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Effects of Tax Education on Voluntary Tax Registration Among Small and Medium Enterprises in Embakasi East Sub-county Nairobi County, Kenya

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Abstract

Kenya Revenue Authority (KRA) was established in 1995 through the Kenya Revenue Authority Act, 1995. Its core mandate is to collect revenue to fund government operations and foster economic growth. Tax education was introduced with the aim of enhancing taxpayers' knowledge of tax laws and policies, increasing voluntary compliance and ultimately, increasing revenue collection. All Small and Medium Enterprises (SMEs) are expected to enrol with KRA and become active taxpayers. However, despite the implementation of these tax education measures among SMEs, KRA still faces the challenge of low voluntary tax compliance. There was, therefore, a need to investigate the effect of tax education on voluntary tax registration among SMEs in Embakasi East Sub-County. The study employed an explanatory survey research design. Quantitative data was analysed using descriptive statistics and inferential statistics, while qualitative data were analysed using content analysis. The findings of the study shows that over 79% of the participants felt that the tax education is a transformative experience that not only improve their understanding but also motivate and empower them to engage with tax registration process more confidently and proactively. The study concludes that tax education enhances voluntary tax registration by increasing taxpayers' understanding and confidence in engaging with the registration process. Therefore, the government of Kenya and KRA need to incorporate structured tax education into the national curricula, community outreach and business training programs. This will help to formalize economic activities and broaden the tax base.

Keywords: KRA, Tax education, voluntary tax registration, voluntary tax compliance, SMEs

Introduction

Taxation refers to the process by which governments impose obligatory financial burdens on citizens and businesses (Mainoma et al., 2022). Small and Medium Enterprises (SMEs) are defined in Kenya as any business with 1 to 99 employees and an annual revenue of less than 50 million Kenyan shillings (Kedogo, 2023).

In 1995, KRA was created through The Kenya Revenue Authority Act, 1995 to assist in administering, assessing, collecting, and enforcing tax laws with utmost professionalism, ruled by integrity and fairness (Githinji, 2022). Under Taxpayers Services division (TPS) within Domestic Taxes Department (DTD), KRA rolled taxpayer education among SMEs to aid in voluntary tax compliance (Mwerera, 2019). However, despite the implementation of these tax education measures among SMEs, Kenya Revenue Authority (KRA) still faces the challenge of low voluntary tax compliance.

Tax compliance remains a significant challenge in Kenya, with studies indicating a substantial tax gap attributed to underreporting, evasion and informal economic activities. Only about 21% of Kenyans are registered taxpayers, undermining revenue generation (Radda, 2017). KRA has implemented various strategies to enhance compliance, including digital tax collection and public awareness campaigns. However, systemic issues like corruption and inadequate taxpayer education persist, affecting overall compliance (Olonde, 2019).

In 2005, KRA embarked on a mission to educate, sensitize, and demystify taxation for the public to enhance voluntary compliance. This initiative included launching a school outreach program in 2012 aimed at nurturing a tax-paying culture from an early age. However, the program faced challenges, including resource constraints, and was not integrated into the formal curriculum (KRA, 2023). In 2017, KRA partnered with the Kenya Institute of Curriculum Development (KICD) to mainstream tax education into the Competency-Based Curriculum (CBC), aiming to equip learners with the requisite tax knowledge and mould them into responsible taxpayers (KRA, 2018).

By educating taxpayers on tax laws and policies, sensitizations including electronic taxpayer education and print media help create awareness, increase understanding, and ensure citizens are receptive to tax compliance, as depicted by SMEs around Nairobi Central Business District (CBD) (Gachiku, 2015). Under the Taxpayers Services Division (TPS) within the Domestic Taxes Department (DTD), KRA rolled out taxpayer education among SMEs in Kenya, including those in Embakasi East sub-county (Mwerera, 2019). Despite these efforts, KRA fell short of its revenue target for the 2022-2023 financial year, managing to collect Sh2.166 trillion against a target of Sh2.273 trillion, thereby missing the target by 4.71% (Sh107 billion) (Business Daily, 2023). Therefore, this study sought to investigate the effect of tax education on voluntary tax compliance among SMEs in Embakasi East Sub-County, Nairobi County.

