developing countries where tax revenues often fall short of meeting public needs (Anita *et al.*, 2022; Psomas, 2020). Research highlights that improving the quality of tax services can positively influence compliance behaviours by enhancing taxpayer satisfaction (Amoh & Ali-Nakyea, 2019). Many tax

authorities have adopted a client-centred approach to service delivery, offering timely support and personalized advice through various communication channels (De Neve *et al.*, 2021). This shift from strict enforcement to assistance has been shown to foster higher compliance by improving the taxpayer experience (van den Boogaard *et al.*, 2022). Consequently, enhancing the quality of tax services, simplifying procedures, and fostering a positive taxpayer experience are critical strategies for improving tax compliance, particularly among SMEs facing unique challenges.

Trust in government is a crucial determinant of tax compliance, significantly influencing citizens' willingness to adhere to laws and regulations (Goren *et al.*, 2022; Weible *et al.*, 2020). When trust in government is strong, taxpayers are more likely to fulfil their obligations, as the relationship between the government and its citizens is rooted in mutual cooperation (Prastiwi *et al.*, 2021). A well-designed tax system that fosters trust can lead to reduced non-compliance, as taxpayers are more inclined to pay taxes when they perceive the system as fair and beneficial (Aulia *et al.*, 2022). Tangible public goods, such as improved infrastructure, further reinforce this trust and encourage compliance (Castaneda & Doyle, 2019; Sebele-Mpofu, 2020).

Social value orientation also significantly influences tax compliance decisions, reflecting the broader social dilemma between personal self-interest and collective welfare (Alm *et al.*, 2020). Although non-compliance may yield short-term personal gains, it ultimately undermines societal welfare by depleting public resources. Effective regulation, stringent monitoring, and appropriate policy frameworks are essential to ensure compliance and uphold the social contract (Hauptman *et al.*, 2024; Prinz, 2024). Consequently, compliance decisions are shaped not only by economic factors but also by psychosocial considerations, such as moral obligation and a commitment to the common good (Castiglioni *et al.*, 2019).

In Kenya, taxation remains the government's primary source of revenue, accounting for 90% of total collections (Wawire, 2020). The Kenyan government's Medium-Term Revenue Strategy (MTRS) aims to enhance tax revenues and compliance rates (Pattillo *et al.*, 2023). Understanding factors like government trust and the role of Small and Medium Enterprises (SMEs) in compliance is vital for developing effective tax policies that promote sustainable economic growth.

Globally, low tax compliance is a pressing issue, particularly in developing and emerging markets, as it limits governments' capacity to deliver essential services like education and healthcare, crucial for poverty reduction (Alm *et al.*, 2019; Modica *et al.*, 2018). The International Monetary Fund (IMF) underscores the importance of low-income countries raising their revenue to 15.4% of GDP by 2030 to meet Sustainable Development Goals (SDGs) (Gaspar *et al.*, 2019). However, in 2020, low- and middle-income countries had achieved only a tax-to-GDP

ratio of 10.7%, significantly below the 33.51% realized by OECD nations (Hamilton, 2021). This gap is attributed to factors such as weak administration, corruption, profit shifting, low tax morale, lack of public trust, and the prevalence of the informal economy (Dom *et al.*, 2022). Kenya faces similar challenges, with its tax-to-GDP ratio declining from 18% in 2013 to 14% in 2023, falling below regional averages (Commission & Forum, 2023). The government increasingly relies on external and domestic borrowing to address fiscal deficits, with public debt escalating from 44% to 73% of GDP between 2013 and 2023 (Gort & Brooks, 2023). In Kenya, the informal economy, which encompasses 98% of businesses, contributes less than 1% of total tax revenue (Larzen *et al.*, 2020). Despite various initiatives, including taxpayer education and audits, compliance remains low (Oyollo, 2022).

Research identifies several factors contributing to this compliance gap, including poor administrative performance, corruption, profit shifting, low tax morale, lack of public trust, and the dominance of the informal economy (Dom *et al.*, 2022). Although efforts to enhance tax compliance have been undertaken, non-compliance persists at high levels (Oyollo, 2022). There has been limited exploration of how tax service quality, government trust, and social value orientation jointly affect tax compliance, particularly within Kenya's SME sector. This study aims to address this gap by examining how tax service quality, government trust, and social value orientation influence tax compliance among SMEs in the North Rift Economic Bloc of Kenya. The study's objectives include evaluating the impacts of tax service quality, government trust, and social value orientation on tax compliance. The significance of this research lies in expanding the understanding of tax compliance by integrating both economic and psychological aspects, particularly focusing on SMEs in a developing economy.

