



Effects of Tax Practices on Performance of Micro Small and Medium-Size Enterprises in Kisumu City, Kenya

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Abstract: Micro, Small and Medium-sized Enterprises (MSMEs) play a significant role in Kenya's economic development through employment creation, income generation, and contribution to national and county revenues. Despite this vital role, their performance is constantly constrained by various challenges, including taxation. This study examined the effects of tax practices on the performance of MSMEs in Kisumu City, Kenya, with emphasis on tax rates, tax management knowledge, and tax types. The study used data collected from 309 respondents by the use of questionnaires, this represented 81% response rate. Data analysis was done using descriptive, correlation analysis and regression analysis. The main measures for business performance were increase in profitability, business expansion, increase in the number of employees. The regression analysis results showed that tax knowledge had the greatest influence on performance of MSMEs with a Beta of .325 and p-value of .000 followed by tax types with a Beta of .314 and p-value of .000. Tax rate had a negative and the least significant impact on performance with a Beta of -.085 and a p-value of .245. The study recommended implementation of training campaigns, adoption of moderate and stable tax rates and simplification of tax administration procedures.

Keywords: Tax Rates; Tax Knowledge; Tax Types; Business performance

1. Introduction

Medium, small and micro enterprises in Kenya make up 98% of the businesses both registered and non-registered (Elizabeth, 2022). Over the years, these small enterprises have been considered a major employment platform and thus a key player in eradication of poverty (World Bank 2015). They consume 80% of the workforce in the country and contribute 45% of the country's GDP. In Africa, MSMEs are mostly privately owned, and they are always in conflict with the government on different policies particularly with matters of taxation.

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All nations around the world strive to attain a level of self-reliance and a degree of welfare to their citizens. To do this, nations seek to pool resources from the residents and use the same in giving the citizens this desired level of economic and social well-being. Nations do this through taxing the individuals and bodies corporate. Taxation is meant to spur performance by providing the necessary infrastructure that in turn create an enabling environment for business start-ups and performance. Taxation and the effects thereof can be viewed in different ways as this study investigated.

Tax knowledge / awareness among the operators of MSMEs is a fundamental aspect of tax that determines the efficiency of operation and enables proper decision making. This determines the level of innovation and cashflow management which translates to the performance of the business. (Mangotin et al., 2024). Tax knowledge in terms of the understanding of the technological changes enhances proper tax governance which impacts productivity, and this determines the performance and performance of businesses.

In addition to tax knowledge, tax rate also affects the performance of MSMEs. The performance and performance of MSMEs depends on the cost of operation which is largely contributed to by the taxes levied on them. According to study conducted in Nairobi Kenya on Impact of Taxation on the Cost of Business Operations among Small and Medium Enterprises in Nairobi County, Kenya, high tax rates translate to high cost of running business which impact performance negatively. (Janesther, 2021). Tax incentives and tax cuts can have been found to have positive effects on the productivity of enterprises. Tax incentives improve productivity among MSMEs (Zhao et al., 2025).

Tax types also play an important role in contributing to the cost of running a business. There are several levies and taxes that are charged on businesses in Kenya today both by the national and the county governments. Other the taxes charged on the business enterprises; individual income taxes determine the available disposable income which can be invested in start-ups as well as expansion of existing MSMEs. A tax cut on individual income tax rates would spur performance to a greater extent as compared to corporate income tax cuts. (Umenweke, 2024). Corporate tax cuts translate to short-term income performance and investment in research and development but hampers long-term performance.

This study was pegged on the Neo-classical theory of taxation and the Laffer curve. This theory stipulates that performance in the long run for business enterprises is a factor of capital accumulation, labor and technology. Taxation can contribute to adequate capital accumulation for further investment and performance as well as undermine capital accumulation. For MSMEs to have a chance of start-up and performance, taxes levied on individual as well as business enterprises should not eat up into the capital. High tax rates consume a larger chunk of the investible surplus in case of individual income taxes and performance and expansion income in case of MSMEs. This affects start-ups and expansion and performance. For sustainable performance, well-structured tax system that allows for innovation and capital accumulation is key.

The benefit of taxation to a government or country diminishes when taxes are too high. High taxation encourages tax evasion and cuts back in reinvestment and expansion of businesses. Reasonable tax rate on the other hand encourages investment activities, promotes expansion as well as adherence to tax policies which in turn is beneficial to the government.

