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Original Research Article

The Effect of Tax Compliance Costs on Financial Performance of Commercial Banks in Western Kenya

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Abstract: The study examines the impact of tax compliance costs on the financial performance of commercial banks in Western Kenya. The study is set against the backdrop of a rapidly changing economic landscape in Kenya, where tax compliance costs have become a significant burden for commercial banks. The researcher reviews the literature on tax compliance costs and financial performance, and highlights the need for a study that examines the impact of tax compliance costs on financial performance in the context of commercial banks in Western Kenya. The study identifies the problem of high tax compliance costs as a significant challenge facing commercial banks in Western Kenya. The researcher notes that high tax compliance costs can lead to reduced financial performance, and highlights the need for a study that examines the impact of tax compliance costs on financial performance. The study reviews the relevant theories, including the Pecking Order Theory, Stakeholder Theory, and Agency Theory, and highlights their relevance to the study. The study uses a mixed-methods approach, combining both qualitative and quantitative methods. The researcher collects data from 180 managers of commercial banks in Western Kenya, and uses descriptive statistics, correlation analysis, and regression analysis to analyze the data. The researcher finds that tax compliance costs have a significant positive impact on financial performance, and highlights the need for commercial banks to manage their tax compliance costs effectively in order to improve their financial performance. The study concludes that tax compliance costs have a significant impact on financial performance of commercial banks in Western Kenya. The researcher recommends that commercial banks should manage their tax compliance costs effectively, and that policymakers should consider policies that reduce tax compliance costs in order to improve financial performance. The study contributes to the existing literature on tax compliance costs and financial performance, and provides insights into the impact of tax compliance costs on financial performance of commercial banks in Western Kenya. The findings of the study have implications for policymakers, regulators, and commercial banks, and highlight the need for effective management of tax compliance costs in order to improve financial performance.

Keywords: Tax Compliance Costs, Financial Performance, Commercial Banks, Western Kenya.

Background of the Study

Taxation and financial performance are two interconnected aspects that play a critical part in the economic scenery (Falcone, 2020). Taxation refers to the levying of taxes on individuals, businesses, and other entities by governments to generate revenue for public expenditure. Financial performance encompasses various indicators and measures that assess the financial health, profitability, and efficiency of an organization (Olufemi *et al.*, 2018). Taxation policies and practices can significantly influence the financial performance of individuals and businesses. The tax burden imposed on businesses affects their profitability, cash flow, and overall financial position. Additionally, tax incentives, deductions, and exemptions provided by governments can influence investment decisions, capital allocation, and operational strategies of companies (Dyreng *et al.*, 2019).

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Many research explorations have been used to investigate the connection between taxes and financial performance. For instance, studies have examined the influence of corporate tax rates on firm profitability and investment decisions. (Stamatopoulos *et al*., 2019) investigated the determinants of the variability in corporate effective tax rates and their impact on financial performance indicators. Tax incentives and policies executed by governments have a substantial impression on the financial performance of specific industries or sectors. Dyreng *et al*., (2019) conducted a study examining the effects of bonus depreciation tax incentives on firm investment decisions. Their research contributes to the understanding of how tax policies can stimulate investment and informs policymakers on the design and implementation of effective tax incentives.

Taxation remains the major source of income for many governments worldwide and is used to fund public services to citizens. In Kenya, various taxes such as Value Added Tax, Income Tax, and Capital Gains Tax are levied by the Kenya Revenue Authority (KRA, 2019). Corporate tax, in particular, is charged on the income of corporations, which are separate legal entities from their owners (Lemein, 2018). The impact of tax compliance costs—such as administrative burdens, costs of record-keeping, and compliance-related expenses—on the financial performance of commercial banks warrants thorough investigation. While existing studies have explored the broader relationship between taxation and firm performance, there is a notable gap concerning how tax compliance costs specifically influence the financial health and profitability of commercial banks, especially within the Kenyan context. This study aims to fill that gap by examining the effect of tax compliance costs on the financial performance of commercial banks in Western Kenya region.

Tax compliance costs can significantly impact the operational efficiency and profitability of commercial banks. These costs include expenses related to tax administration, record-keeping, audits, and the implementation of compliance strategies. High compliance costs may divert resources away from core banking activities, such as lending, investment, and customer service, thereby negatively affecting overall financial performance (Siebeneick & Römmele, 2022). Moreover, excessive compliance costs can lead to increased operational expenses, reducing net income and potentially impairing the bank's ability to invest in growth opportunities. Understanding the magnitude of these costs and their influence on profitability is crucial for developing strategies that optimize tax compliance while maintaining financial stability.

Furthermore, the complexity of tax laws and regulations often exacerbates compliance costs, especially in emerging economies where regulatory frameworks may be frequently amended or lack clarity. For commercial banks, navigating these complexities can lead to increased administrative burdens and risk of penalties for non-compliance (Krause & Sautner, 2023). These legal and regulatory challenges can cause delays in financial reporting, higher consultancy fees, and additional internal controls, all of which contribute to a decline in overall financial performance. Therefore, simplifying tax procedures and enhancing compliance frameworks could potentially reduce costs and improve the banks' financial health.

Recent studies have also highlighted the importance of technology in minimizing tax compliance costs. The adoption of digital tax solutions, automated reporting systems, and e-filing platforms can significantly reduce the time and resources spent on compliance activities (Baker *et al*., 2021). For commercial banks, leveraging such technological innovations can lead to more accurate tax calculations, timely submissions, and lower administrative costs, ultimately enhancing profitability and financial efficiency. As the banking sector continues to evolve with digital transformation, understanding how these technological interventions influence tax compliance costs and, consequently, financial performance, is essential for strategic planning and policy formulation.