Objective of the Study

To investigate the effect of tax education on voluntary tax registration among SMEs in Embakasi East Sub-County.

Significance of the Study

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The study was expected to contribute to the already existing body of knowledge on the effect of a tax education on tax registration. The findings of the study may thus be beneficial to Kenya Revenue Authority (KRA) to find out whether the implementation of the tax education have an impact to tax registration. The study findings are also expected to be significant to researchers and development practitioners to advance their knowledge on tax education policies.

Theoretical Framework

The theory that guided this study was the Social Learning Theory developed by Albert Bandura in 1977 (Koutroubas & Galanakis, 2022). The theory is based on the notion that a combination of cognitive, environmental and behavioral factors shapes human behaviour. Cognitive factors refer to an individual's mental processes, including their awareness of the consequences of their actions. Environmental factors include the social and cultural context in which an individual lives and the social and institutional norms that influence their behaviour. Behavioural factors include an individual's actions and choices in response to their environment and cognitive processes (Nabavi, 2012).

In the context of tax registration, the social learning theory would suggest that individuals' compliance behavior would be affected by their cognitive understanding of tax laws and the environmental factors that promote tax registration (Nguyen et al., 2020). Tax education is a key environmental factor that could increase individuals' understanding of tax laws and willingness to comply with tax regulations. Through education, individuals learn about the importance of tax registration, the consequences of non-registration, and the benefits of registering for taxes. This knowledge, in turn, could motivate individuals to comply with tax regulations (Mengere, n.d.).
The above theory is relevant to the study as it investigates whether tax education affects voluntary tax registration. This study seeks to investigate the effect of tax education on voluntary tax registration in Nairobi County. The social learning theory will therefore provide a link between tax education and voluntary tax registration.

Methodology

Study Design

The study employed explanatory survey research design, collecting both quantitative and qualitative data (Almalki, 2016).

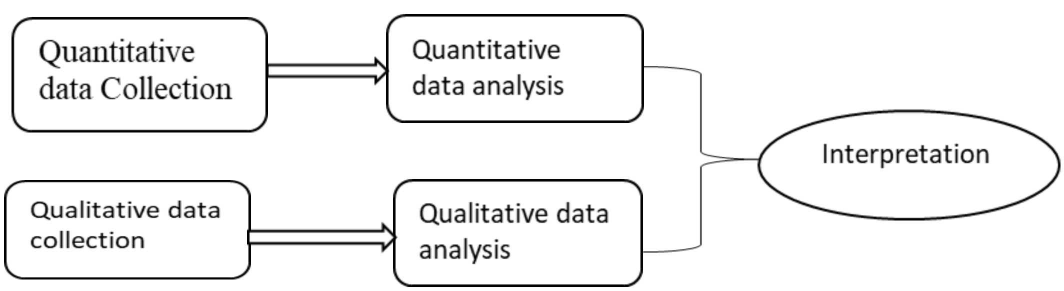

Figure 1. Diagrammatic representation of a research design

Quantitative and qualitative data were collected and analysed simultaneously as demonstrated in Figure 1. This design allowed for a more comprehensive understanding of the research problem by integrating both data types and allowing for the triangulation of results. It is suitable for fields where quantitative and qualitative research methods are valued, thus enabling the researcher to gain a deeper insight into the research problem (Creswell, 2014).

Study Site and Population

The study was conducted in Embakasi East sub-county, Nairobi County, Kenya. The sample size was 151 participants from an accessible and target population of 1,506 and 13,040 respectively and four key informants. The sample size was gotten using Nassiuma (2000) formula. Key informants included leaders from real estate, supplies, services and manufacturing sectors.

Sampling Procedures

Purposive sampling was used to pick Embakasi and Lower Savannah wards in Embakasi East sub-county as they have the lower compliance rating. After getting records from KRA, purposive sampling was used to select taxpayers who received taxpayer education in FY2021/22 and FY2022/23. Random sampling was used to pick 151 respondents proportionately from Embakasi and Lower Savannah. The researcher chose the wards in order to get representation of both urban and peri-rural representation. Embakasi ward is more urbanized and has a higher population density than the Lower Savannah ward, which is more rural and has a lower population density. Purposive sampling was then used to select the four key informants (real estate, supplies, services and manufacturing leaders): three from Embakasi and one from Lower Savannah. It should be noted that the key informants were not part of the calculated sample size, i.e. 151.