Performance of MSMEs in Kenya is largely affected by the rates of taxes levied on them. High tax rates eat into the revenues generated by the enterprises, and this deals a blow to their ability to expand or even

continue with their businesses due to very diminished margins. This is according to the study conducted in Voi on taxation and the performance of small and medium enterprises in Voi sub county, Kenya (Migwi, 2018). The number of taxes that the MSMEs in Kenya are required to pay have increased. Some of the enterprises, however, are aware of these taxes and make regular remittance. In a study conducted in Malindi Kenya on effect of multiple taxation on the performance of SMEs in Malindi using a cross-sectional research design, it was concluded that a reduction in the tax rates by a unit significantly improves the performance of the enterprise, tax obligation and regulation affects MSMEs negatively in Malindi. (Abigaël, 2020). Additionally, tax rates have been found to be a hinderance to tax compliance in Kisumu town in a study aimed at determining the factors that influence tax compliance in Kisumu town. (Ochiel, 2019). This study attempted to determine the effects of tax practices on the performance of MSMEs in Kenya, with a focus in Kisumu City.

2. Related Studies

A study by Jane Esther (2021) assessing the Impact of Taxation on the Cost of Business Operations among Small and Medium Enterprises in Nairobi County, Kenya using both descriptive and exploration design and data analyzed using descriptive and inferential statistics, found that it was concluded that high tax rates result to very high cost of operating the MSMEs. Considering that these enterprises solely rely on their revenues for performance, increased cost of operation resulting from high taxation hinders their performance and development. This study did not however consider other aspects of tax that might have an impact on performance. Migwi (2018) also assessed the effect of taxation on performance of SMEs in Voi. The study applied stratified sampling and it concluded that tax rates hindered performance of SMEs in the region. [Bhalla](#) et al. (2022) while assessing effect of tax knowledge and technological shift in tax system on business performance using Partial Least Square Structure Equation Modeling in India, concluded that knowledge in taxation enhanced operational efficiency and protect enterprises for falling prey to fraudulent and extortionary practices which would put their finances at risk. This study only focused on the compliance side but did not assess the degree of effect that knowledge had on the performance of businesses. Mangoting et al. (2024) assessed the how tax knowledge mediates business performance in Indonesia using survey method found that with increased knowledge of taxation, enterprise operators gain more insight into the regulations and interpretation of tax policies, and this helps improve the efficiency of operation and hence cash flow management by taking advantage of existing tax incentives and subsidies as well as adopting appropriate regulations for tax optimization. A study by Daniel et al. (2020) investigating Effect of tax incentives on the performance of small and medium-sized enterprises (SMEs) in Rwanda: A case study of SMEs in Nyarugenge District using descriptive statistics and regression analysis revealed that there is a strong positive relationship between tax incentives and performance of SMEs in Rwanda, taking VAT refund as the most common incentive in the country. This study focused mainly on the incentives in relation to the various taxes; it ignored the impact that these taxes by themselves had on the performance of business. This study will be very key in shaping the understanding of the impact of the three tax system dimensions on performance of MSMEs.

3. Statement of the Problem

As much as it is necessary to impose taxes on the citizens and businesses to achieve economic development and civilization, there is a negative correlation between taxes and business performance and sustainability. Taxation makes business very difficult for the MSMEs in not only managing to pay the numerous tax types imposed on them by the government but also dealing with the complexity of dealing with the tax administration procedures and processes. Taxes are imposed at different levels in Kenya, both the national government and county with very minimal education.

While there are theories of taxation that explain the correlation between taxation and performance of business enterprises, there is no specific theory that explains the effects of taxation in terms of tax rates, tax knowledge and tax types on the performance of MSMEs collectively. Additionally, while there are several studies that have been conducted locally and internationally, on the effects of taxation on performance of businesses, there are very limited studies that explains these effects in terms of tax rate, tax knowledge and tax types on the performance of MSMEs in Kisumu City, Kenya.

This study explored this study gap by examining the effects of tax practices on the performance of MSMEs in Kisumu city.