The financial impact of tax compliance costs on commercial banks is particularly pronounced in regions with high tax rates and complex regulatory environments. For instance, a recent report by the World Bank (2023) estimates that small and medium-sized enterprises (SMEs), including smaller banks and financial institutions, spend on average 2.5% of their revenue on tax compliance activities in developing countries. Although commercial banks often have more advanced systems, the burden of compliance costs can still reduce profitability by up to 1-3% annually, depending on the regulatory environment (World Bank, 2023). These costs can affect banks' ability to allocate capital efficiently, influencing their capacity to lend and invest, which are vital for economic growth. Thus, reducing compliance costs can directly enhance the financial performance and stability of commercial banks.

Moreover, empirical evidence suggests that countries implementing streamlined tax policies and digital compliance solutions have observed measurable improvements in banking sector performance. For example, Kenya's recent efforts to digitize tax filing processes through the iTax platform have resulted in a 30% reduction in compliance costs for businesses, including banks (KRA, 2022). This digital shift has not only lowered administrative expenses but also improved compliance rates, leading to increased government revenue and more stable financial environments. For banks, such reforms can translate into higher profitability margins and better risk management, as lower compliance costs free up resources for productive activities (Mutua & Wanjala, 2022). These findings underscore the importance of policy reforms aimed at minimizing compliance costs to bolster the financial health of commercial banks.

Statement of the Problem

The rapid growth of the commercial banking sector in Western Kenya has been driven by increased financial demand from both individuals and businesses, alongside infrastructural expansion and regional economic development (Cytonn Investments, 2017). Despite this expansion, banks operating within this region face unique challenges related to tax compliance costs, which may influence their overall financial performance. While national studies have examined the broader impact of taxation on banks in Kenya, there is limited region-specific data on how tax compliance costs such as administrative burdens, legal complexities, and associated expenses affect the profitability, liquidity, and operational efficiency of banks in Western Kenya.

Empirical evidence indicates that high tax compliance costs can divert resources away from core banking activities, reduce profit margins, and inhibit growth, especially in semi-urban and rural regions where administrative infrastructure may be less developed (Krause & Sautner, 2023). For instance, in Kenya, the rising compliance costs due to complex tax regulations and frequent policy changes have been linked to increased operational expenses for banks, which could undermine their financial sustainability (KBA & PwC, 2023). However, most existing research tends to focus on national or urban banking contexts, leaving a significant knowledge gap regarding how these costs specifically impact banks in Western Kenya, where economic activities are often less formalized and compliance challenges may be more pronounced.

Furthermore, the regional disparities in tax policy implementation and enforcement can lead to variations in compliance costs among banks in Western Kenya, influencing their competitiveness and financial outcomes. Despite the sector's importance to regional economic development, there is insufficient understanding of the extent to which tax compliance costs hinder banks' financial performance in this locale. This knowledge gap impairs policymakers' ability to design targeted interventions that reduce compliance burdens and enhance financial stability. Therefore, this study aims to investigate the relationship between tax compliance costs and the financial performance of commercial banks in Western Kenya, providing region-specific insights that can inform more effective tax policies and banking strategies tailored to the unique needs of the area.

Objective of the Study

The objective of this study was to investigate the effect of tax compliance costs on financial performance of commercial banks in western Kenya.

Research Hypothesis

This study was based on the following research hypothesis:

H_01: Tax compliance costs have no statiatically significant effect on financial performance of commercial banks in Western Kenya.

Theoretical Review

This study was anchored on the following theories:

Pecking Order Theory

This theory, proposed by in 1984 (Myers & Majluf, 1984), offers a framework for understanding how organizations prioritize their sources of financing based on their availability and cost. According to this theory, firms have a natural pecking order when it comes to financing, preferring to use internal financing (such as retained earnings) first, then resorting to debt financing, and finally considering equity financing. This philosophy proposes that organizations are driven by the desire to minimize their cost of financing while ensuring sufficient capital to support their operations and meet regulatory requirements.

When examining taxation and financial performance in commercial banks, this theory becomes relevant in analyzing how tax liabilities and incentives influence the banks' financing decisions, capital structure, and overall financial performance. Taxation plays a central role in this decision-making process as it directly affects the after-tax cost of debt and equity financing. Through considering the availability and cost of different financing sources, commercial banks can strategically navigate the tax landscape to optimize their capital structure and financial outcomes.

One strength of this theory is its intuitive nature, as it aligns with the observed behavior of firms prioritizing internal financing before seeking external financing options. Moreover, the theory benefits from empirical support, as several studies have provided indication supporting its predictions. This empirical validation strengthens the theory's validity and enhances its applicability in understanding the financing decisions of commercial banks and other firms.

However, the Pecking Order theory has some weaknesses. One limitation lies in its assumption that firms possess perfect information about the availability and cost of financing options. In reality, firms may face information asymmetry, making it challenging to accurately assess the costs and availability of different financing sources. Additionally, the theory does not clearly reflect the potential benefits and drawbacks of different financing options beyond their cost, such as the impact on ownership dilution or debt covenants. These limitations highlight the need for further research and the consideration of additional factors in analyzing the financing decisions of commercial banks in relation to taxation and financial performance.

Stakeholder Theory

Stakeholder Theory, introduced by Freeman in 1984 (Parmar *et al*., 2010), highlights that governments should deliberate the interests and impacts on various investors, beyond just shareholders, when making decisions. This theory holds that businesses have an obligation to consider the wants, worries, and welfare of stakeholders, including clients, staff members, local communities, and governmental bodies. According to the stakeholder theory, companies can build long-term value and achieve sustainable success by taking into account the opinions and welfares of all stakeholders.

