

Moderating Effect of Tax Audit on Selected Determinants of Corporate Income Tax Compliance Among Manufacturing Companies in the East of Nairobi Tax District, Kenya

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ABSTRACT

Taxation is quintessential for nations to achieve financial independence without borrowing. Corporate income tax is one of the requisite sources of revenue for governments in various global jurisdictions that enables the provision of public goods and services to the citizenry. Corporate Income Tax accounts for 10% of the total tax revenues collected across OECD countries and represents 15% and 20% of total taxes in non-OECD countries. In Kenya, it is between 19% and 20% of the total tax revenues collected. Corporate Income Tax compliance in Kenya has been below target. The study sought to establish the moderating effect of tax audit on selected corporate income tax compliance determinants among manufacturing firms in the East of Nairobi Tax District, Kenya. The study's objectives were to determine the effect of system automation, taxpayer awareness, and taxpayer perception on corporate income tax compliance among manufacturing firms in the East of Nairobi Tax District, Kenya. The moderating variable was tax audit. The study was supported by five theories: the Unified Theory of Acceptance and Use of Technology, the Economic Deterrence Theory, the Ability to Pay Theory, the Theory of Planned Behavior, and the Social Learning Theory. An explanatory research design was applied. The target population was five hundred seventy-six (576) respondents among the manufacturing firms in the East of Nairobi Tax District, Kenya, and a sample size of 236 respondents. The questionnaires were distributed to the entire sample size, and 172 respondents correctly filled out and submitted their responses, a 72.9% response rate. Primary data was collected using questionnaires. Regression and Correlation analysis were applied to determine the significance and relationship of the variables. The data analysis was done through descriptive and inferential statistics. The study found that system automation positively affected corporate income tax compliance, with a standardized coefficient of $\beta = 0.133$, $p = 0.042$. Similarly, taxpayer awareness positively and significantly impacted corporate income tax compliance, evidenced by a standardized coefficient of $\beta = 0.090$, $p = 0.032$. Additionally, taxpayer perception significantly positively impacted corporate income tax compliance, with a standardized beta coefficient of $\beta = 0.069$, $p = 0.019$. Further tax audit positively and significantly impacted corporate income tax compliance, with a standardized beta coefficient of $\beta = 0.777$, $p = 0.009$. The study showed that tax audit moderated the effects of system automation, taxpayer awareness, and taxpayer perception on corporate income tax compliance, with $\beta = 0.731$, $p = 0.006$ ($R^2\Delta = 0.022$), $\beta = 0.626$, $p = 0.036$ ($R^2\Delta = 0.018$) and $\beta = 0.321$, $p = 0.000$ ($R^2\Delta = 0.005$) respectively. The study recommends that the Kenyan government invest in and promote automated tax systems by enhancing the availability and functionality of automated platforms. The Kenya Revenue Authority (KRA) could simplify tax processes, reduce reporting errors, and improve compliance. Manufacturing firms' management should prioritize adopting automated tax solutions, as these systems have proven to improve compliance. For KRA, the results recommended enhancing taxpayer awareness initiatives. Additionally, investigating the effect of financial literacy and risk tolerance on corporate income tax compliance within firms could provide insight into the relationship between knowledge, attitude toward risk, and corporate income tax compliance. Further research on the effects of tax incentives on corporate income tax compliance could also positively contribute to the research field.

Key Words: Tax Audit, Compliance, Corporate Income Tax, Manufacturing Companies.

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1.1 Introduction

Taxation is the primary source of every Government's revenue and, as such, the backbone of every country's development. Various governments continuously strive to increase revenue collection to meet the ever-growing budgets and citizens' expectations. Kenya has not lagged in its efforts to improve its revenue collection (OECD, 2019). For all governments, the administration of taxes is a key priority. Paying taxes is one of citizens' most universal, frequent, and potentially contentious interactions with their government. It can affect and be affected by an individual's broader perception of Government (PWC & World Bank, 2020). Taxes account for a remarkable part of government revenue. According to Ortiz-Ospina and Roser (2019), total tax revenues make up 80 percent of total government revenue in nearly every developing country and more than 50 percent in almost every country.

OECD (2022) espouses that corporate income taxes (CIT) account for 10% of total tax revenue collected across OECD countries and often represent 15% to 20% of total taxes in non-OECD countries. Corporate income taxes (CIT) account for 19% to 20% of the country's total tax revenues in Kenya. CIT taxpayer base is multifaceted, ranging from the largest multinational enterprises (MNEs) with sophisticated tax planning structures to small businesses. This means that addressing the tax gap is a complex challenge for tax administrations, which are confronted with complicated tax planning structures, underreporting of income, and unintentional errors. The latter can often result from complex corporate income tax systems that are challenging and burdensome to taxpayers, particularly for small business owners. At the same time, this complexity can also result in business taxation uncertainty as they may not fully understand their obligations or may sometimes be unsure how the tax administration will interpret tax provisions in particular contexts.