4. Conceptual Framework

This study relied on the Neo-classical taxation theory (Mutt et al., 1776). This theory postulates that taxes should be as small as possible and tax exemptions should be extended to corporations. Higher tax burdens would mean reduced economic activity and this can plunge a nation into economic recession. Increase in tax burden increases a state's revenue only up to some point beyond which the entrepreneurs become demotivated, tax evasion becomes rampant, production is reduced, and illegal enterprises start to spring up. The study had three independent variables; Tax rates were examined as an independent variable through the assessment of the stability of the rates of taxes, the burden of these rates and the overall impact of the rates on MSMEs. The second independent variable was Tax knowledge. This was studied in terms of awareness of the existing tax obligations and the requirements, the applications of various tax regulations and lastly by examining the level of understanding of the compliance requirements and policies. The third independent variable was tax types. This was examined through the assessment of different categories of taxes as either direct or indirect taxes. Direct taxes included VAT, licensing charges, business permits, corporate income taxes and turnover taxes. Indirect taxes will include the payroll taxes. The performance of MSMEs which was the dependent variable in the study was examined in terms of financial performance such as profitability, revenue performance and investments as well as non-financial performance which will entail number of employees, sustainability and general competitiveness.

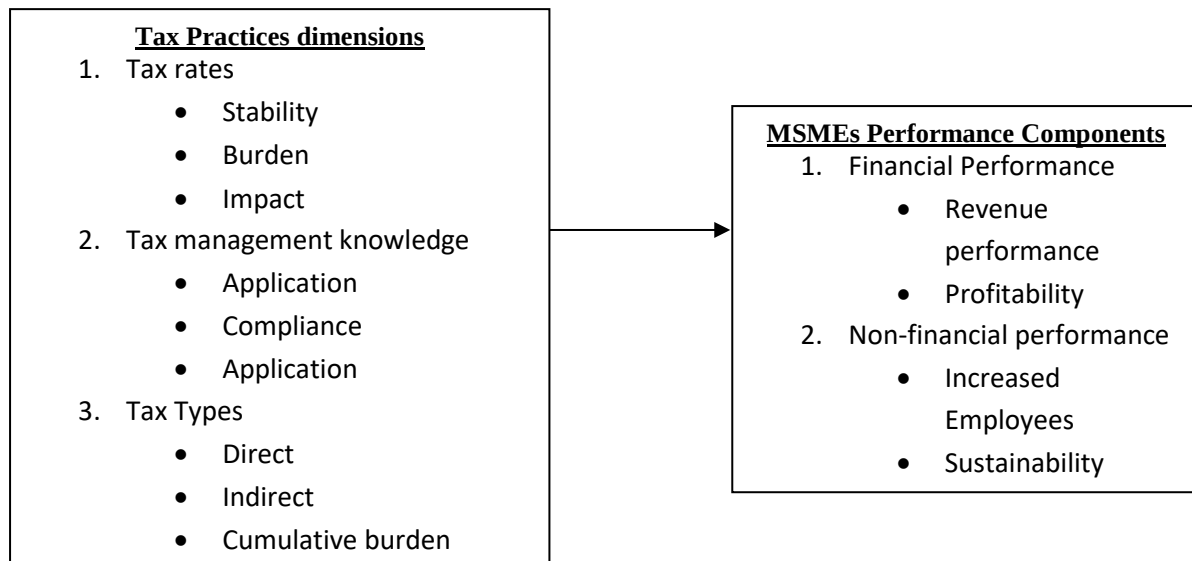


Figure 1. Conceptual Framework

5. Methodology

5.1. Study Area

The study was conducted in Kisumu City, Kenya. It targeted the owners/operators of the Micro, small and medium-sized enterprises. This city is located in western region of Kenya and is the only city in the region and therefore the main economic and administrative city in the region. It is the county headquarters for Kisumu County, being made up of two sub-counties among the sub-counties of the county. It borders counties like Kakamega, Homabay, Vihiga, Kericho and Siaya.

5.2. Research Design

This study adopted correlation research design. The aim was to establish the statistical relationship between tax practices and performance of MSMEs. Correlation design helped to establish this relationship by identifying patterns of association and proved insight on how one variable related or predicted the other. This study used correlation method as well as descriptive designs to describes phenomena as well as to point out to the direction and magnitude/strength of a relationship (Aamir, 2015). Several factors affect the performance of MSMEs in Kenya (Bramuel, 2013), narrowing down to tax practices required that a relationship is established statistically for a better understanding of this specific factor.