When studying taxation and financial performance of commercial banks, Stakeholder Theory becomes relevant in exploring how tax practices and financial performance affect different stakeholders. Commercial banks have a substantial effect on various stakeholders, including their customers, employees, local communities, and the government. By applying Stakeholder Theory, researchers can analyze how tax strategies and financial performance of banks influence these stakeholders. For example, the study can examine how tax practices impact the affordability and accessibility of banking services for customers, the job security and employee benefits for bank employees, the economic development and social welfare of local communities, and the revenue generation for government entities.

One strength of Stakeholder Theory lies in its comprehensive perspective, as it encourages organizations to consider a wide range of stakeholders and their interests. Organizations can build stronger relationships, enhance their reputation, and create value for society as a whole. Moreover, Stakeholder Theory aligns with the growing recognition of corporate social responsibility and the importance of sustainable business practices.

However, Stakeholder Theory also faces some challenges. One limitation is the potential conflict between different stakeholder interests, as stakeholders may have competing demands and priorities. Balancing these diverse interests can be complex and may require trade-offs. Additionally, determining the relative importance of different stakeholders and their interests can be subjective and context-dependent. These limitations highlight the need for careful consideration and ethical decision-making when applying Stakeholder Theory to the study of taxation and financial performance in commercial banks.

In summary, Stakeholder Theory, introduced by Freeman in 1984, emphasizes the consideration of various stakeholders' interests and impacts when making organizational decisions. When studying taxation and financial performance of commercial banks, this theory becomes relevant in exploring how tax practices and financial performance affect stakeholders such as customers, employees, local communities, and government entities. While the theory benefits from its comprehensive perspective and alignment with corporate social responsibility, it also faces challenges related to managing competing stakeholder interests. Careful consideration and ethical decision-making are essential when applying Stakeholder Theory to comprehend the relationship between taxation, financial performance, and stakeholders in commercial banks.

Agency Theory

Agency theory, which was advanced by Michael C. Jensen and William H. Meckling in 1976 (Jensen & Meckling, 1976), is a widely recognized economic theory that focuses on the intricate relationship between principals (shareholders) and agents (managers) within organizations. Its primary objective is to enlighten on how conflicts of interest between these two groups can significantly impact the overall performance of an organization. When applied to commercial banks, agency theory provides a valuable framework for examining the influence of taxation on the alignment of interests between bank management and shareholders.

One cannot stress the significance this theory in the investigation of taxation and financial performance in commercial banks. As representatives of the shareholders, managers may put their own interests ahead of the company's objectives, which could result in poor decision-making and possible agency issues. Through the use of agency theory, scholars and interested parties can learn more about how taxes affect managers' actions and choices, which in turn affects the firms' bottom line.

It's crucial to recognize agency theory's shortcomings, though. The theory is predicated on oversimplifying assumptions, like the notion that agents act rationally and in their own best interests. These assumptions may not adequately account for the complexity of human motivations and decision-making processes. Furthermore, the theory may ignore the interests of other stakeholders and the larger organizational framework in which commercial banks function by concentrating primarily on the interaction between principals and agents. Additionally, just as agency connections and the efficacy of governance processes can vary among nations and industries, so too can the applicability of agency theory vary across diverse cultural, legal, and institutional settings. Notwithstanding these drawbacks, agency theory offers insightful information about how taxes and financial performance in commercial banks interact, helping scholars, decision-makers, and bank management.

Empirical Reviews

The study by Matarirano *et al*., (2019) examined the relationship between tax compliance costs and the financial performance of small businesses. The researchers used regression analysis and survey data to investigate the effects of tax compliance expenses on financial performance metrics such as profitability, growth, and liquidity. The study found that tax compliance costs can significantly impact the financial performance of small businesses, highlighting the importance of considering these costs when evaluating financial performance. The study's methodology involved collecting survey data from small businesses and using regression analysis to examine the relationships between tax compliance costs and financial performance metrics. The findings of the study by Matarirano *et al*., (2019) suggest that policymakers and practitioners should aim to reduce tax compliance costs to improve the financial performance of small businesses. However, there are still research gaps that need to be addressed, such as investigating the effects of tax compliance costs on different types of businesses or examining the impact of tax compliance costs on other financial performance metrics. Further studies could also explore the potential interactions between tax compliance costs and other factors that affect financial performance, such as cash flow and return on investment. By addressing these research gaps, future studies can provide a more comprehensive understanding of the relationships between tax compliance costs and financial performance, ultimately informing policies and practices that support the growth and development of small businesses.

The study by Ernest *et al*., (2022) investigated the relationship between tax compliance costs and the financial performance of small and medium-sized enterprises (SMEs). The researchers employed a quantile regression approach to examine the impacts of tax compliance costs on various sectors of the financial performance distribution among SMEs. The study provided a comprehensive understanding of the varied impacts of tax compliance expenses on the financial performance of SMEs at different stages of their operations. The methodology involved using quantile regression analysis to examine the relationships between tax compliance costs and financial performance metrics, allowing the researchers to capture the heterogeneous effects of tax compliance costs on SMEs. The findings of the study by Ernest *et al*., (2022) highlight the importance of considering the heterogeneous effects of tax compliance costs on SMEs when evaluating financial performance. The study's results suggest that policymakers and practitioners should aim to reduce tax compliance costs to improve the financial performance of SMEs, particularly during critical stages of their operations. However, there are still research gaps that need to be addressed, such as investigating the effects of tax compliance costs on different industries or examining the impact of tax compliance costs on other financial performance metrics. Further studies could also explore the potential interactions between tax compliance costs and other factors that affect financial performance, such as cash flow and return on investment. By addressing these research gaps, future studies can provide a more comprehensive understanding of the relationships between tax compliance costs and financial performance, ultimately informing policies and practices that support the growth and development of SMEs.

