

ABSTRACT

Micro, small and medium enterprises are the heartbeat of any country's economy, more so in the developing countries where the micro and small enterprises are responsible for employment and the economic growth. Taxation has been identified as a major threat to the growth of small enterprises not only in highly industrialized countries but also in less industrialized countries, Kenya included. Taxation in general increases the costs of operation of running small enterprises. Empirical evidence about studies in Kenya's micro and small enterprises sector shows that they have so far dwelt with effects of taxation in major towns like Nairobi, Thika, Eldoret and Mombasa. However, no studies in particular dwelling on the effects of tax compliance, tax incentives and innovative tax coping systems on performance of MSMEs have been done in Migori County. The purpose objective of the study was to evaluate the effects of taxation specifically the study of tax compliance, tax incentives and tax coping systems on performance of MSMEs in Migori County. Guided by the ability to pay theory of taxation, the study adopted a correlational survey design. Out of the target population of 656 MSMEs in Migori County, sample of 104 was selected using simple random sampling techniques. Both primary and secondary data was used. Validity of the research instrument was established through expert review while the reliability test yielded a Cronbach's Alpha coefficient of between 0.782 and 0.822. The findings revealed that taxation explained 59.8% ($R^2=0.598$) variation in organizational performance. It was further revealed that dimensions of taxation namely: tax compliance ($\beta = 0.033$, $p < 0.05$) and innovative tax mechanism ($\beta = 0.072$, $p < 0.05$) both had significant positive effects on organizational performance while Tax incentives ($\beta = 0.009$, $p > 0.05$) had an insignificant positive effects on organizational performance of MSMEs in Migori County. The study concludes that tax incentives and innovative tax mechanism are both critical antecedents of performance in MSMEs in Migori County. Therefore, the study recommends that the dimensions of the tax compliance and innovative tax mechanism be enhanced to significantly increase the level of MSMEs' performance. Less emphasis should be laid on the innovative tax mechanism as it has insignificant relationship with organizational performance. The study is useful to prospective entrepreneurs, policy makers, tax and regulatory authorities as well as government of Kenya in helping to design tax policies that can efficiently support micro, small and medium enterprise sustainability and development in Kenya.