5.3. Target Population

According to the Kenya National Bureau of Statistics 2016, there are 7.9 million MSMEs in Kenya. 5.8% of which are found in western Kenya (Nyanza and Western) There are 40199 registered MSMEs in Kisumu County, (KNBS, 2016). Kisumu City is made up of majorly three sub-counties, that is

Kisumu Central, and Kisumu East. The total number of registered MSMEs in these sub-counties was estimated to be 25000 (KNBS, 2024).

Table 1. Distribution of Target Population

Subcounty	Estimated active MSMEs	Commercial area
Kisumu Central	19000	Milimani, Kondele, Migosi, Lolwe, Shauri Moyo, Obunga CBD
Kisumu East	6000	Manyatta, Nyalenda, Kibuye, Nyamasaria
Total	25000	

5.4. Sampling Design

The study adopted a stratified random sampling design. The target population being large and, systematic random sampling method was applied to identify the potential respondents in the study.

5.4.1. Sample Size

To arrive at the sample size Krejcie and Morgan formula was applied. This formula was adopted for its mathematical precision and higher confidence interval. Additionally, considering the finite nature of the population, this formula as opposed to Yamane's formula, provided a more rigorous sample and reduces over estimation of the sample size as would be the case with Yamanes's formula. Considering the population size which is below 100000, the use of Yamane's formula would give a sample size of 394 which is beyond 384 and this contradicts the finite population correction factor. (Krejcie & Morgan, 1970).

$$s = \frac{\chi^2 \cdot N \cdot P(1 - P)}{d^2 \cdot (N - 1) + \chi^2 \cdot P(1 - P)}$$

in which: S - required sample size, X^2 - the table value of chi-square for 1 degree of freedom (3.841), N - total population size, P- population proportion (0.50), D - margin of error at 5% expressed as 0.05

Procedure: $S = \frac{3.841 \times 25000 \times 0.5(1-0.5)}{0.05^2 \times (25000-1) + 3.841 \times 0.50(1-0.50)}$

$$= \frac{3.841 \times 25000 \times 0.5(1-0.5)}{0.05^2 \times (25000-1) + 3.841 \times 0.50(1-0.50)}$$

$$= \frac{24006.25}{63.45775}$$

$$\approx 378.30$$

This gives us a sample size of 378.

Table 2. Distribution of Sample Population

County	Supermarkets	Eateries	Hardware stores	Clinics	Kiosks
Manyatta & Nyamasaria	10	30	10	10	30
Nyalenda & Dunga	10	35	10	10	30
Kondele & Obunga	10	35	10	10	30
Bandani & K City	15	30	13	10	30
Total	45	130	43	40	120

5.5. Data Collection

The study used questionnaires that were structured in consideration to the research objectives and variables. These were distributed among the select populations. The questionnaires were closed-ended to help collect data with precision. The use of questionnaires was selected for this study to help ensure anonymity and cost efficiency for data collection. A pilot study on 38 respondents was conducted in Homabay town to test the suitability of the data collection instrument (questionnaire) selected for this study; this represents 10% of the target population. This involved respondents of each of the 5 categories of the selected class of respondents. Upon receipt of clearance from the university, data collection commenced. Research permit was sought from the university. Consent was sought from the target respondents by issuing them with the permit to carry out the research. Information relating to the respondents was collected. These will majorly entail their contact information. The respondent's willingness to participate in the study was sought. Non-respondents were contacted separately to seek further information on the reasons for the decline and resolve any issues that could be resolved to change their position. The questionnaires were given to persons in-charge of finance or management of the targeted enterprise. Data collection was done for a period of 4 weeks. The filled questionnaires were collected and safely kept for confidentiality. At the end of the 4 weeks data analysis commenced by sorting the responses.

5.6. Data Analysis

Descriptive analysis was done using SPSS latest version (SPSS 30) in respect to the objectives of the study, that is tax rates, tax knowledge tax types and business performance in terms of mean scores and standard deviations. Correlation analysis techniques for inferential statistics were also done using ordinary least square method (OLS). This helped give the direction and strength of the effect of the variables under test on the dependent variable. The following model was applied:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \text{ Equation 1. Correlation analysis model}$$

Where; Y = Performance of MSMEs, β_0 = Constant value, β_1 = tax rate co-efficient, β_2 = tax types co-efficient, β_3 = tax knowledge co-efficient, X_1 = tax rates, X_2 = tax types, X_3 = tax knowledge.