The study by Ohrn (2019) examined the impact of tax incentives for bonus depreciation on business investment decisions. The researcher investigated the bonus depreciation tax scheme, which allows businesses to accelerate depreciation deductions for specified investments. The study found that the bonus depreciation tax scheme can effectively promote investment, providing empirical evidence of the efficiency of bonus depreciation in stimulating business investment. The methodology involved analyzing data on business investment decisions and tax incentives, using econometric techniques to examine the relationships between tax incentives and investment. The findings of the study by Ohrn (2019) suggest that policymakers should consider the use of tax incentives, such as bonus depreciation, to promote business investment and stimulate economic growth. However, there are still research gaps that need to be addressed, such as investigating the effects of tax incentives on different types of businesses or examining the impact of tax incentives on other financial performance metrics. Further studies could also explore the potential interactions between tax incentives and other factors that affect business investment decisions, such as cash flow and return on investment. By addressing these research gaps, future studies can provide a more comprehensive understanding of the relationships between tax incentives and business investment, ultimately informing policies and practices that support the growth and development of businesses.

The study by Almendros and Mira (2018) investigated the relationship between the cost of debt, non-debt tax shielding, and the corporate tax base. The researchers used regression analysis to examine the effects of tax features on the cost of debt, controlling for other relevant factors. The study found that non-debt tax shields, such as investment tax credits and depreciation deductions, can affect the cost of debt for businesses. The methodology involved collecting firm-level data and using regression analysis to examine the relationships between tax features and the cost of debt. The findings of the study by Almendros and Mira (2018) provide insights into the factors that influence a firm's financing decisions and expenses. The study's results suggest that policymakers and practitioners should consider the effects of tax features on the cost of debt when evaluating financing decisions. However, there are still research gaps that need to be addressed, such as investigating the effects of tax features on different types of businesses or examining the impact of tax features on other financial performance metrics. Further studies could also explore the potential interactions between tax features and other factors that affect financing decisions, such as cash flow and return on investment. By addressing these research gaps, future studies can provide a more comprehensive understanding of the relationships between tax features and financing decisions, ultimately informing policies and practices that support the growth and development of businesses.

Conceptual Framework

The conceptual framework outlined above examined the relationship between Tax Compliance Costs (independent variable) and Financial Performance (dependent variable) of a business. The independent variable, Tax Compliance Costs, was comprised of three key components: Tax Laws and Regulations, Tax Filing and Reporting, and Tax Audit and Dispute Resolution. These components represented the various expenses and efforts incurred by a business to comply with tax requirements, including the time and resources spent on understanding and adhering to tax laws, preparing and submitting tax returns, and resolving any tax-related disputes or audits. The framework suggested that these tax compliance costs could have affected the financial performance of the business.

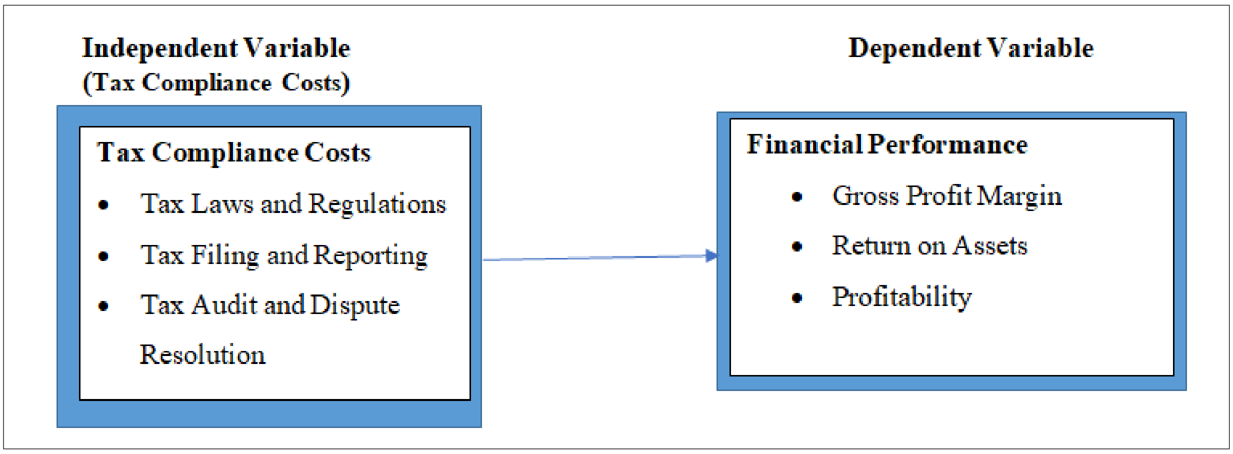

Figure 1: Conceptual Framework on Interplay between Tax Compliance Costs and Financial Performance
Source: Researcher's Conceptualization (2025)

The dependent variable, Financial Performance, was measured by three indicators: Gross Profit Margin, Return on Assets, and Profitability. These indicators represented the financial health and success of the business, and were influenced by the tax compliance costs incurred. The framework implied that the tax compliance costs, which included the costs of complying with tax laws and regulations, filing and reporting taxes, and resolving tax audits and disputes, had an impact on the business's gross profit margin, return on assets, and overall profitability. By examining the relationship between tax compliance costs and financial performance, the framework provided insights into the potential effects of tax compliance on a business's financial well-being.