LITERATURE REVIEW
Concept Definitions and Perspectives
Tax Compliance
Tax compliance refers to the degree to which taxpayers adhere to tax laws, encompassing accurate income reporting, timely filing of returns, and prompt tax payments. According to Alm *et al.* (2019), tax compliance entails fulfilling legal tax obligations, which includes the timely remittance of taxes. The literature differentiates between voluntary compliance, where taxpayers willingly meet their obligations, and enforced compliance, which occurs when tax authorities implement measures such as audits and penalties to ensure adherence (Loo, 2011). Theoretical models explaining tax compliance have evolved over time. Deterrence Theory, one of the earliest frameworks, focused primarily on economic factors such as penalties and the likelihood of audits to promote compliance (Allingham & Sandmo, 1972). More recent models emphasize the significance of non-economic factors, including trust in government, perceptions of

fairness, and moral norms, in influencing compliance behavior (Torgler, 2007). These elements, along with institutional quality and the level of service provided by tax authorities, play crucial roles in shaping taxpayer behavior.

Tax Service Quality

Tax service quality refers to the efficiency, responsiveness, and clarity with which tax authorities engage with taxpayers and provide essential services. Effective delivery of tax services encompasses transparent regulations, accessible filing systems, and supportive staff interactions. Research indicates that when taxpayers perceive high-quality services, they are more inclined to comply with tax regulations voluntarily (Refnini *et al.*, 2016). Studies demonstrate that enhancements in tax service quality can mitigate non-compliance by alleviating frustrations stemming from complex tax processes and systemic inefficiencies (Fjeldstad *et al.*, 2012). In developing economies, where bureaucratic obstacles and administrative bottlenecks are prevalent, simplifying tax systems and minimizing complexity are identified as key strategies for improving compliance. For SMEs, which often lack the resources to navigate complicated tax systems, quality service is essential for ensuring compliance (Sukesi & Yunaidah, 2020).

Government Trust

Trust in government is a pivotal determinant of tax compliance. It refers to the belief that governmental institutions act in the best interest of citizens, utilizing tax revenues effectively and transparently. When taxpayers trust that their contributions will be employed fairly and efficiently for public goods and services, they are more likely to fulfil their tax obligations (Hofmann *et al.*, 2014). Conversely, low levels of government trust can lead to tax evasion and non-compliance. Empirical research supports the link between government trust and compliance. Torgler (2007) observed that in environments characterized by high trust in institutions, voluntary compliance tends to be stronger. In contrast, in low-trust contexts, often marked by corruption or inefficient governance, taxpayers exhibit reduced motivation to comply. Ali *et al.* (2014) found that in East Africa, including Kenya, taxpayers are more prone to evade taxes when they perceive government as corrupt or inefficient. Therefore, fostering trust through transparent and accountable governance is crucial for enhancing compliance rates, particularly in developing countries.

Social Value Orientation

Social value orientation (SVO) describes individuals' preferences for certain social outcomes, distinguishing between those that benefit the collective and those that primarily serve personal interests. SVO is categorized into prosocial and proself orientations. Individuals with a prosocial orientation prioritize the welfare of others, making them more likely to comply with tax obligations as they view taxation as a means of contributing to the common good (Van Lange *et al.*, 2007). In contrast, individuals with a proself orientation prioritize personal gains and may be more inclined to evade taxes. Research by Wenzel (2004) demonstrated that SVO significantly influences tax compliance behavior, with those exhibiting a prosocial orientation being more cooperative and inclined to engage in behaviors that support the collective, such as paying taxes. Conversely, proself individuals often perceive taxes as a burden, leading to non-compliance or tax avoidance.

Theoretical Review and Perspectives
Social Contract Theory

Social Contract Theory, rooted in the philosophies of Hobbes, Locke, and Rousseau, elucidates the relationship between government and society. It posits that individuals consent to relinquish certain freedoms in exchange for order and protection provided by the state (Mwamadzingo *et al.*, 2023). In this framework, taxation is perceived as part of the social contract: citizens pay taxes in return for government services and benefits, such as security and social justice (Dagan, 2024; Dang & Tran, 2021). The government's effectiveness in fulfilling its obligations, providing security, services, and encouraging civic participation, significantly influences citizens' willingness to comply with tax obligations (Loewe *et al.*, 2024). Consequently, tax authorities are viewed as partners in the social contract, tasked with ensuring that taxpayers receive value for their contributions. Improved tax services enhance this relationship, thereby fostering higher tax compliance (Carrillo *et al.*, 2021).