Proportionate sampling was used to ensure the representativeness of all SMEs in the two wards. From the total sample size (***n***), each sub-sample size (***nh***) for the two wards in Embakasi East sub-county was calculated as follows;

$$\mathrm{nh} = n\frac{Nh}{N}$$

where;
n_h= sub-sample for each stratum
n= total sample size
N_h= population of stratum
h= one stratum of the 2 strata
N= accessible population
Embakasi ward sub-sample (n_h) was therefore calculated as follows;

$$\mathrm{nh} = n\frac{Nh}{N}$$

nh= 151*968/1506
Nh= 97

Therefore, sub-sample size for Embakasi was 97 participants.
The sub-samples are as shown in Table 1

Table 1. Population and Sub-samples from Embakasi Sub- County

Ward	**Accessible Population**	**Sample Size**
Embakasi	968	97
Lower savannah	538	54
Total	1506	151

Validity and Reliability

Validity is established by expert judgement. Therefore, validity of the research instruments through expert review by lecturers in the department of Curriculum Instruction and Educational Management, Egerton University. The study ensured that the research analysis and conclusions accurately represented the phenomenon being studied (Taherdoost, 2016). Reliability was tested through pilot administration of questionnaire to 15 participants in Embakasi Central. A Cronbach's alpha coefficient of .911 was obtained; thus, the instruments were reliable (Gay et al., 2012).

Data Collection Procedure

The researcher used an introduction letter from Egerton Graduate School to apply for a permit from National Commission for Science, Technology and Innovation (NACOSTI). The researcher visited KRA to get the list of participants who received taxpayer education in FY2021/22 and FY2022/23 in Embakasi and Lower Savannah wards. All the 151 participants were given questionnaires to fill out. Key Informant Interview (KII) was conducted among the four Key Informants.

Data Analysis

The researcher analysed the collected data using both qualitative and quantitative methods. All relevant quantitative and qualitative data was cleaned and entered into Statistical Packages for Social Sciences (SPSS) and Qualitative Data Analysis (QDA) miner respectively. Using SPSS, descriptive statistics (percentages and frequencies) was used to investigate the quantitative data gathered from the survey questionnaire. Utilizing QDA software, content analysis was used to investigate the qualitative data obtained from KII. Six processes were followed: transcribing the data, creating the coding framework, selecting the code categories, coding, compiling the extracts, and producing the final report (Stranges et al., 2014).

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Ethical Consideration

Research permit was obtained from NACOSTI. All the participants provided informed consent before participating in the study and they were assured of their rights as study participants. Confidentiality of the research findings was upheld and were utilized for academic purposes only.

Results

KRA embarked on a mission to educate, sensitize and demystify taxation for the public to enhance voluntary registration. The education programs are designed to address gaps in knowledge regarding tax laws, the importance of paying taxes and tax filing methods. These programs include workshops, seminars and the use of digital platforms to reach a wider audience. Mobile applications and online portals have facilitated easier access to information, enabling taxpayers to comply with tax regulations (KRA, 2021).

KRA also collaborated with various stakeholders, including business associations and professional bodies, to enhance the reach and impact of its taxpayer education programs. These collaborations have facilitated targeted education campaigns tailored to the unique needs of different sectors. For instance, workshops and seminars have been organized specifically for manufacturing, retail, and service SMEs, addressing their unique tax challenges and compliance requirements. This sector-specific approach has improved the relevance and effectiveness of education programs, leading to better compliance rates among SMEs (Gitonga & Kilonzi, 2022). The study sought to investigate the influence of tax education on voluntary tax registration among SMEs in Embakasi East Sub-County. The responses are shown in Table 2.