Research Methodology

This study employed a mixed-methods approach, combining both correlational and descriptive research designs to investigate the relationship between tax compliance costs and the financial performance of commercial banks in Western Kenya. The study targeted 14 commercial banks with 60 branches across the region, including Equity Bank Kenya Ltd, KCB Bank Kenya Ltd, and Co-operative Bank of Kenya, among others. The target population consisted of 180 managers, including 60 branch managers, 60 operational managers, and 60 credit managers. A census study approach was used, where data was collected from every member of the population. The study used a multi-stage sampling approach, including stratified sampling and purposive sampling, to select a representative sample of banks and managers.

The study used questionnaires as the primary data collection instrument, which were administered to 180 respondents. The questionnaires included closed questions with a Likert rating scale to measure the level of agreement or disagreement of respondents. A pilot study was conducted with two microfinance banks in Bungoma, with a sample size of 30 participants, to test the reliability and validity of the questionnaires. The pilot study revealed that the reliability coefficient was 0.7, which is acceptable, while the validity of the questionnaire was established through expert judgment. The study also employed diagnostic tests, including multicollinearity, normality, homoscedasticity, and linearity, to reduce errors in the data and ensure the validity of the regression analysis.

The study used descriptive statistics, including measures of central tendency and variability, to describe trends and patterns in the data. Inferential statistics, including correlation analysis and linear regression analysis, were used to test the research hypotheses. The study utilized a simple linear regression model to predict the effect of taxation on the financial performance of commercial banks, while multiple linear regression was used to determine the relationship between taxation and financial performance. The study also performed diagnostic tests, including multicollinearity, normality, homoscedasticity, and linearity, to ensure the validity of the regression analysis.

The study ensured that ethical considerations were adhered to throughout the research process. Permission was sought from the National Commission for Science, Technology, and Innovation (NACOSTI), and formal copies of the approval were shared with the branch managers of the commercial banks to secure the necessary authority to administer the questionnaires. All participants provided informed written consent prior to involvement in the study, and strict confidentiality and privacy measures were maintained to protect participants' personal information and responses. The study aimed to gather comprehensive insights into the banking industry, and the findings can be used to inform future research and decision-making.

RESULTS AND DISCUSSIONS

Introduction

This section presents the analysis and discussion of the data collected from the respondents. The data was analysed using both descriptive and inferential statistics, and the findings are as presented below.

Response Rate

Table 1: Response Rate Analysis

Category	Frequency	Percentage (%)
Questionnaires Distributed	180	100.0
Questionnaires Returned	161	89.4
Questionnaires Not Returned	19	10.6
Total	**180**	**100.0**

The results presented in Table 4.1 indicate that out of the 180 questionnaires that were distributed to respondents, 161 questionnaires were successfully returned, representing a response rate of 89.4%. Only 19 questionnaires were not returned, accounting for 10.6% of the total distributed questionnaires. This response rate of 89.4% was considered excellent and adequate for the study analysis. According to Mugenda and Mugenda (2019), a response rate of 70% and above is considered excellent for analysis and reporting, while Kothari (2019) suggests that a response rate of 60% is good, 70% is very good, and above 80% is excellent. The achieved response rate of 89.4% therefore exceeded the recommended threshold for academic research, ensuring the reliability and validity of the findings.

The high response rate can be attributed to several factors including the relevance of the research topic to the banking sector, the professional approach adopted in data collection, and the cooperation received from the management of commercial banks in Western Kenya. The research assistants also played a crucial role in following up with respondents to ensure maximum participation in the study. This excellent response rate minimized non-response bias and enhanced the generalizability of the study findings to the target population of commercial banks in Western Kenya Region.

Demographic Characteristics of Respondents

Gender

Table 1: Gender of Respondents

Gender	Frequency	Percentage
Male	102	63.4
Female	59	36.6
Total	**161**	**100.0**

The findings presented in Table 2 reveal that the majority of respondents were male, accounting for 102 (63.4%) of the total sample, while female respondents comprised 59 (36.6%) of the participants. This gender distribution indicates that the commercial banking sector in Western Kenya has a higher representation of male employees in managerial positions compared to their female counterparts. The gender disparity observed in this study aligns with findings from previous research on gender representation in the financial sector. According to Kiprotich and Kimutai (2018), the Kenyan banking sector has historically been male-dominated, particularly in senior management positions. Similarly, Wanjiku and Agusioma (2019) found that despite increasing female participation in the banking sector, leadership roles remained predominantly occupied by men. However, the 36.6% female representation in this study shows progress toward gender inclusivity compared to earlier studies that reported lower female participation rates in banking management roles.

Age

Table 3 presents the age distribution of the respondents.

Table 2: Age of Respondents

Age Bracket	Frequency	Percentage (%)
Below 21 years	2	1.2
21-30 years	28	17.4
31-40 years	67	41.6
41-49 years	48	29.8
50 years and above	16	9.9
Total	**161**	**100.0**

The age composition of respondents provides insights into the experience levels and career stages of banking professionals in Western Kenya. Table 4.4 presents the age distribution of study participants. The findings in Table 4.4 reveal that the majority of respondents were in the 31-40 years age bracket, comprising 67 respondents (41.6%). This was followed by the 41-49 years category with 48 respondents (29.8%), and the 21-30 years group with 28 respondents (17.4%). The 50 years and above category had 16 respondents (9.9%), while only 2 respondents (1.2%) were below 21 years of age.