6. Findings and Discussion

6.1. Demographics and Response Rate

A total of 378 questionnaires were submitted to a diverse group of respondents as per the sample size and sample population. Of the 378 distributed, 309 were successfully filled and collected for analysis. The demographics of the respondents has been categorized into four elements including, years the business has been in operation, the industry within which it operates, the number of employees and the level of education of the owners or operators.

Table 3. Response Rate

Category	Sample size	Returned	Response rate
Supermarkets	45	30	84%
Eateries	130	117	90%

Hard-wares	43	37	86%
Clinics	40	39	97%
Kiosks	120	96	80%
Total	378	309	81%

A total of 309 questionnaires were dully filled by the respondents and submitted for analysis, this translates to a response rate of 81%. Of the various categories including supermarkets, eateries, hardware stores, clinics, and kiosks, the highest response rate was from clinics which returned 39 out of the possible 40, this gave a response rate of 97%. Even though the response rate across all the categories was above 80%, the researcher attributes the very high response rate from clinics to a greater understanding of the study and how this study can impact the future of their operations. A lower response rate was however registered under the category of kiosks, of the 120 distributed questionnaires, 96 were submitted for analysis. Although this is the lowest rate of response among the respondents' categories, this rate is still good considering the target population having many respondents. It shows the willingness of the respondents to share their perspective with the researcher and to participate in the exercise that can potentially shape the future of tax practices.

Table 4. Years of Operation

Years of operation				
Category in years	Frequency	Percent	Valid Percent	Cumulative Percent
Below 1 year	61	19.7	19.7	19.7
2-3 years	114	36.9	36.9	56.6
3-5 years	61	19.7	19.7	76.4
Over 5 years	73	23.6	23.6	100.0
Total	309	100.0	100.0	

Table 5. Industry of Operation

Industry of operation				
Hospitality & Tourism	25	8.1	8.1	8.1
Agriculture	50	16.2	16.2	24.3
Automobiles	24	7.8	7.8	32.0
Telecommunication	21	6.8	6.8	38.8
Entertainment	21	6.8	6.8	45.6
Transport	24	7.8	7.8	53.4
Pharmaceuticals	18	5.8	5.8	59.2
Healthcare	21	6.8	6.8	66.0
Information Technology	23	7.4	7.4	73.5
Wholesale trade	34	11.0	11.0	84.5
Construction	18	5.8	5.8	90.3
Food and beverages	30	9.7	9.7	100.0
Total	309	100.0	100.0	

Source: Author 2026

Table 6. Number of Employees

Number of your employees				
1-9	180	58.3	58.3	58.3
10-49	67	21.7	21.7	79.9
50-249	44	14.2	14.2	94.2
250 and above	18	5.8	5.8	100.0
Total	309	100.0	100.0	

Table 7. Level of Education

What is the highest level of education achieved?				
	Frequency	Percent	Valid Percent	Cumulative Percent
Primary level	18	5.8	5.8	5.8
High school	120	38.8	38.8	44.7
Tertiary level	171	55.3	55.3	100.0
Total	309	100.0	100.0	

The data provided in the table 4 shows respondents were grouped into different categories based on the years they have been in operation. A majority of the respondents fell within 2 to 3 years of operation. This category had 114 respondents making 36.9%. In the next category of 3 to 5 years of operation, this number drops significantly to 61 respondents making 19.7%. This indicates that a significant number of the MSMEs that make it to the third year of operation does not transition to the following year. This is in agreement with the study conducted on Missing link in Kenya's MSME-led economy - MSME Outlook Report which indicated that 60% of MSMEs in Kenya do not survive beyond three years of operation (Safaricom PLC & FSD Kenya, 2024). 61 of the respondents came from the category below 1 year representing 19.7%. This figure compared to the subsequent category implies that there are fewer start-ups amongst the target population. The second largest category is those that have been in operation for over 5 years, they make up 23.6% which represents 73 respondents. Table 5 categorizes the respondents into different industries. A larger chunk of the respondents came from the agricultural industry; these were 50 respondents giving 16.2%. This category was followed closely by wholesale traders with 34 respondents standing at 11%. Telecommunication, healthcare and entertainment each had 21 respondents, each making 6.8% of the respondents. At the lowest category was pharmaceuticals and construction each having 18 respondents at 5.8%. This indicates that most enterprises that require professional licensing and adherence to specific policies provided by specific bodies like the Pharmacy and poisons board for pharmaceuticals and Board of Registration of Architects and Quantity Surveyors and National construction Authority for construction industry are not very common in the city. Table 6 explains the demographics in terms of the number of employees within an enterprise. These have been grouped in 1-9, 10-49, 50-249 and 250 and above. A majority of enterprises in the city employed between 1-9 employees. This category had 180 respondents making 58.3%. This is followed by 67 respondents that employed between 10 and 49 making 21.7%. The number of employees reduced across the board with only 18 respondents employing 250 employees and above covering 5.8%.