Table 2. Influence of Tax Education on Voluntary Tax Registration

Voluntary Tax Registration	**Strongly Disagree**	**Disagree**	**Neither Agree nor Disagree**	**Agree**	**Strongly Agree**
	%	**%**	**%**	**%**	**%**
The tax education helped me to understand why tax registration was important	5.6	1.9	7.5	30.8	54.2
The guidelines for tax registration provided by tax education were clear and understandable	-	7.5	12.1	40.2	40.2
I am now more confident in my understanding of the tax registration process after the education session	11.2	1.9	5.6	51.4	29.9

The tax education session addressed my concerns about registering for taxes effectively	5.6	1.9	15.9	24.3	52.3
Tax education influenced my decision to register my business for tax	9.3	7.5	11.2	20.6	51.4

Majority of the participants appreciated the importance of tax education that was provided to them because it helped them understand the importance of tax registration. Tax authorities around the world play a crucial role in regulating economic activity by ensuring that individuals and firms are registered for taxation, thereby improving revenue collection and promoting financial transparency. Tax registration is crucial for expanding the tax base, limiting the growth of the informal sector, and enabling governments to deliver effective public services in accordance with global tax governance regulations (Dagan & Pirlot, 2024; Kimeu, 2025).

In Table 2, 85% of the participants indicated that, tax education helped them to understand why tax registration was important. The findings are consistent with the observations by Gitaru (2017), who found that tax education played a vital role in increasing awareness and understanding of tax responsibilities. The findings emphasized that when a population is educated on the importance of tax registration, they were more likely to comply voluntarily and consistently.

A significant portion of participants observed that the guidelines for tax registration provided during the tax education session were clear and understandable. This clarity played a crucial role in demystifying the registration process for many, with 80.4% affirming that the guidelines were easy to follow. The findings align with the study by Onchoka (2021), which revealed that clear and understandable guidelines significantly improved SMEs' ability to register for taxation electronically. The study concluded that simplified instructions enhanced the clarity of the registration process. In addition, a study by Wanjiru (2020) found that structured education programs helped demystify tax procedures. The findings showed that when guidelines are presented clearly, taxpayers were more confident and willing to engage with the registration process.

Confidence in navigating the tax registration process notably increased among attendees following the education session. Many participants confirmed that they were more equipped to handle tax-related matters, with 81.3% reporting greater confidence in their understanding of the process. This is supported by findings by Mengere (2014), who found that tax education enhanced taxpayer confidence in tax registration. The research showed that individuals who received targeted tax training felt more capable of fulfilling their tax obligations without external assistance.

The session also proved effective in addressing specific concerns related to tax registration. Participants felt that their questions and uncertainties were adequately resolved, contributing to a more positive outlook on compliance. This was reflected by 76.6% of participants who agreed that the tax education session effectively addressed their concerns. These findings are consistent with Gitaru (2017), whose study emphasized that taxpayer education effectively addresses concerns and misconceptions. His research found that when taxpayers receive clear answers, their anxiety and resistance toward registration decrease.

Finally, the impact of tax education extended beyond understanding and confidence. It also influenced behavior. A notable 72% of participants stated that the education they received played an important role in their decision to register their business for tax, thus reinforcing the practical value of the training in promoting compliance. This is supported by Onchoka (2021), who found that tax education directly influenced SMEs' decisions to register for tax. The study findings revealed that participants were more likely to take proactive steps towards compliance after receiving tax education.

Overall, perceptions of the study shows that over 79% of the participants felt that the tax education is a transformative experience that not only improve their understanding but also motivate and empower them to engage with tax registration process more confidently and proactively. This is consistent with Ritei and Sporta (2022) who found that taxpayer education positively affected tax morale and compliance. Their study concluded that education fostered empowerment and responsibility, encouraging voluntary engagement with tax systems.
Apart from quantitative analysis, qualitative data analysis provided more insights and in-depth information from the information collected quantitatively. Below is the analysis:

Could you describe your experience with the tax education sessions you attended? How did the information provided in the tax education sessions relate to your business context? Can you give some examples?

It was observed that tax education program significantly enhanced participants' understanding of tax registration process, transforming it from a complex challenge into a manageable procedure. The program provided comprehensive information about required documentation, specific steps and timelines, enabling participants to approach registration confidently. Participants gained clarity about essential requirements such as PIN certificates, business registration documents and proper record-keeping practices. This is illustrated by the following statements:

Since participating in the education program, I now understand the tax registration process. I now know the required documentation, the steps involved, and the timelines for registration.
KII_2_M
Initially, I was unaware of the specific documents required for registration. However, through the program, I learnt the importance of presenting the business registration certificate, PIN certificate and proof of address.
KII_1_M

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What were some new insights about taxation that you gained from attending the education session? How did these differ from your previous understanding? In what ways, if any, has your understanding of tax-related matters changed since attending the education program? Based on your experience, what would you tell other business owners in your community about attending tax education programs?