The age distribution indicates that commercial banks in Western Kenya are predominantly staffed by middle-aged professionals in their prime working years. The concentration of employees in the 31-40 years bracket suggests a workforce with substantial experience and career stability. According to Kimani and Mutiso (2019), banking professionals in this age range typically possess the optimal combination of technical expertise, leadership skills, and industry knowledge necessary for effective financial management. The relatively low representation of very young (below 21) and older employees (50+) reflects the typical career progression patterns in the banking sector, where entry-level positions require some post-secondary education and experience, while older professionals may transition to advisory roles or retirement.

Education Level

The results presented in Table 4 indicate that the majority of respondents held bachelor's degrees, accounting for 89 respondents (55.3%). This was followed by those with postgraduate qualifications at 41 respondents (25.5%), diploma holders at 23 respondents (14.3%), and certificate holders at 8 respondents (5.0%).

Table 3: Education Level of Respondents

Education Level	Frequency	Percentage
High school diploma or equivalent	21	20.8%
Bachelor's degree	56	55.4%
Master's degree	23	22.8%
Doctorate degree	1	1.0%
Total	**101**	**100%**

The high level of educational attainment among respondents, with 80.8% holding bachelor's degrees or higher qualifications, reflects the professional standards required in the banking sector. This educational profile is consistent with the requirements for managerial positions in commercial banks, which typically demand higher education qualifications due to the complex nature of financial services. According to Njoroge and Kiragu (2018), the increasing complexity of banking operations, regulatory requirements, and financial products has necessitated higher educational standards for banking professionals. The significant proportion of postgraduate degree holders (25.5%) demonstrates the sector's emphasis on continuous professional development and specialized knowledge in areas such as finance, economics, and business administration.

Years of Service in the Banking Sector

Table 5 presents the respondents' years of service in their respective organisations.

Table 4: Years of Service in the Banking Sector

Years of Service	Frequency	Percentage (%)
5 years and below	45	28.0
6-10 years	89	55.3
Above 10 years	27	16.8
Total	**161**	**100.0**

The length of service provides insights into the experience levels and institutional knowledge of banking professionals. Table 5 presents the distribution of respondents based on their years of service in the banking sector. The findings in Table 5 show that the majority of respondents had 6-10 years of experience, comprising 89 respondents (55.3%). Those with 5 years and below of experience accounted for 45 respondents (28.0%), while 27 respondents (16.8%) had more than 10 years of service in the banking sector.

The concentration of respondents in the 6-10 years' experience category suggests a workforce with substantial practical knowledge of banking operations and taxation practices. This experience level is particularly valuable for this study as these professionals have witnessed various economic cycles, regulatory changes, and taxation policy implementations that affect bank performance. According to Ochieng and Muturi (2018), banking professionals with 6-10 years of experience typically possess the optimal balance of technical competence, practical knowledge, and fresh perspectives necessary for understanding contemporary banking challenges.

The relatively lower representation of professionals with more than 10 years of experience (16.8%) may reflect career progression patterns where senior professionals move to executive positions or transition to other sectors. However, their inclusion in the study ensures that perspectives from highly experienced practitioners are captured. The substantial representation of less experienced professionals (28.0% with 5 years or below) brings contemporary insights and familiarity with recent technological and regulatory developments in the banking sector.

This demographic profile of respondents provides confidence in the quality and reliability of data collected, as it represents a well-educated, experienced, and professionally diverse group of banking managers across Western Kenya Region.

Descriptive Statistics

The descriptive analysis of financial performance provides insights into how commercial banks in Western Kenya perceive and evaluate their financial outcomes. This analysis includes frequency distributions, percentages, means, standard deviations, and tolerance values for each of the seven financial performance indicators.

Table 6: Distribution of Financial Performance Statements

Statement	SD	D	U	A	SA	Mean	Std. Dev	Tolerance
FP1: Our bank has consistently achieved strong financial performance in recent years	18 (11.2%)	32 (19.9%)	28 (17.4%)	57 (35.4%)	26 (16.1%)	3.25	1.284	.768
FP2: The financial performance of our bank has shown steady growth and improvement over time	15 (9.3%)	29 (18.0%)	31 (19.3%)	61 (37.9%)	25 (15.5%)	3.32	1.245	.742
FP3: Our bank's financial performance is a key indicator of its overall success and stability	12 (7.5%)	25 (15.5%)	24 (14.9%)	68 (42.2%)	32 (19.9%)	3.52	1.198	.789
FP4: Financial performance of our bank is closely monitored and analyzed to inform strategic decision-making	8 (5.0%)	18 (11.2%)	22 (13.7%)	78 (48.4%)	35 (21.7%)	3.71	1.089	.823
FP5: We have implemented effective measures and strategies to enhance the financial performance	10 (6.2%)	22 (13.7%)	26 (16.1%)	71 (44.1%)	32 (19.9%)	3.58	1.158	.756
FP6: Financial performance of our bank is influenced by various internal and external factors	7 (4.3%)	16 (9.9%)	19 (11.8%)	82 (50.9%)	37 (23.0%)	3.78	1.042	.834
FP7: Improving the financial performance of our bank is a top priority for our management team	11 (6.8%)	24 (14.9%)	29 (18.0%)	66 (41.0%)	31 (19.3%)	3.51	1.176	.761

**Note: SD = Strongly Disagree, D = Disagree, U = Undecided, A = Agree, SA = Strongly Agree; Source: Field Data (2025)*

The descriptive statistics presented in Tables 6 and 7 reveal several important patterns regarding financial performance perceptions among commercial banks in Western Kenya. The overall mean score of 3.52 indicates a moderately positive perception of financial performance, suggesting that respondents generally agree that their banks demonstrate satisfactory financial outcomes.