Political Legitimacy Theory

Political Legitimacy Theory, proposed by Dowling and Pfeffer (1975), centers on the alignment between government actions and societal expectations. According to this theory, a government's legitimacy, including its tax policies, hinges on public perceptions of fairness and equity (Rivera & Knox, 2023). When the public perceives that governmental actions align with societal values, tax compliance is likely to increase. Conversely, a lack of trust in government undermines legitimacy and diminishes compliance (Gebrihet *et al.*, 2023). In the taxation context, this theory posits that trust in government institutions is paramount. Citizens are more likely to comply with tax laws when they believe that taxes are being utilized responsibly and that the government is acting in their best interest (Alm, 2023). Thus, enhancing transparency and addressing public concerns regarding the utilization of tax revenues can improve tax compliance.

Fiscal Exchange Theory

Fiscal Exchange Theory, introduced by Vogel (1974), suggests that tax compliance is influenced by the perceived benefits citizens derive from public services funded by taxes (Benvolio, 2024). When individuals recognize tangible benefits, such as improved infrastructure,

healthcare, and education, they are more likely to meet their tax obligations. This reciprocal relationship between taxpayers and the government reinforces compliance, as citizens feel they are receiving value in exchange for their contributions (Svara & Brunet, 2020). Furthermore, perceptions of unfairness within tax systems, such as unequal service provision or misuse of tax revenues, can lead to non-compliance. Therefore, effective governance, transparency, and equitable service delivery are critical for sustaining tax compliance (Sandu, 2022; Svara & Brunet, 2020).

Social Interdependence Theory
Social Interdependence Theory (SIT), developed by Deutsch (1949), explores the dynamics of cooperation and competition within social groups. It asserts that individuals' outcomes are influenced by both their actions and the actions of others. In a tax context, individuals with a prosocial orientation, who prioritize collective well-being, are more likely to comply with taxes, viewing them as a social responsibility (Van Lange & Balliet, 2015). In contrast, proself individuals, who focus on personal gains, are more likely to evade taxes.

Research indicates that fostering a cooperative environment, wherein tax compliance is regarded as a collective responsibility, enhances voluntary compliance (Kim, 2019). Social constraints, such as cultural norms emphasizing collectivism, also impact tax behaviour by motivating individuals to act in the interest of societal welfare.

Empirical Literature Review
Tax Service Quality and Tax Compliance
Tax service quality pertains to the effectiveness of tax authorities in delivering services, encompassing the clarity of tax regulations, the user-friendliness of filing systems, and the support provided by tax officials. Subpar service quality can result in taxpayer dissatisfaction, leading to non-compliance, whereas high-quality services enhance the likelihood of voluntary compliance. Empirical studies demonstrate a robust link between tax service quality and compliance. Nurlis et al. (2020) found that improved service quality positively influences taxpayers' willingness to comply, particularly among SMEs in Indonesia, where clear tax guidelines and efficient filing systems were associated with higher compliance rates. Similarly, Indriani (2019) and Sukesi and Yunaidah (2020) noted that when taxpayers perceive tax processes as fair and supportive, compliance is enhanced.

Fjeldstad et al. (2012) underscored the importance of simplifying tax systems and reducing bureaucratic barriers in developing nations, particularly within African contexts, as these measures can lower compliance costs. Their findings suggest that enhancing service quality can assist resource-constrained SMEs in fulfilling their tax obligations more effectively. However, there is a significant gap in understanding the impact of tax service quality on SMEs in developing economies like Kenya. Many SMEs in such regions operate informally and perceive tax systems as overly complex or irrelevant, which this study seeks to investigate.

H_{01}: Tax service quality has no significant effect on tax compliance.

Government Trust and Tax Compliance
Trust in government is a critical determinant of tax compliance, reflecting citizens' belief that the government operates in their best interests, allocates resources efficiently, and maintains transparency. When taxpayers have confidence that their contributions are utilized effectively, they are more likely to fulfil their tax obligations. Conversely, low levels of government trust can foster tax evasion, as taxpayers may question the legitimacy of the tax system. Research supports the connection between government trust and compliance. Torgler (2007) found that higher trust in government enhances taxpayers' intrinsic motivation to comply by cultivating a sense of reciprocity; individuals who trust the government are more inclined to view taxes as a fair contribution to public goods. Additionally, Hofmann et al. (2014) established that trust mediates the relationship between service quality and tax compliance, suggesting that greater trust correlates with increased voluntary compliance.