One thousand nine hundred eighty (1,980) corporate tax rates worldwide averaged 40.11 percent and 46.52 percent when weighted by GDP. Jurisdictions have recognized the impact of high corporate tax rates on business investment decisions; in 2022, the average is now 23.37 percent, and 25.43 percent when weighted by GDP, for 180 separate tax jurisdictions. Declines have been seen in every central world region, including the largest economies. In the United States, the 2017 Tax Cuts and Jobs Act brought the country's statutory corporate income tax rate from the fourth highest in the world closer to the middle of the distribution. Asian and European countries tend to have lower corporate income tax rates than countries in other regions, and many developing countries have corporate income tax rates above the average worldwide. Today, most countries have corporate tax rates below 30 percent (Tax Foundation, 2023).

Corporate Income Tax compliance in Kenya involves the correct computation of annual tax based on the corporation's fully disclosed income for the year, filing with the timelines as per tax laws, and payment of the due tax in quarterly instalments. The tax baseline is the preceding year's tax liability plus a ten percent (10%) markup or the estimated income for the year, whichever the corporation chooses (Malonza, 2016).

Corporate Income Tax refers to taxes paid on incomes generated by corporations in the Kenyan jurisdiction. Local companies are taxed at a standard rate of 30% of profits before tax (PBT), and non-resident companies are taxed at 37.5%. The Income Tax Act (ITA) defines a permanent establishment as a fixed business premise where a person carries on business, which includes a building site and a construction project that has existed for six months or more (ITA). Corporate tax payable is determined after deducting all the allowable expenses used in producing the income, including interests, royalties, and management and professional service fees (KPMG, 2018).

According to Kira (2022), automated systems minimize human interaction and the possibility of corruption while improving tax reporting accuracy and timeliness. Similarly, Muita (2021) notes that introducing the iTax system by the Kenya Revenue Authority (KRA) in Kenya has improved taxpayer compliance due to increased efficiency, transparency, and ease of use. Automation also enhances the government's ability to monitor and enforce compliance, thereby reducing the tax gap (OECD, 2020).

Tax audits are one of the key enforcement tools used by tax authorities to ensure compliance with tax laws. They involve the examination of a taxpayer's financial records and tax returns to verify the accuracy and completeness of reported income and tax liabilities. The concept is grounded in deterrence theory, which suggests that the likelihood of being audited and the severity of penalties for non-compliance can influence taxpayer behavior (Ali, 2020).

1.2 Problem Statement

According to KRA (2024), the underperformance of CIT revenue due to non-compliance has been challenging. Statistics show that only 129,313 out of 862,336 firms registered for CIT for the year ended June 2024 complied, which is a compliance rate of 15%. The share of compliant registered companies was slightly lower than the previous year ended June 2023, when a revised 123,030 out of 759,568 firms paid their taxes on profit. This compliance rate is 16.20% in 2023, a reduction compared to 15% in 2024. KRA (2024) data showed that some 102,768 new companies registered for corporate income obligations in 2024, compared with 95,973 firms in 2023. More than half (55.77% or 480,935 firms) of the registered firms filed annual returns in 2024, signaling they were active. A lowly 26.89% of the companies that file returns paid the declared taxes. KRA noted that it was difficult to establish the reason behind considerable variances between companies that declare CIT returns and those that pay. Corporate Income Tax significantly contributes to Kenya's Government revenue, contributing an average of 12% to the exchequer. According to the Kenya Revenue Authority (KRA, 2024), in the Financial Year 2023/2024, corporate income tax (CIT) grew by 4.9% compared to FY 2022/2023. In his Audit Report of 2024 for FY 2022/2023, the Auditor General highlighted an uncollected corporate income tax of Kes 147Bn arising from the non-declaration of Corporate Income by 1,486 Taxpayers. The study aimed to probe the moderating effect of tax audit on selected determinants of corporate income tax compliance among manufacturing companies in the East of Nairobi Tax District, Kenya. The study further determined if system automation affects corporate income tax compliance among manufacturing companies in the East of Nairobi Tax District, Kenya, while being moderated by tax audit.

2.0 Literature Review

2.1 Theoretical Review

2.1.1 Ability to Pay Theory

The tax should come from him who has, not from him who has not. This theory was espoused by Adam Smith (1776). Therefore, taxation should be a function of income, as it is known to be. If the prices are not shifted upwards with the same margin as excise, does the taxpayer suffer losses, or is there enough for the taxpayer to pay the tax and have profits? It appears reasonable and just that taxes should be levied based on the taxable capacity of an individual (Chauke, 2016).

While others have argued that it penalizes hard work and success and reduces the incentive to make more money (opt for a flat rate of taxation), others say that those who have benefitted most from the nation's way of life in the form of higher incomes and more incredible wealth can afford and should be obligated to give back more to keep the system running (Kagan, 2020).

The Ability to pay principle is crucial in tax compliance because it ensures taxpayers allocate the tax burden equally. Suppose tax is applied uniformly to all goods and services, irrespective of the taxpayer's capacity to pay. In that case, it may disproportionately affect low-income earners, who may be required to spend a more significant proportion of their income on essential goods and services subject to Sales tax (Sidek & Abdurazeqeb, 2022). Vosslander (2010) observed that although tax rates vary according to taxpayers' income levels, a considerable level of tax compliance is still recorded. Similarly, today, the Ability to pay provides principles of fair taxation regarding fiscal substance. Here, the concept demands tax fairness in managing the tax burden, and taxpaying is equally imposed on individuals (Podlipnik, 2017).