6.2. Correlation Analysis

Table 8. Correlation Analysis

		Tax Rates	Tax Knowledge	Tax Types	Business Performance
Tax Rates	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	309			
Tax Knowledge	Pearson Correlation	.632**	1		
	Sig. (2-tailed)	.000			
	N	309	309		
Tax Types	Pearson Correlation	.708**	.655**	1	
	Sig. (2-tailed)	.000	.000		

	N	309	309	309	
Business Performance	Pearson Correlation	.342**	.477**	.467**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	309	309	309	309

Correlation is significant at the 0.01 level (2-tailed)

The Pearson correlation analysis displayed significant positive statistical relationship between the study variables. Tax rates positively correlated with business Performance ($r = .342$, $p < .001$). Similarly, the other independent variable i.e. tax knowledge and tax types also correlated positively with business performance ($r = .477$, $p < .001$ for tax rates and $r = .467$, $p < .001$ for tax types). Additionally, the independent variables were also positively correlated amongst themselves. The correlation coefficients ranged from .632 to .708. The strongest relationship existed between tax rates and tax types ($r = .708$, $p < .001$). Even though the correlations among the independent variables were comparatively strong, consequent multicollinearity diagnostics demonstrated acceptable tolerance and VIF values. This indicated that multicollinearity was not adequately severe to interfere with the regression analysis. Findings in table 8 above propose that theories associating taxation to business outcomes receive **initial empirical support**. The stronger relationship that exists between tax knowledge and tax types demonstrate that performance of business is not determined only by the level of taxation, but may as well be dependent on the understanding of the business owners of tax obligations and the nature of taxes they interact with.

6.3. Regression Analysis

6.3.1. Model Summary

Table 9. Regression Model Summary

Model	R	R Square	Adjusted Square	Std. Error of the Estimate	Durbin-Watson
1	.522 ^a	.272	.265	.868824316710138	1.298

a. Predictors: (Constant), Tax Types, Tax Knowledge, Tax Rates

b. Dependent Variable: Business Performance

The $R = 0.522$ indicating a moderate positive association between the combined predictors i.e. tax rates, tax knowledge and tax types and business performance. Of importance is $R^2 = 0.272$. This means that tax rates, tax knowledge and tax types jointly explain 27.2% of the variation in Business Performance. The remaining 72.8% is attributable to other factors that were not included in this particular model. The Adjusted $R^2 = 0.265$ implies that upon adjusting for the number of predictors in the model, around 26.5% of the alteration in business performance is explained by the predictors. The comparatively small difference between R^2 (0.272) and adjusted R^2 (0.265) is encouraging because the model seems not to be gaining a lot of explanatory power by simply adding predictors.

Table 10. Regression Model ANNOVA Results

ANOVA^a

Model		Sum of Squares	Degree of freedom	Mean Square	F	Sig.
1	Regression	86.126	3	28.709	38.032	.000 ^b
	Residual	230.231	305	.755		
	Total	316.357	308			