In the African context, Ali et al. (2014) investigated the relationship between government trust and tax compliance in East Africa, including Kenya, revealing that perceptions of corruption and inefficiency detrimentally affect compliance rates. Their findings underscore the necessity of fostering trust through transparency and accountability, particularly in nations like Kenya, where corruption concerns are prevalent. However, research examining the role of government trust among SMEs is limited. This study aims to address this gap by exploring how government trust mediates the relationship between tax service quality and tax compliance in Kenya's SME sector.

H_{02}: Government trust has no significant effect on tax compliance.

Social Value Orientation and Tax Compliance
Social value orientation (SVO) is a psychological framework that elucidates individuals' preferences for social outcomes, typically categorized into two distinct orientations: prosocial and proself. Individuals with a prosocial orientation prioritize collective welfare and fairness, whereas those with a proself orientation focus on maximizing personal gains, often to the detriment of others. In the context of tax compliance, prosocial individuals are more inclined to perceive taxes as contributions to the common good, resulting in higher compliance rates. Conversely, pro-self-individuals may attempt to evade taxes, prioritizing personal financial benefits over societal obligations. De Cremer and Van Lange (2001) contend that SVO significantly influences economic decisions, including tax compliance behaviors.

Empirical research supports the premise that SVO impacts compliance. Wenzel (2004) found that individuals with a prosocial orientation exhibited higher rates of tax compliance compared to their proself counterparts. Similarly, Gangl and Torgler (2020) highlighted that perceptions of fairness and equity within the tax system notably shape tax behaviors, particularly among prosocial individuals. However, limited studies have explored how SVO interacts with other factors, such as tax service quality and government trust, in influencing tax compliance. This research aims to fill this gap by examining the effect of SVO, tax service quality, and government trust on tax compliance within the SME context.

H_{03}: Social value orientation has no significant effect on tax compliance.

MATERIALS AND METHODS
Research Philosophy
This study is grounded in positivism, which emphasizes an empirical approach to understanding social phenomena through observable facts and objective truths (Bell *et al.*, 2022). According to Saunders *et al.* (2009), positivist research is characterized by impartiality and a clear separation between the researcher and subjects. This research follows a deductive approach, focusing on testing hypotheses derived from established theories to contribute to theoretical advancements (Easterby-Smith *et al.*, 2012). The positivist philosophy aligns with the study's reliance on quantifiable data and objective analysis, utilizing structured questionnaires to gather information on tax service quality, government trust, social value orientation, and tax compliance. Ontologically, the study adopts a realist stance, positing that reality exists independently of human perception and is observable through empirical methods (Frost & Smircich, 1980). Epistemologically, the research is consistent with positivism, employing quantitative methods to identify patterns and relationships among variables, thereby supporting a deterministic view that external factors influence behaviour. Statistical tools are utilized to validate the study's hypotheses, emphasizing objective measurements and quantifiable outcomes.

Research Design
This study employs an explanatory research design to investigate the causal relationships between tax service quality, government trust, social value orientation, and tax compliance. Explanatory designs aim to uncover underlying causes, addressing "why" and "how" questions to support or refute theoretical predictions (Gray, 2021). The research adopts a deductive approach, developing and testing hypotheses and refining theory based on findings (Robson, 2002; Saunders *et al.*, 2009). A survey strategy is employed for data collection, which is suitable for cost-effectively testing theories and allowing for the replication of findings (Yin, 2018). The research design follows a cross-sectional approach, gathering data from a large population at a single point in time to capture insights into SMEs' tax compliance behaviours.

Study Area
The study was conducted in the North Rift Economic Bloc (NOREB), located in Northwestern Kenya and comprising eight counties: Baringo, Elgeyo Marakwet, Nandi, Samburu, Trans Nzoia, Turkana, Uasin Gishu, and West Pokot. The economic drivers of NOREB include agriculture, pastoralism, logistics, education, health, and tourism. The region's diverse socio-economic activities, encompassing retail, trade, services, and manufacturing, make it an ideal context for examining tax compliance among SMEs.

Target Population
The study targeted SMEs operating within NOREB, which has a total population of 21,232 registered SMEs, including retail traders, wholesalers, service providers, and manufacturing firms. The unit of analysis comprised owners and managers of these SMEs, as they are responsible for ensuring compliance with tax laws. A stratified sample of 393 SMEs was derived using Yamane (1967) to ensure representation across sectors.