However, this study is anchored on the Ability to pay theory because it ensures that the tax burden is spread evenly among taxpayers and that compliance enforcement is carried out in a way that considers the taxpayer's Ability to pay. This theory expounded on whether corporate income tax compliance with manufacturing firms was based on the Ability to pay and its general compliance.

2.1.2 Unified Theory of Acceptance and Use of Technology

Venkatesh formulated this theory. et al. (2003). It aimed to explain user intentions while using an information system and the subsequent usage behavior. The theory claims that four main factors influenced the usage of a new information system: performance expectancy, effort expectancy, social influence, and facilitating conditions. The four factors were controlled for gender, age, experience, and voluntariness of the targeted user. For example, a user who is young and has an IT background is more likely to find a new system highly useful in performing their duty, easy to use as they are already technical, and will most likely influence their peers in using the same information system.

The theory was developed by reviewing and consolidating the principles of eight earlier models, including the one above, i.e., the Technology Acceptance Model and others. Various researchers have used the model in their

studies, but it has also received criticism from multiple quarters, as many compare it with the theory of the technology acceptance model (Venkatesh & Zhang, 2010).

The Unified Theory of acceptance and use of technology involves the firm's economic environment, the industry's structures, and the firm's internal structure, which are some of the most essential components for the growth and development of the firm. The unified theory involves the change from manual to computerized technology, which makes work easier and faster. The information system is introduced to the firm by the management according to the various tasks that need to be performed successfully in an automated way. Most organizations have changed from manual systems to modern information systems, an excellent example of automation. (Venkatesh, 2016).

The firm's growth involves the stages followed in the growth cycle, including the introduction stage, the growth, peak, and decline stages; these stages are also used in introducing information technology to perform various tasks. The capital increases in the growth stage, but in the peak stage, it remains constant. Then, it starts going down in the decline stage, and at this stage of decline, most firms are forced to close down. The expenditure increases as the capital and the output increase simultaneously. Some of the information systems used in modern technology include the business systems that process the data and produce the output (Venkatesh, 2016)

The theory of acceptance and use of technology was earlier demonstrated by other scholars who performed more research work to support their work and shows how small firms start and grow into big firms with more growth in output, capital, and expenditure as a result of the use of advanced technology by the use of computerized systems. The business continues to expand its market by producing more products and increasing labor costs, which are indicators of the firm's growth in the industry. The firm acts as one union to attain the organization's goals by using different processes to achieve the objectives (Gupta, 2008).

The entrepreneurs of the business start with the idea of the business, organize the idea, and put it to work. The business begins, and there is growth in the development of the business idea, which is the main aim of the entrepreneur if successful. The entrepreneur is the inventor of the business idea and development processes and should take the feedback. Introducing an information system affects the organization, but mostly has positive effects (Gupta, 2011).

2.1.3 Theory of Economic Deterrence

The Economic Deterrence Theory is a theory that is put forward to help understand what prevents people from doing something and how this non-action can be deterred against offenders and prevented from occurring in the future (Ehrlich, 2008). Allingham and Sandmo (1972) founded the economic deterrence theory, which is applicable in tax discourses and is pegged on the premise that there are underlying factors that deter the commitment of crime by offenders in a given setting.

Moreover, economic deterrence theory focuses on how countries can exert pressure to influence parties' actions, whether individuals or corporations. In connection to tax, the theory matches the central postulate of rational choice idealism, which states that taxpayers are motivated to make obedient choices that best use their utility (Dwenger et al., 2016). Economic deterrence is a proposition concerning taxation that posits that punitive or persuasive mechanisms can be employed in dealing with tax evasion.

To put this theory in perspective, it denotes that punitive means such as tax audits/investigations to detect tax cheats and punitive penalties for those involved in tax malpractices can deter tax evasion. This theory's intentions form one of the essential approaches of the tax departments to imposing tax compliance through forced methods (Kiow et al., 2017). Presently, there has been a paradigm shift as tax departments are stressing the procedure of quality service as it builds maintainable tax obedience behavior, other than using power and forced means, which has since been found ineffective (Brockman et al., 2016).

Becker propounded the theory of economic deterrence in 1968. The study is on noncompliance behavior using a financial background. Becker proposed a little discussion, which connotes that deterrence, such as the probability of detection, disruption, fines, and punishments, was within the jurisdiction of the state. The theory is relevant to this study in determining the tax audit coverage area and setting out fines and punishments for noncompliance with the tax laws. The theory is anchored on tax audits and investigations. It has been considered the most favored in dealing with tax collection challenges. Tax compliance, generally, has been divided into economic deterrence theory and the more comprehensive behavioral theory. The deterrence theory model is considered necessary as a result of the occurrence of tax evasion. It can be achieved through both punitive and persuasive

approaches. Punitive measures introduced harsher penalties, increasing the probability of being detected through a tax audit.