a. Dependent Variable: Business Performance

b. Predictors: (Constant), Tax Types, Tax Knowledge, Tax Rates

The ANOVA results in table 10 above shows that the multiple regression model was statistically significant, $F(3, 305) = 38.032$, $p < .001$. This showed that the variables (tax rates, tax knowledge and tax types) together, provide a statistically significant interpretation of variations in business performance. The model demonstrated a sum square of 316.357 which is inclusive of regression sum of 86.126, representing the variations that are explained by the independent variables (tax rates, tax knowledge and tax types) and residual sum square of 230.231 representing not explained by the model. The mean squares which were arrived at by dividing the sum squares by the corresponding degree of freedom were 28.709 for regression and 0.755 for the residual elements. The degree of relationship between the independent and the dependent variables was measured by the F-statistic of 38.032. The value of significance was .000 showing that there existed a strong statistical significance between the dependent and the independent variables and that all the independent variables collectively affect the dependent variable (business performance). These findings were in agreement with earlier studies such as a study by Adegbe, F. et al. (2021) that was investigating the Tax Incentives and Performance of Informal Sector Small and Medium Enterprises in South West, Nigeria. This study showed a high F-statistic of 60.220 and notable p-value of .000.

The ANOVA results demonstrated that the independent variables were key players in shaping the nature of performance in MSMEs. The high F-statistic and low significance value confirms that tax rates, tax knowledge and tax types are interconnected and collectively affect business performance and therefore justifying the regression model.

6.4. Effects of Tax Practices on Performance of MSMEs

Table 11. Regression Model Coefficient Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.062	.250		4.246	.000
	Tax Rates	-.101	.087	-.085	-1.164	.245
	Tax Knowledge	.370	.078	.325	4.767	.000
	Tax Types	.364	.087	.314	4.198	.000

a. Dependent Variable: Business Performance

From this table, the coefficient for the constant is 1.062 with a p-value of .000. This shows that without any changes in the independent variables, the general business performance will be positive as well as significant.

Tax Rates: $B = -.101$, $\beta = -.085$, $t = -1.164$, $p = .245$. For tax rates, the unstandardized coefficient B , which indicates the degree of change in business performance as a result of a unit change in tax rates *ceteris paribus* is $-.101$. The beta value which is the contribution of tax rates to the variance in business performance is $-.085$ with a p -value of $.245$. This indicates that tax rates with the lowest beta value and highest p -value exerted a negative and the least significant impact on business performance. A unit change in tax rates resulted to a negative impact on business performance ($-.101$). Considering that $p = 0.245 > 0.05$, tax rates lack a statistically significant effect on business performance when tax knowledge and tax types are controlled for. This is consistent with the earlier finding that tax rates had a significant bivariate correlation with business Performance ($r = .342$, $p < .001$) but became insignificant in the multiple regression.

Tax Knowledge: $B = .370$, $\beta = .325$, $t = 4.767$, $p < .001$. Tax knowledge ranked the most significant variable, with a standardized coefficient beta value of $.325$ and a p -value of $.000$. This implied that sufficient tax management knowledge significantly improved chances of business performance. Tax knowledge had a contribution of $.370$ to business performance for each unit increase. Tax knowledge therefore has a positive and statistically significant effect on performance of MSMEs.

Tax Types: $B = .364$, $\beta = .314$, $t = 4.198$, $p < .001$. Tax types ranked the second in the degree of significance with a p -value of $.000$ and a beta coefficient of $.314$ even though the difference between $.325$ and $.314$ is quite small and should not be overstated. The contribution of a unit change in tax types was $.364$ on business performance. The study observed that tax types have a positive and significant influence to the performance of MSMEs in the city. In summary, the OLS multiple regression model was statistically significant, $F(3, 305) = 38.032$, $p < .001$, explaining 27.2% of the variation in business performance ($R^2 = .272$; Adjusted $R^2 = .265$). In this analysis, tax Knowledge with a beta of $.325$ and p -value $< .001$ and tax types (with a beta value of $.314$ and p -value $< .001$) had statistically significant positive effects on business performance. In contrast, tax rates showed a negative and statistically insignificant effect on business performance with a beta of $-.085$ and p -value of $.245$. These findings demonstrate that tax knowledge and tax types make significant and independent contributions to performance of MSMEs, while tax rates do not have a significant special impact when the other tax-related factors are controlled for.

These findings are in agreement with earlier researchers such as Bett (2020) while investigating Factors affecting tax compliance by small and medium enterprises: A case study of businesses in Nairobi, concluded that tax knowledge had the highest and positive statistical impact on the business outcomes followed by tax types which had a moderate impact on business performance. The study further observed that tax rates on other hand had a negative and least significant comparative effect on business outcomes.