Sampling Frame and Sample Size
A stratified random sampling technique was employed to ensure the sample accurately represents the diverse sectors and counties within the North Rift Economic Bloc. The population was divided into strata based on county and business sector, with random sampling conducted within each stratum to ensure proportional representation across geographic areas and industries. The sample size was calculated using Yamane (1967) formula:

$$n = N/(1 + N(e)^2)$$

Where; N = the total population,
n = the sample size
e = the level of precision
Applying a 5% margin of error and a 95% confidence level, the sample size for this study was calculated to be 393 SMEs:

Data Collection Methods
Data were collected using a structured questionnaire, designed based on validated instruments from prior research. The questionnaire comprised sections addressing demographic data, tax service quality, government trust, social value orientation, and tax compliance. A total of 373 completed questionnaires were obtained with the assistance of two trained research assistants, ensuring a high response rate.

Measurement of Study Variables
In this study, variables were measured using established scales adapted from existing literature to ensure reliability and contextual relevance to tax compliance among SMEs. Tax Service Quality was evaluated through a set of items

reflecting perceptions of the Kenya Revenue Authority's (KRA) services, specifically focusing on the clarity of regulations, the efficiency of filing systems, and the support provided by tax officials, based on frameworks by Refnini *et al.* (2016) and Sukesi and Yunaidah (2020). Government Trust was assessed by measuring respondents' trust in the government's management of tax revenues and its transparency, employing scales adapted from Torgler (2007) and Hofmann *et al.* (2014). Social Value Orientation (SVO) was measured by asking respondents to express their preferences between collective welfare (prosocial orientation) and personal gain (proself orientation) using the SVO scale developed by Van Lange *et al.* (2007). Finally, Tax Compliance was gauged by evaluating behaviors such as timely tax filing, accurate income reporting, and prompt tax payments, following the framework established by Wenzel (2004). A five-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree) was utilized to capture respondents' perceptions across all items. Prior to full deployment of the questionnaire, a pre-test was conducted with a small group of SMEs to ensure clarity and reliability of the items.

Data Analysis Techniques

The collected data underwent processes of modification, coding, classification, and sanitization before the analysis phase. The quantitative information gathered was examined using descriptive statistics with SPSS (Statistical Package for Social Sciences) and was displayed in terms of percentages, averages, and frequencies. This process included counting responses, calculating the percentages of variations in responses, and interpreting the data in accordance with the research objectives and hypotheses. To determine the connections between the independent and dependent variables, regression analysis was employed. A hierarchical multiple linear regression model was employed for this analysis, as outlined as below:

$$Y = \beta_0 + \beta_1 C + \varepsilon \qquad (1)$$

(Testing the effect of the control variables on the dependent variable)

$$Y = \beta_0 + C + \beta_1 X_1 + \varepsilon \qquad (2) \ (H_{01})$$

(Testing the effect of the tax service quality on tax compliance while holding constant the control variables)

$$Y = \beta_0 + C + \beta_1 X_1 + \beta_2 X_2 + \varepsilon \qquad (3) \ (H_{02})$$

(Testing the effect of government trust on tax compliance while holding constant the control variables and tax service quality)

$$Y = \beta_0 + C + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \qquad (4) \ (H_{03})$$

(Testing the effect of the social value orientation on tax compliance while holding the control variables, tax service quality, and government trust)

Where:

Y= Tax Compliance

X_1= Tax Service Quality

X_2 = Government Trust

X_3 = Social Value Orientation

C= Covariates (Gender, Age, education level, income)

β_0 = the constant

β_1, β_2 and β_3 are parameters of estimates

Ɛ- error term

RESULTS AND DISCUSSION

Demographic Characteristics of Respondents

The demographic characteristics of the respondents were examined, focusing on gender, age, education level, and organizational position, as these factors may influence key study variables. The sample demonstrated a nearly balanced gender distribution, with 52% male and 48% female respondents, reflecting a trend toward increasing gender parity in Kenya's business sector. This balance indicates active female participation in economic development and highlights the necessity for policymakers to consider gender in tax policies to foster equitable business practices. The age distribution revealed that 67.1% of respondents were between 26 and 45 years old, signifying active entrepreneurial engagement, while the younger 18-25 age group represents a generation that embraces technology and innovation. Educational attainment was noteworthy, with 39.3% possessing diplomas or certificates, 35% holding undergraduate degrees, and only 1.6% having less than a secondary education. This high level of education underscores the significance of educational attainment in entrepreneurship and tax compliance, while the low proportion of individuals with lower education levels indicates a need for targeted training programs. Descriptive statistics further indicated that 50.9% of respondents were business owners and 49.1% occupied top management positions, emphasizing the dual roles within Kenya's SME sector and the importance of addressing the specific concerns of both groups to enhance tax compliance and service provision.