2.2 Empirical Review

2.2.1 System Automation and Corporate Income Tax Compliance

In China, for instance, Xu and Zhang (2022) sought the potential of blockchain technology on the effectiveness of tax administration in China. The study carried out a literature review to identify the challenges in tax administration in the country and the nature and role of blockchain technology in improving socioeconomic outcomes. The study also carried out a case analysis of the Shenzhen State Tax Bureau, which pioneered using blockchain technology in public administration. The review showed that blockchain technologies could address the information asymmetry challenges in the country by automatically validating chain transactions before executing transactions, enabling real-time connection and comparison of transactions with supply chain inventories, and automatically generating standardized transaction data, thus increasing invoice management.

Olarinde (2021) sought the applicability of ICTs in the administration of stamp duties by the Nigerian Federal Inland Revenue Service. The Technology Acceptance Model (TAM) underpinned the study and collected quantitative data, which was analyzed using the test and the Stats 13 software. This data compares revenue volumes pre- and post-electronic payment system implementation. The findings were presented in frequency graphs. The analysis determined that there has been a significant increase in non-resource revenues collected after the implementation of the automatic payment system. Based on the Technology Acceptance Model (TAM), when taxpayers find automated systems user-friendly, their willingness to comply improves, indicating a positive moderating effect of perception on compliance behavior (Davis, 1989). This study focused on one area of financial management automation, while the current study explored automation of the whole revenue system, including budgeting and administration adoption.

Kirimi (2021) studied the impact of revenue collection system automation on the Meru County government's service delivery. Specific goals were to determine the effect of online processing, receipt, payment, and response on the county's realization of its main objectives. The research design used was a descriptive survey, and managers formed the unit of analysis. These were selected using stratified proportionate random sampling. The data was analyzed using Pearson's correlation analysis, and findings revealed that automation of revenue collection processes significantly enhances the county's performance by saving filing time and increasing efficiency in cash management, declaration, and payment of tax due. Automatic receipting promotes the correctness of reported content, increases filing legitimacy, and reduces instances of abusive phishing. Further, revenue automation minimizes tax avoidance, tax evasion, and revenue leakages in county governments.

2.2.2 Tax Audit as a Moderator

Tax audits regarding tax compliance have been discussed in various ways. According to Palil and Mustapha (2021), some studies claimed that audits positively impact tax evasion (Jackson & Jaouen, 2019; Shanmugam, 2021; Dubin, 2019). These findings suggest that tax audits play an essential role in self-assessment systems, and their central role is to increase voluntary compliance. Palil and Mustapha (2011) argued that audit rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, reporting all income, and claiming the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to underreport their actual income and claim false deductions.

According to Niu (2020), historical population data of a New York State economic sector were used in this study instead of experimental data or randomly selected sample data, which are often used in the literature. The results of Ordinary Least Squares (OLS) and Time Series Cross-Section (TSCS) autoregressive modeling methods. The results of both methods suggest that a firm would report a higher sales growth rate after an audit.

In Nigeria, Olaoye et al. (2019) examined the impact of tax audits on tax productivity in Lagos State. The study viewed tax audits in three categories: desk auditing, back-duty audit, and field auditing. Logistic regression techniques were used, and the result shows that tax auditing significantly affects tax productivity and law enforcement in Lagos State. The study concluded that tax enforcement might be enhanced among taxpayers; tax audits should be performed routinely.

In a related study by Olaoye and Ekundayo (2019), low tax compliance and remittance limit government revenue generation. In this regard, they investigated the effects of tax audits on tax compliance and remittances of tax revenue in Ekiti State, Nigeria. The outcome of their study shows that a significant positive relationship exists between tax audit, tax compliance, and tax remittances among taxpayers in Ekiti State. The study also found that

audit history, including frequent audits, audit results, and the small business owner's type of review, substantially impacts record-keeping and tax compliance.

Badara (2019) in Nigeria did a study on the effect of tax audits on tax compliance in Nigeria: A Study of Bauchi State Board of Internal Revenue. The questionnaire was distributed to forty-eight (48) respondents using descriptive statistics. The result shows that the Federal Inland Revenue Services (FIRS) employed tax audits to achieve target revenue, which reduces tax evasion problems, and that taxpayers only sometimes cooperate with tax audit personnel during the exercise. There are several theoretical and empirical studies on tax audits and tax compliance. These studies provide mixed reactions to the relationship between tax audit and tax compliance.

Mirera (2019) studied the effects of tax audits on tax revenue in the Kenya Revenue Authority (Nairobi West Tax Station). The study used a descriptive approach and secondary data for the period 2008 to 2012 from the Kenya Revenue Authority audit reports. The data evaluation was done, and the results showed an increase in the tax paid after the audit, especially for random tax audits, cut-off tax audits, and conditional tax audits. The tax revenue analysis from a specific firm, a few years before and two years after the audit, depicted an increase in tax collected after the audit. The study pointed out that there is a direct relationship between tax audits and tax revenue collected

2.3 Conceptual Framework

A conceptual framework is a visual representation in research that helps to illustrate the expected relationship between cause and effect (Creswell, 2017). Different variables and the assumed relationships between those variables are included in the model and reflect the expectations. The conceptual framework comprises the ideas used to define research and evaluate data. (Mensah et al., 2020). In this study, as per reference to figure 1.0, the independent variable, which is system automation, was measured by online payment and online filing, and was further moderated by Tax audits, which were measured by desk and field audits. In contrast, the dependent variable was corporate income tax compliance and was measured by Returns filed and Tax payments.