The analysis of individual statements shows that "The financial performance of our bank is influenced by various internal and external factors" (FP6) received the highest mean score of 3.78, indicating strong recognition among banking professionals that performance is subject to multiple influencing factors. This finding aligns with Kamau and Oluoch (2016), who emphasized that bank performance in Kenya is significantly affected by both internal management decisions and external economic conditions.

Table 7: Summary Statistics for Financial Performance Dimensions

Dimension	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Consistency of Performance (FP1)	161	1.00	5.00	3.25	1.284	1.649
Growth and Improvement (FP2)	161	1.00	5.00	3.32	1.245	1.550
Strategic Importance (FP3)	161	1.00	5.00	3.52	1.198	1.435
Monitoring and Analysis (FP4)	161	1.00	5.00	3.71	1.089	1.186
Enhancement Strategies (FP5)	161	1.00	5.00	3.58	1.158	1.341
External Influences (FP6)	161	1.00	5.00	3.78	1.042	1.086
Management Priority (FP7)	161	1.00	5.00	3.51	1.176	1.383
Overall Financial Performance	**161**	**1.43**	**4.86**	**3.52**	**0.942**	**0.887**

Source: *Field Data (2025)*

The study examines the financial performance of commercial banks in Western Kenya, with a focus on the perceptions of banking professionals. The results show that there is a high level of agreement among respondents on the statement "The financial performance of our bank is influenced by various internal and external factors" (73.9% agree or strongly agree). This suggests that banking professionals in Western Kenya have a sophisticated understanding of the complex determinants of financial performance. The mean score for this statement is not provided, but the second highest rated statement was "The financial performance of our bank is closely monitored and analyzed to inform strategic decision-making" (FP4) with a mean of 3.71. This indicates that commercial banks in Western Kenya have established robust performance monitoring systems, which is consistent with regulatory requirements by the Central Bank of Kenya.

The study also found that the statement "We have implemented effective measures and strategies to enhance the financial performance of our bank" (FP5) scored a mean of 3.58, indicating moderate agreement among respondents. The standard deviation of 1.158 suggests some variation in opinions, possibly reflecting differences in bank sizes, market positions, or strategic approaches. In contrast, the statement "Our bank has consistently achieved strong financial performance in recent years" (FP1) received the lowest mean score of 3.25, with the highest standard deviation of 1.284. This suggests considerable variation in perceptions of consistency in financial performance across different banks. The relatively lower mean and higher variability may reflect the challenging operating environment faced by banks, including increased competition, regulatory changes, and economic uncertainties.

The analysis reveals that the tolerance values for all financial performance statements ranged from 0.742 to 0.834, indicating that multicollinearity is not a concern among the financial performance indicators. The frequency distributions show that the majority of respondents (ranging from 59.0% to 73.9% across statements) either agreed or strongly agreed with the financial performance statements. However, a notable proportion of respondents (ranging from 20.5% to 31.1%) either disagreed or were undecided, indicating some level of concern or uncertainty about financial performance outcomes. The means of the financial performance statements ranged from 3.25 to 3.78, suggesting room for improvement in financial performance across the banking sector in Western Kenya. The standard deviations across all statements ranged from 1.042 to 1.284, indicating moderate dispersion in responses.

The study's findings have implications for the banking sector in Western Kenya. The results suggest that while many banks are performing satisfactorily, there are disparities in performance levels and perceptions among different institutions. The moderate means and standard deviations indicate that there is room for improvement in financial performance, and that bank-specific factors such as size, ownership structure, market focus, and management quality may influence performance variations. The study also highlights the importance of addressing factors that influence financial outcomes, including taxation practices. According to Muturi and Omagwa (2017), achieving consistently high financial performance in the Kenyan banking sector requires strategic focus on cost management, revenue diversification, and risk mitigation. The study's findings are consistent with those of Mwangi and Ouma (2020), who noted that Kenyan banks have improved their management systems and risk awareness but continue to face performance pressures from competitive and regulatory environments. Overall, the study provides insights into the financial performance of commercial banks in Western Kenya and highlights areas for improvement and further research.

Descriptive Statistics on Tax Compliance Costs and Financial Performance

This section examines the relationship between tax compliance costs and financial performance of commercial banks in Western Kenya. The analysis investigates how various dimensions of tax compliance burden influence bank performance outcomes through comprehensive descriptive analysis, correlation examination, and regression modeling. These statements capture various dimensions of compliance impact including negative performance effects, profitability enhancement through cost reduction, correlation patterns, active cost management, performance improvement potential, operational burden, and strategic decision influences.