Table 1: Demographic Characteristics

Variable	Category	Frequency	Percentage
Gender	Male	196	52.0
	Female	181	48.0
	Total	**377**	**100.0**
Age	18-25 Years	20	5.3
	26-35 Years	122	32.4

	36-45 Years	131	34.7
	46-55 Years	81	21.5
	Over 56 Years	23	6.1
	Total	**377**	**100.0**
Education	Primary	6	1.6
	Secondary	53	14.1
	Tertiary	148	39.3
	Undergraduate	132	35.0
	Postgraduate	38	10.1
	Total	**377**	**100.0**
Position	Manager	185	49.1
	Owner	192	50.9
	Total	**377**	**100.0**

Source: Research data (2024)

Descriptive Statistics for Key Variables

Table 2 presents a comprehensive analysis of the descriptive statistics for the constructs of Tax Compliance (TC), Tax Service Quality (TSQ), Government Trust (TGT), and Social Value Orientation (SVO), revealing key insights into respondents' perceptions. Tax Compliance exhibited a moderate mean score of 4.2241, with slight right skewness (0.078) and a standard deviation of 0.35353, indicating variability while conforming to a largely normal distribution (kurtosis = 0.126). TSQ reflected favourable perceptions, with a mean of 4.4002 and moderate variability (SD = 0.41349), characterized by a slight left skew (-0.100) and a normal distribution (kurtosis = 0.126). TGT revealed a mean score of 4.0477, indicating moderate trust in government, with a skewness of 0.102 and kurtosis of 0.743, suggesting some peaking without extreme values. Finally, SVO showed a moderate orientation toward social values, with a mean of 4.2241, slight right skewness (0.078), and normal kurtosis (0.126), demonstrating consistent and normally distributed perceptions without significant outliers across respondents.

Table 2: Summary of the Descriptive Statistics for the Constructs

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	**Statistic**	**Statistic**	**Statistic**	**Std. Error**	**Statistic**	**Std. Error**
Tax compliance (TC)	377	4.2241	.35353	.078	.126	-.067	.251
Tax service quality (TSQ)	377	4.4002	.41349	-.100	.126	-.600	.251
Government trust (TGT)	377	4.0477	.40056	.102	.126	.743	.251
Social value orientation (SVO)	377	4.2241	.35353	.078	.126	-.067	.251
Valid N (listwise)	377						

Correlation Analysis

The correlation analysis, utilizing Pearson's correlation coefficient, assessed the relationships between key variables: tax compliance, tax service quality, government trust, and social value orientation. Pearson coefficients, ranging from -1 to +1, measure the strength and direction of linear relationships between variables. Results in Table 4.32 reveal statistically significant positive correlations between all variables and tax compliance.

Social value orientation had the strongest correlation with tax compliance (r = .678, p < .01), followed by government trust (r = .642, p < .01), and tax service quality (r = .568, p < .01). Additionally, tax service quality was positively associated with government trust (r = .373, p < .01), indicating that higher perceptions of service quality are linked to greater trust in government. Importantly, none of the correlation coefficients approached the multicollinearity threshold (r = 0.8), suggesting that multicollinearity is not a concern in this analysis.

These findings highlight the significant and positive roles of social value orientation, government trust, and tax service quality in promoting tax compliance, with social value orientation exerting the strongest influence. The analysis underscores the importance of enhancing trust and service quality to foster better compliance behaviours.

Table 3: Pearson Correlation results

	Tax compliance	Tax service quality	Government trust	Social value orientation
Tax compliance	1			

Tax service quality	.534**	1		
Government trust	.547**	.373**	1	
Social value orientation	.471**	.372**	.362**	1

Regression Analysis and Hypothesis Testing
Effect of the Covariates in the Study
As a preliminary step, regression analysis was conducted to assess the impact of control variables including SME experience, sector, and size on tax compliance. The results from Model 1, summarized in Table 4.33, indicate that these covariates significantly predict tax compliance. SME experience (β = .120, t = 3.474, p < .01), sector (β = .083, t = 2.302, p < .05), and SME size (β = .167, t = 3.211, p < .01) were all found to have significant positive effects on tax compliance. Together, these factors explained approximately 8% of the variation in tax compliance (R^2 = .080, adjusted R^2 = .073). The model was statistically significant, with an F-statistic of 10.845 (p < .001).