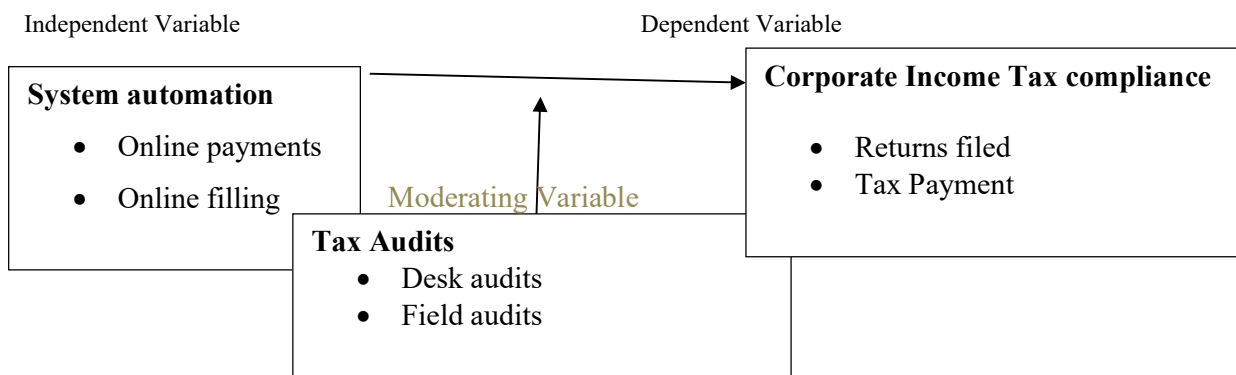


Figure 1.0: Conceptual Framework

3. Methodology

According to Kombo and Tromp (2009), a research design holds all elements in a research project together. It is used to structure the research to show how all the significant parts of the research project will work together. This study employed an explanatory research design. Williamson (2015) defines a research population as a well-defined pool of individuals or entities sharing parallel attributes, thus possessing a common attribute or feature. For this study, according to KRA (2024) data, the target population was five hundred and seventy-six (576) manufacturing firms registered for Corporate Income Tax and zoned within the East of Nairobi Tax District, Kenya. The Sample size was 236 respondents. Out of the 236 targeted respondents, 172 participated and submitted their survey responses, a 72.9% representation. The non-responsiveness could be due to dawdling survey interest or insufficient time.

Table 1.0: Response Rate Analysis

	Respondents	(%)
Response	172	72.9%
Non-Response	64	27.1%
Total	236	

Source: Author (2025)

3.1 Reliability Analysis

According to McMillan and Schumacher (2010), the reliability of research instruments means a questionnaire's repeatability, stability, or internal consistency. The reliability analysis used Cronbach's alpha, usually the mean of all possible split-half coefficients. Bryman (2008) suggests that where Cronbach's alpha is used for reliability tests, alpha values for items included in a study should not be lower than 0.7; above 0.8 is considered good, while above 0.9 reflects exceptional internal consistency. Cronbach's Alpha value of 0.7 was used as the benchmark for this study. The construct corporate income tax compliance demonstrated high reliability with a Cronbach's alpha of 0.881, suggesting strong coherence among the items. System automation exhibited a Cronbach's alpha of 0.727, indicating acceptable internal consistency. The tax audit showed a reliability coefficient of 0.870, signifying strong internal consistency for this construct. The results confirm the reliability of each construct, affirming that the items within each scale are suitably consistent in measuring the underlying latent constructs.

Table 2.0 Reliability Analysis

	Cronbach's Alpha	No. of Items	Conclusion
Corporate income tax compliance	0.881	5	Acceptable
system automation	0.727	4	Acceptable
tax audit	0.870	5	Acceptable

(Source: Survey Data 2025)

4. Results and Discussions

4.1 Descriptive Statistics

4.1.1 System automation

Table 3.0 shows that for the statement Online remittance of taxes is easy to track, and it's easy to tell when taxes are due, " a mean response of 4.07 (SD = 1.122) was received, indicating that respondents generally agreed with this statement. The standard deviation of 1.122 suggests moderate variability in responses. The skewness of -0.969 indicates a distribution slightly skewed to the left, implying that more respondents rated this item on the higher end of the scale. At the same time, the kurtosis of -0.030 suggests a near-normal, relatively flat distribution.

The statement that the company can pay Corporate Income Tax through mobile at any time of the day had a mean response of 4.01 (SD = 1.057), indicating agreement among respondents. The standard deviation of 1.057 reflects a moderate level of variability in responses. The skewness of -0.583 suggests a slight left skew, indicating that more respondents tended to agree, and the kurtosis of -1.006 implies a flatter-than-normal distribution, suggesting a lower concentration of responses around the mean.