On the contrary however, some studies such as a study by Nelson et.al. (2025) while investigating the Effect of tax policy on the profitability of small and medium enterprises (SMEs) in Kampala district Uganda, observed that tax rates exhibited a p -value of $.003$ demonstrating a strong negative significance effect on profitability and performance of SMEs.

This research observed that all the three predictors, i.e. tax rates, tax types and tax knowledge affect performance of MSMEs in Kisumu city. Tax knowledge demonstrated the highest positive impact on business performance. This implied that tax knowledge was found to be very essential in spearheading performance of business. Tax types also contributed moderately to business performance while tax rates had the least and negative contribution to performance. This shows that MSMEs should focus much on

enhancing their level of tax management knowledge and skills to help them propel their businesses to greater levels.

This study opted to apply multiple regression analysis to investigate the effects of tax rates, tax types and tax knowledge on the performance of MSMEs in Kisumu city. This technique was found suitable to assess the collective effect of the different variables on a dependent variable as well as provide for the interaction that may exist among these predictors. The model applied was $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$.

Where; Y = Performance of MSMEs, B_0 = Constant value, B_1 = tax rate co-efficient, B_2 = tax types co-efficient, B_3 = tax knowledge co-efficient, X_1 = tax rates, X_2 = tax types.

Substituting the values from the table above:

$$Y = 1.062 + 0.85X_1 + 0.325X_2 + 0.314X_3$$

The beta coefficients represent the possible change in the performance of MSMEs as a result of a unit change in the specific independent variable other factors not included in the model held constant.

7. Conclusion

The research revealed that tax practices significantly impact financial performance of businesses and therefore performance of MSMEs in Kisumu city. Adequate knowledge on tax management practices is key in ensuring smooth operations, avoiding cash crunches that may result from penalties and fines due to noncompliance and effective financial planning both in the short and the long run. MSMEs that invest in acquiring knowledge and skills in tax management can plan their operations and cashflow forecasts well and are likely to achieve performance more easily and faster than those that are lacking in tax administration knowledge. Additionally, a tax system that maintains a moderate number types of taxes at a favorable level is likely to spark enterprise development and performance. Businesses can expand their market reach to across the borders and compete effectively in the external markets and this can directly translate to performance of these enterprises. Taxe like VAT when moderated can provide a financial wiggle room for the MSMEs to invest in business expansion and acquisition of more skilled employees to champion the desired level of performance. It was also concluded that other than the tax knowledge and tax types having a significant impact on performance of MSMEs, and tax rates having negligible impact on the same, these factors are not the sole determinants of performance of these MSMEs. They collectively control only a small portion of the direction of performance, other factors not in the study are still majorly in control of the element of performance among MSMEs. The findings may also have important theoretical implications that guide the understanding of the relationship between taxation and business performance. The statistical significance of the overall regression model demonstrate that taxation factors together contribute to explaining the differences in business performance. However, the differential effects of the specific tax elements show that taxation should not be viewed as a unified framework. Tax knowledge and tax types had statistically significant positive effects on business performance, while on the other hand, tax rates indicated a negative but statistically insignificant impact on business performance. This therefore imply that the effect of taxation on business performance does not only depend on the level of tax rates but also on the nature of taxes applied as well as the ability of businesses operators to understand and manage their tax responsibilities. This provides a different dimension on the traditional view of tax rate as the main element of taxation.

8. Recommendations

As a means of enhancing performance of MSMEs in Kisumu City, the study recommends that the business owners should focus on acquiring knowledge on tax management. This study found that tax knowledge had the strongest impact on performance of MSMEs. It affects planning and financial forecasting as well as the cashflow behavior. It is therefore recommended that MSMEs should focus more on gaining knowledge on tax administration practices to help them in making reliable business decisions which translates to performance.

To the policy makers in matters taxation, the study recommends an implementation of targeted and continuous awareness creation among the owners of MSMEs in the region to help improve their understanding and of the requirements of the tax system. The study further recommends a policy review on the various types of taxes that are imposed on these businesses, to assess their implications on the sustainability MSMEs and make favorable adjustments to allow performance of MSMEs.

The study also recommends that developers of business management modules like the enterprise resource planning systems to incorporate training features that are integrated to the current tax practices and that makes it easy for MSMEs using these systems to understand the current tax obligations and possible effects of noncompliance to these obligations.

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