The benefits of tax registration emerged as crucial, with participants emphasizing its role in business growth and credibility. Registered businesses gain access to government contracts, loans, and various business opportunities while also demonstrating their commitment to compliance and transparency. This enhanced legitimacy attracted investors and partners. As expressed by informants:

The benefits of tax registration go beyond compliance; it opens up opportunities for business growth and access to government contracts and loans. I got a tender from the county government of Nairobi after registering my business for tax purposes.
KII_1_M
Based on my experience, I would tell other unregistered business owners that tax registration is essential for the genuine and growth of their businesses.
KII_4_M

What challenges or concerns about tax registration, if any, were addressed during the education program? What questions remained unanswered? If you could improve the tax education program, what suggestions would you make to better support business owners like yourself?

The education sessions effectively addressed many common concerns about tax registration by tackling fears about complex paperwork and potential penalties through step-by-step guidance and practical examples. However, participants identified areas for improvement and suggested several practical enhancements to make the program more interactive and provide ongoing support mechanisms. Recommendations included incorporating real-life case studies, offering one-on-one consultations, and developing comprehensive resource materials to ensure the effectiveness of the tax education program. This is illustrated by statements below;

The instructors provided step-by-step guidance, practical examples, and reassured us that help is available if needed.

KII_2_M
Providing a comprehensive Frequently Asked Questions (FAQs) section with answers to common questions and concerns would also be beneficial.
KII_3_F

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Discussion

This study examined the impact of tax education on voluntary tax registration among SMEs in Embakasi East Sub-County. The results show that tax education has a big effect on voluntary tax registration; more than 79% of participants said it had a positive effect on their lives.

The outcomes that 85% respondents reported a better understanding of why tax registration is important after education is in line with what has been found in other countries. Gitaru (2017) discovered that tax education was crucial in enhancing the awareness and comprehension of tax obligations among SMEs in Nairobi's Central Business District. In the same way, Machogu and Amayi (2016) showed that taxpayer education helped 83% of people in Mwanza, Tanzania, understand the tax system better. The Social Learning Theory by Bandura (1977), which is the basis for this study, backs up these results: cognitive understanding of tax obligations, which is improved through education, directly affects the intention to comply (Koutroubas & Galanakis, 2022).

The clarity of guidelines given during tax education discussions (80.4% of participants agreed) is in line with what other studies have found about taxpayer services. Beesley (2018) asserts that enhancing service delivery to taxpayers is a vital strategy for augmenting voluntary tax compliance. Okello (2014) makes the same point that tax forms should be easy to read and follow. The introduction of iTax in Kenya in 2015 led to a big increase in tax registration. Structured education on how to use it has been a big part of this development (Mutheu, 2018; Onchoka, 2019).

It is more interesting that 81.3% of participants felt more confident in the registration process after learning about it. Ndirangu (2014) posited that inadvertent non-compliance may stem from ignorance or insufficient awareness of tax obligations. Tax education directly tackles a root cause of non-registration by boosting confidence and breaking down knowledge barriers. This is in line with the Social Learning Theory, which says that learning can change how people think, feel, and move (James & Alley, 2002).

Seventy-two percent of those who signed up for taxes said that the education they got was the reason they did it. This shows that KRA's education outreach in Embakasi East had an effect on people's behaviour. Onchoka (2021) found similar results, saying that tax education had a direct effect on SMEs' choices to register for tax. The KII findings add to this finding: participants said that registering made it easier to get government contracts and business loans. This suggests that tax education was able to explain wider advantages of formalisation as opposed to just the rules that had to be followed.

Conclusion

This study demonstrates that, tax education enhances voluntary tax registration by increasing taxpayers' understanding and confidence in engaging with tax registration process. Therefore, tax education servers as a crucial enabler of voluntary tax registration.

Recommendation

In order to promote voluntary tax registration and improve public comprehension, the government of Kenya and KRA need to incorporate structured tax education into national curricula, community outreach and business training programs. This will help to formalize economic activities and broaden the tax base.

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