For the statement Our company management is aware of KRA's online Corporate Income Tax return filing and payment systems, the mean response was 3.93 (SD = 1.173), indicating that respondents were close to agreeing with the statement. However, there was more variability in responses (SD = 1.173). The skewness of -0.590 indicates a slight left skew, with more respondents leaning towards agreement, while the kurtosis of -1.041 suggests a flatter distribution, indicating a broader spread of responses across the scale.

Finally, the statement Retrieval of tax records from iTax is vital since it enables our company to track tax returns and contra payments at low costs, receiving a mean response of 4.00 (SD = 1.092), showing that respondents generally agreed. The standard deviation of 1.092 suggests moderate variability. The skewness of -0.763 indicates a left skew, suggesting that higher ratings were more common, and the kurtosis of -0.449 points to a relatively flat distribution.

In general, the average mean across items was 4.00, indicating that respondents tended to agree with the statements related to system automation in tax processes.

Table 3.0: System automation

	Mean	SD	Skewness	Kurtosis
Online remittance of taxes is easy to track, and it is easy to tell when taxes are due.	4.07	1.122	-.969	-.030
The Company can make payments for Corporate Income Tax through mobile at any time of the day.	4.01	1.057	-.583	-1.006
Our company management is aware of KRA's online Corporate Income Tax return filing and payment systems	3.93	1.173	-.590	-1.041
Retrieval of tax records from iTax is vital since it enables our company to track tax returns and contra payments at low costs.	4.00	1.092	-.763	-.449
Mean	4.00			
N=172				

(Source: Research 2025)

4.1.2 Tax audit

Table 4.9 summarizes the tax audit responses, indicating that for the statement, our firm has been audited in the past by KRA and received a mean response of 4.03 (SD = 1.073). The standard deviation indicated a relatively high variability in responses, suggesting that while some respondents agreed with the statement, others were less certain or disagreed. The skewness of -0.662 suggests a moderately negative skew, indicating that most respondents leaned towards agreeing with the statement. The kurtosis of -0.932 indicated a distribution that is flatter than normal, showing that responses were more spread out.

The statement that we have been audited on claimed expenses for our business in the past received a mean response of 3.90 (SD = 1.071). The standard deviation again reflected a high level of variability in responses. The mean suggests that respondents were generally uncertain about this experience, leaning slightly towards agreeing. The skewness of -0.579 points to a slightly negative distribution, with more respondents indicating agreement. The kurtosis of -1.043 suggests that the distribution was somewhat flat, with fewer extreme responses.

For the statement, Tax audit procedures by KRA to manufacturing firms are friendly and effective, the mean response was 4.02 (SD = 1.040). This indicates a positive perception of KRA's tax audit procedures. The relatively high standard deviation suggests that while many agreed with the statement, there was still considerable variability in responses. The skewness of -0.548 indicates a slight negative skew, with a higher concentration of agreement. The kurtosis of -1.028 reveals that the distribution is flatter than normal, indicating that responses were spread out with fewer extreme values.

The statement, in case of inconsistency in the corporate tax filed, KRA sends officers to conduct field audits of our company, receiving a mean of 3.98 (SD = 1.070). This means it reflects general agreement with the statement, with some level of uncertainty among respondents. The standard deviation suggests moderate variability in responses. The skewness of -0.487 points to a slight negative skew, indicating more responses in the agreement range. The kurtosis of -1.134 shows that the distribution was flatter than normal, with responses more evenly spread.

The statement, KRA requests for the organization's tax records from time to time to verify compliance, had a mean response of 4.04 (SD = 1.059). The mean indicates that respondents generally agreed with the statement. The standard deviation suggests variability, though not excessively high. The skewness of -0.644 points to a moderate negative skew, showing a tendency towards agreement. The kurtosis of -0.921 indicates a flatter distribution than normal, suggesting that responses were more spread out. The average mean for the questionnaire was 3.99, indicating a slight tendency towards agreement with the statements, suggesting that respondents generally believed that KRA audits are prevalent and their procedures are somewhat effective.

Table 4.0: Tax audit

	Mean	SD	Skewness	Kurtosis
Our firm has been audited in the past by KRA	4.03	1.073	-.662	-.932
We have been audited on claimed expenses for our business in the past	3.90	1.071	-.579	-1.043
Tax audit procedures by KRA to manufacturing firms are friendly and effective	4.02	1.040	-.548	-1.028
In case of inconsistency in the corporate tax filed, KRA sends officers to conduct field audits of our company	3.98	1.070	-.487	-1.134
KRA requests for the organization's tax records from time to time to verify compliance	4.04	1.059	-.644	-.921
Mean	3.99			
N=172				

Source: Author (2025)

4.1.3 Corporate income tax compliance

Table 3.2 abridges the corporate income tax compliance responses, indicating that for the statement "our company is registered for corporate income tax obligation", received a mean response of 3.96 (SD = 1.083). The standard deviation indicates a moderate level of variability in the responses. The mean suggests that respondents generally agreed with this statement. The skewness of -0.672 suggests a slight leftward skew, indicating that more respondents chose responses in the higher range. The kurtosis of -0.647 suggests a slightly flatter distribution than normal, indicating a mild departure from a normal distribution.