Effect of Tax Service Quality on SME's Tax Compliance (H_{01})
Hypothesis H_{01} posited that tax service quality has no significant effect on SME tax compliance. Using Model 2, which controls for covariates, the findings revealed that SME experience (β = .099, t = 3.392, p < .01), sector (β = .074, t = 2.461, p < .05), and SME size (β = .175, t = 4.021, p < .001) all exert significant positive effects on tax compliance. More importantly, tax service quality emerged as a significant predictor of tax compliance (β = .541, t = 12.541, p < .001). This model explained 35.4% of the variance in tax compliance (R^2 = .354), significantly improving upon Model 1 (ΔR^2 = .273). The findings led to the rejection of H_{01}, affirming the critical role of high-quality tax services in enhancing SME tax compliance.

Effect of Government trust on tax compliance (H_{02})
Hypothesis H_{02} suggested that government trust has no significant influence on SME tax compliance. Analysis using Model 3, which controls for covariates and tax service quality, revealed that SME experience (β = .103, p = .007), sector (β = .116, p = .002), and SME size (β = .160, p < .001) significantly influence tax compliance. Tax service quality remained a significant predictor (β = .393, t = 9.444, p < .001), though its coefficient slightly decreased. Crucially, a significant positive relationship was found between government trust and tax compliance (β = .375, t = 9.631, p < .001), with the model explaining 48.3% of the variance in tax compliance (R^2 = .483). These results led to the rejection of H_{02}, underscoring the importance of government trust in promoting tax compliance among SMEs.

Effect of Social Value Orientation on Tax Compliance (H_{03})
Hypothesis H_{03} examined the impact of social value orientation on SME tax compliance. The analysis, conducted using Model 4, controlled for tax service quality and government trust. The results indicated that SME experience (β = .072, p < .01), sector (β = .080, p < .01), and SME size (β = .146, p < .001) significantly influence tax compliance. While the coefficients for tax service quality and government trust remained significant, they slightly decreased (β = .334, t = 7.971, p < .001; β = .324, t = 8.312, p < .001, respectively). Notably, social value orientation was found to have a significant positive impact on tax compliance (β = .234, t = 5.037, p < .001). The model accounted for 51.6% of the variance in tax compliance (R^2 = .516), marking a modest increase in explanatory power compared to Model 3 (ΔR^2 = .033). The results led to the rejection of H_{03}, demonstrating that social value orientation significantly influences tax compliance among SMEs.

Table 4: Regression Results for Covariates and Direct Effects Hypotheses

	Unstandardized Coefficients		Unstandardized Coefficients		Unstandardized Coefficients		Unstandardized Coefficients	
	β	t	β	t	β	t	β	t
(Constant)	3.101***	22.476	.926***	4.438	.035	.168	-.458	-2.040
Expe	.120**	3.474	.099**	3.392	.071**	2.711	.072**	2.829
Sector	.083*	2.302	.074*	2.461	.083**	3.066	.080**	3.044
Turnover	.167**	3.211	.175***	4.021	.167***	4.263	.146***	3.828
TSQ			.541***	12.541	.393***	9.444	.334***	7.971
TGT					.375***	9.631	.324***	8.312
SVO							.234***	5.037
R^2	.080		.354		.483		.516	
Adj. R^2	.073		.347		.476		.508	
SEE	.61144		.51330		.45972		.44533	
ΔR^2	.080		.273		.129		.033	
F	10.845***		157.273***		92.754***		25.372***	

*Source: Research data (2024). Note: *p <.05, **p <.01, ***p <.001*

Where; β = unstandardized parameter of estimates coefficients, Var = Variable Name, Expe = SME experience, Sector = SME sector, Turnover = SME turnover, ETSG = tax service quality, TGT = taxpayers government trust, SVO = social value orientation