For the statement "Our company always files corporate income tax returns and pays as stipulated by the law," the mean response was 4.04 (SD = 1.062). This low standard deviation indicates that the responses were relatively consistent. The mean value shows that respondents agreed with the statement. The skewness of -0.646 suggests a slight leftward skew, and the kurtosis of -0.954 suggests a moderately flatter distribution than normal, again showing a mild departure from a normal distribution.

For the statement, "our firm returns and pays corporate income tax on/by the due date," with a mean of 3.97 (SD = 1.149). The standard deviation suggests a moderate level of variability in the responses. The mean indicates that respondents agreed with this statement. The skewness of -0.600 suggests a mild leftward skew, while the kurtosis of -0.943 indicates a flatter distribution than normal, similar to the previous items.

For the statement that "our company declares and files accurate corporate income tax returns," the mean was 4.05 (SD = 1.053). The standard deviation indicates relatively low variability in the responses, and the mean suggests that respondents agreed with the statement. The skewness of -0.732 suggests a slight leftward skew, and the kurtosis of -0.638 shows a relatively flat distribution, though still within a normal range.

The statement that "the tax system motivates us to voluntarily comply with the corporate income tax obligation since it's simple and easy" received a mean of 4.08 (SD = 1.026). The relatively low standard deviation suggests little variability in the responses, and the mean indicates that respondents agreed with the statement. The skewness of -0.780 suggests a moderate leftward skew, while the kurtosis of -0.393 indicates a flatter distribution, though less pronounced than the previous items. In summary, the overall mean for the corporate income tax items was 4.02, indicating general agreement with the statements.

Table 5.0: Corporate income tax

	Mean	SD	Skewness	Kurtosis
Our company is registered for corporate income tax obligations	3.96	1.083	-.672	-.647
Our company always files corporate income tax returns and pays as stipulated by the law	4.04	1.062	-.646	-.954
Our firm returns and pays corporate income tax on/by the due date	3.97	1.149	-.600	-.943
Our company declares and files accurate corporate income tax returns	4.05	1.053	-.732	-.638
The tax system motivates us to voluntarily comply with the corporate income tax obligation since it's simple and easy.	4.08	1.026	-.780	-.393
Mean	4.02			
N=172				

Source: Author (2025)

4.2 Correlation Analysis

Table 4.17 showed that there was a positive correlation between corporate income tax compliance and system automation, with a correlation of 42.7% and a significance level of $p=0.005$. This suggests that higher levels of system automation are associated with increased compliance in corporate income tax. Tax audit was positively correlated with corporate income tax compliance, with a correlation of 52.7% and $p=0.012$, indicating that more frequent or thorough tax audits are associated with higher corporate income tax compliance.

Table 6.0 Correlation Statistics

		Corporate income tax compliance	system automation	tax audit
Corporate income tax compliance	Pearson Correlation	1		
	Sig.			
system automation	Pearson Correlation	0.427*	1	
	Sig.	0.005		
tax audit	Pearson Correlation	0.527*	0.188*	1
	Sig.	0.012	0.013	
	N	172		

**** Correlation is Significant at the 0.05 Level (2-tailed)**

4.3 Regression Analysis without Moderator

The model summary was conducted to determine the effects of system automation, taxpayer awareness, and taxpayer perception on corporate income tax compliance among manufacturing firms in the East of Nairobi Tax District, Kenya. The analysis indicated that system automation was associated with a significant positive effect on corporate income tax compliance, with a standardized coefficient of $\beta = 0.321$, $p = 0.002$. Showing that a unit change in system automation caused a 32.1% increase in corporate income tax compliance. This suggests that an increase in system automation leads to a corresponding increase in tax compliance among the manufacturing companies.

Table 7.0: Regression coefficients without moderator

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	β	Std. Error	Beta		
(Constant)	1.035	0.333		3.108	0.002
system automation	0.334	0.102	0.321	3.147	0.002

a. Dependent Variable: corporate income tax compliance

4.4 Hierarchical regression analysis

The regression analysis was to establish the moderating effect of tax audit on the relationship between system automation, taxpayer awareness, and taxpayer perception, and corporate income tax compliance among manufacturing firms in the East of Nairobi Tax District, Kenya.

In hierarchical regression analysis, testing for moderation involves assessing whether the interaction between a predictor and a moderator significantly explains variance in the dependent variable (Hayes, 2018). Several conditions were met for the tax audit to be considered a moderator in this analysis. The first condition was to have a significant relationship between the independent variable (system automation) and the dependent variable (corporate income tax compliance). Secondly, tax audits interact with these independent variables in a way that alters the strength or direction of their relationships with corporate income tax compliance. Specifically, the interaction terms between tax audit and the independent variables must be statistically significant ($p < 0.05$), indicating that the effect of system automation on corporate income tax compliance depends on the level of tax audit (Baron & Kenny, 1986). Thirdly, the moderator should ideally meet the assumption of no multicollinearity with the independent variables, as high collinearity could obscure the true nature of the moderation effect (Frazier, Tix, & Barron, 2004).

Table 8.0 showed that system automation was associated with a significant positive effect on corporate income tax compliance, with a standardized coefficient of $\beta = 0.133$, $p = 0.042$. Showing that a unit change in system automation caused a 0.133 increase in corporate income tax compliance. This suggests that an increase in system automation led to a significant increase in tax compliance among corporations. Further tax audit had a positive and significant impact on corporate income tax compliance, with a standardized beta coefficient of $\beta = 0.777$, $p = 0.009$. This insinuates that a unit change in tax audit resulted in a 0.777 increase in corporate income tax compliance. This implies that multiple internal and external tax audits have the potential to increase corporate income tax compliance among manufacturing firms.

The study further found that a unit change in the interaction between system automation and tax audit caused a significant increase in corporate income tax compliance, $\beta = 0.731$, $p = 0.006$. This implied that tax audits significantly moderate the relationship between system automation and corporate income tax compliance.

Table 8.0: Summary Regression Analysis

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
System Automation	0.321* [0.102] (0.002)	0.291* [0.058] (0.000)	0.129* [0.063] (0.041)	0.118* [0.045] (0.003)	0.133* [0.065] (0.042)
Tax Audit		0.327* [0.065] (0.000)	0.205* [0.091] (0.021)	0.594* [0.260] (0.024)	0.777* [0.298] (0.009)
System Automation *			0.259* [0.059] (0.008)	0.720* [0.329] (0.011)	0.731* [0.259] (0.006)
Tax Audit					
F Statistic	34.909	36.434	31.644	28.056	24.385
R	0.620	0.682	0.698	0.711	0.714
R Square	0.384	0.466	0.488	0.505	0.510
R Square Change	0.384	0.082	0.022	0.018	0.005
Sig F Change	0.000	0.000	0.008	0.016	0.021

a. Dependent Variable: corporate income tax compliance

Key; [] = standard error, () =p-value* significant at 0.05

4.5 Discussion of Findings

The study sought to determine the moderating effect of Tax Audit on selected determinants (system automation) on corporate income tax compliance among manufacturing firms in the East of Nairobi Tax District, Kenya. The study found that there was a positive and significant correlation between corporate income tax compliance and system automation, with a correlation of 42.7% and p-value =0.005. This suggests that higher levels of system automation are associated with increased compliance with the Corporate Income Tax. The hierarchical regression showed that system automation was associated with a significant and positive effect on Corporate Income Tax compliance, with a standardized coefficient of $\beta = 0.133$, $p = 0.042$, suggesting that an increase in the automation of tax systems led to a significant increase in tax compliance among corporations. The study findings concurred with Olarinde (2021), who found that automation in tax collection significantly improves compliance in Nigeria. The findings demonstrated that implementing electronic payment systems increased revenue and reduced instances of non-compliance, supporting the conclusion that automation enhances tax compliance. The study similarly agreed with Kirimi (2021), who established that automation in revenue collection positively impacted tax compliance in Meru County, Kenya. Automation led to improved filing accuracy, reduced reporting errors, and minimized revenue leakages, suggesting that system automation has beneficial effects on compliance similar to those observed in this study. The study found that tax audits significantly moderated the relationship between system automation and system automation and corporate income tax compliance, $\beta = 0.731$, $p = 0.006$, indicating that tax audits improved the positive effects of automation on corporate income tax among manufacturing firms in the East of Nairobi Tax District, Kenya. The findings concurred with Olaoye et al. (2019), whose findings support the current findings by demonstrating a positive relationship between tax audits and compliance among taxpayers in Lagos, Nigeria. The study highlighted that regular audits increased compliance and tax productivity, aligning with the current finding that tax audits reinforce compliance.

5.0 Conclusion

The study results underscore the beneficial role of system automation in enhancing tax compliance, as automated processes improve efficiency, reduce errors, and streamline tax reporting procedures for corporations. The study's objective was to explore the moderating role of tax audits on the relationship between system automation and corporate income tax compliance, which gave findings suggesting that tax audits play a crucial role in

reinforcing compliance among manufacturing firms. A positive correlation was found between tax audits and corporate income tax compliance, indicating that regular and thorough audits are associated with higher compliance levels. $r=0.527$ and $p=0.012$. Additionally, tax audits significantly moderated the relationship between system automation, $\beta = 0.731$, $p = 0.006$.

6.0 Recommendations

The study's findings offered several policy recommendations for government agencies and policymakers focused on improving corporate income tax compliance among manufacturing firms. First, the positive effect of system automation on compliance recommends that the government of Kenya continue to invest in and promote automated tax systems. By enhancing the availability and functionality of automated platforms, the Kenya Revenue Authority (KRA) could simplify tax processes, reduce reporting errors, and improve overall compliance. Tax audits were shown to strengthen corporate income tax compliance, and the government could consider implementing a more robust audit framework. Regular, transparent, and thorough audits could serve as both a deterrent to non-compliance and an educational tool, reinforcing the benefits of voluntary adherence to corporate income tax obligations.

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