Discussion of Findings
Effect of Tax Service Quality on SMEs Tax Compliance
The investigation into the relationship between tax service quality and SMEs' tax compliance revealed a significant direct effect, with tax service quality accounting for 27.3% of the variance in compliance (β = .541, p = .000). Higher evaluations of tax service quality are associated with increased compliance, emphasizing the importance of efficient and responsive services in fostering voluntary compliance. These findings align with Social Contract Theory, suggesting that when governments provide high-quality services, they fulfil their obligations, encouraging taxpayers to reciprocate by meeting their tax responsibilities (Tengs, 2016, 2020). This dynamic is particularly important for SMEs, as a well-functioning tax system promotes a sense of obligation to comply (Bodea & LeBas, 2016; Moore *et al.*, 2018). Studies by Refnini *et al.* (2016), Sukesi and Yunaidah (2020), and Harefa *et al.* (2021) confirm that higher service quality leads to greater taxpayer compliance. These studies collectively suggest that the perceived quality of tax services is a critical determinant of compliance behaviour, with higher service quality leading to higher compliance rates. Taxpayers are more likely to meet their tax obligations when they perceive the tax system as fair, efficient, and responsive to their needs. However, some studies, such as Sugiyarti *et al.* (2021), found a negative relationship between service quality and compliance, suggesting that factors like government distrust or perceived tax inequities may weaken this positive impact. Overall, the findings underscore the importance of improving tax service quality to enhance compliance among SMEs.

Effect of Government Trust on SMEs Tax Compliance
The analysis underscores the crucial role of government trust in influencing SME tax compliance, showing a significant positive effect (β = .375, p = .000) with trust explaining 12.9% of the variance in compliance. Higher levels of government trust lead to greater compliance among SMEs, as supported by Political Legitimacy Theory (Kirchler, 2007). When taxpayers trust their government, they are more likely to fulfill their tax obligations voluntarily, viewing the tax system as legitimate and worthy of compliance. This trust fosters a commitment to the tax system, encouraging positive engagement (Jimenez & Iyer, 2016). Several studies align with these findings. Augustine and Enyi (2020), Byaro and Kinyondo (2020) and Habibov *et al.* (2018)) demonstrated that greater trust in government correlates with higher compliance rates. Similarly, Khizar and Siddiqui (2021) and Mas' ud *et al.* (2019) confirmed that

trust is a key predictor of compliance behavior, while, Oladele *et al.* (2020) found that transparent government actions enhance taxpayer compliance. Conversely, when trust is lacking, as highlighted by (Gebrihet *et al.*, 2023), compliance decreases, indicating that skepticism about government actions undermines tax behavior. The study emphasizes the importance of transparent and effective governance in building trust to create a compliant tax environment.

Effect of Social Value Orientation on SMEs Tax Compliance
The study found that social value orientation (SVO) has a significant positive relationship with tax compliance among SMEs, with a path coefficient of β = .234 (p < .001), explaining 3.3% of the variance in tax compliance. SMEs that emphasize prosocial values, such as collective welfare and fairness, are more likely to comply with tax regulations. These results align with existing literature, where prosocial individuals exhibit higher levels of cooperative and compliant behaviour Brizi *et al.* (2015), D'attoma *et al.* (2020), and Mpeera Ntayi *et al.* (2012). Prosocial individuals tend to prioritize societal norms and trust, fostering cooperation and contributing to the greater good (Kanagaretnam *et al.*, 2009; McClintock & Allison, 1989; Van Lange *et al.*, 2007). Their focus on fairness and altruism drives them to view tax compliance not only as a legal requirement but also as an ethical responsibility to support societal welfare. These findings highlight the importance of promoting social responsibility within the SME sector. By fostering a culture of fairness and social cooperation, policymakers and tax authorities can enhance tax compliance. SVO can serve as a valuable framework for shaping tax policies aimed at encouraging voluntary compliance rooted in ethical commitment.

CONCLUSION
The study's findings offer key insights into the factors driving SMEs' tax compliance, highlighting the critical roles of tax service quality, government trust, and social value orientation. First, tax service quality was found to have a substantial positive effect on tax compliance, explaining 27.3% of the variance. This suggests that efficient and responsive tax services foster higher compliance, aligning with Social Contract Theory, which emphasizes the importance of the government fulfilling its obligations to encourage taxpayer responsibility. Second, government trust significantly influenced compliance, explaining 12.9% of the variance. Trust in government legitimizes the tax system, fostering voluntary compliance as highlighted by the Political Legitimacy Theory. This is consistent with literature showing that higher government trust correlates with greater tax compliance, whereas distrust erodes it. Lastly, social value orientation had a positive, albeit smaller, effect on tax compliance, accounting for 3.3% of the variance. SMEs guided by prosocial values are more likely to view tax compliance as a contribution to societal welfare,

reinforcing the role of ethical commitments in shaping compliant behaviour. Together, these findings underscore the need for governments to enhance tax service quality, build trust, and promote social responsibility to improve tax compliance among SMEs.

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