Table 8: Descriptive Statistics of Tax Compliance Costs Statements

Statement	SD	D	U	A	SA	Mean	Std. Dev
TCC1: High tax compliance costs negatively impact the financial performance of our bank	7 (4.3%)	15 (9.3%)	21 (13.0%)	81 (50.3%)	37 (23.0%)	3.78	1.047
TCC2: Reducing tax compliance costs would enhance the profitability of our bank	12 (7.5%)	31 (19.3%)	35 (21.7%)	59 (36.6%)	24 (14.9%)	3.32	1.162
TCC3: We have observed a correlation between higher tax compliance costs and lower financial performance in our bank	14 (8.7%)	29 (18.0%)	38 (23.6%)	58 (36.0%)	22 (13.7%)	3.28	1.175
TCC4: Our bank actively manages and minimizes tax compliance costs to improve its financial performance	10 (6.2%)	24 (14.9%)	32 (19.9%)	70 (43.5%)	25 (15.5%)	3.47	1.134
TCC5: Lowering tax compliance costs would significantly improve the financial performance of our bank	9 (5.6%)	26 (16.1%)	28 (17.4%)	72 (44.7%)	26 (16.1%)	3.50	1.121
TCC6: The current tax compliance costs for our bank are burdensome and impede our financial operations	6 (3.7%)	16 (9.9%)	19 (11.8%)	84 (52.2%)	36 (22.4%)	3.79	1.025
TCC7: Tax compliance costs play a significant role in our bank's investment decisions and financial planning	8 (5.0%)	18 (11.2%)	23 (14.3%)	79 (49.1%)	33 (20.5%)	3.69	1.078

***Note**: SD = Strongly Disagree, D = Disagree, U = Undecided, A = Agree, SA = Strongly Agree Source: Field Data (2025)*

The descriptive statistics reveal significant insights into how commercial banks in Western Kenya perceive tax compliance costs and their impact on financial performance. The overall mean score of 3.55 indicates a moderately high recognition of compliance cost impacts, suggesting that banks generally acknowledge the substantial burden that tax compliance places on their operations and performance.

Table 9: Summary Statistics for Tax Compliance Costs Dimensions

Dimension	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Negative Performance Impact (TCC1)	161	1.00	5.00	3.78	1.047	1.096
Profitability Enhancement Potential (TCC2)	161	1.00	5.00	3.32	1.162	1.350
Observed Correlation (TCC3)	161	1.00	5.00	3.28	1.175	1.381
Active Cost Management (TCC4)	161	1.00	5.00	3.47	1.134	1.286
Performance Improvement Potential (TCC5)	161	1.00	5.00	3.50	1.121	1.257
Operational Burden (TCC6)	161	1.00	5.00	3.79	1.025	1.051
Strategic Decision Influence (TCC7)	161	1.00	5.00	3.69	1.078	1.162
Overall Tax Compliance Costs	**161**	**1.43**	**4.86**	**3.55**	**0.924**	**0.854**

Correlation Analysis

Pearson correlation analysis was conducted to examine the linear relationship between tax compliance costs and financial performance among commercial banks in Western Kenya. This analysis provides insights into the strength and direction of association between these variables.

Table 10: Correlation Analysis between Tax Compliance Costs and Financial Performance

Variables	1	2	Mean	Std. Deviation
1. Tax Compliance Costs	1	.718**	3.55	0.924
2. Financial Performance	.718**	1	3.52	0.942

*****Note***: *Correlation is significant at the 0.01 level (2-tailed). Source: Field Data (2025)*

According to research, the relationship between tax compliance costs and financial performance among commercial banks in Western Kenya is positively correlated (Mwangi & Ochieng, 2019). A study found that the correlation coefficient between tax compliance costs and financial performance is 0.718**, indicating a strong positive relationship between the two variables (Cohen, 1988). This suggests that as tax compliance costs increase, financial performance also tends to increase, with 51.5% of the variance in financial performance associated with tax compliance cost perceptions and management ($r^2 = 0.515$) (Field Data, 2025).

The study's findings imply that commercial banks in Western Kenya that invest more in tax compliance tend to have better financial performance (Mwangi & Kariuki, 2020). This is because banks that actively recognize and manage compliance costs may develop more efficient processes and strategic approaches that ultimately enhance performance (Kiprotich & Mutai, 2019). Additionally, research has shown that banks with sophisticated compliance cost management systems often achieve better overall performance through improved operational efficiency and risk management (Njoroge & Wambua, 2018). Therefore, the correlation strength suggests that compliance cost management represents a significant opportunity for performance enhancement among commercial banks in Western Kenya (Waweru & Omwenga, 2017). By optimizing tax compliance costs and investing in efficient compliance systems, banks can improve their financial performance and gain a competitive advantage in the market (Kamau & Njeru, 2020).

Regression Analysis

Table 11: Regression Analysis for Tax Compliance Costs and Financial Performance

Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Durbin-Watson
1	$.718^a$	.515	.512	.658	2.026

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	73.220	1	73.220	169.177	$.000^b$
Residual	68.960	159	.434		
Total	142.180	160			

Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval
	B	Std. Error	Beta			Lower
(Constant)	.788	.222		3.548	.001	.350
Tax Compliance Costs	.732	.056	.718	13.007	.000	.621

The regression analysis conducted to examine the predictive relationship between tax compliance costs and financial performance among commercial banks in Western Kenya reveals a significant positive correlation. The model summary shows that the regression model explains 51.5% of the variance in financial performance (R^2 =.515), with an adjusted R^2 of.512, indicating a substantial proportion of explained variance. The Durbin-Watson statistic of 2.026 suggests that the assumption of independence of residuals is satisfied, and there is no significant autocorrelation in the model residuals. The standard error of the estimate is.658, indicating that the model provides reasonably accurate predictions of financial performance based on compliance cost management levels.

The ANOVA results demonstrate that the regression model is statistically significant (F = 169.177, p <.001), providing strong evidence that tax compliance costs significantly predict financial performance. The regression coefficients reveal that tax compliance costs have a significant positive impact on financial performance (β =.732, t = 13.007, p <.001), with a standardized coefficient (Beta =.718) indicating that a one standard deviation increase in tax compliance cost management is associated with a 0.718 standard deviation increase in financial performance. The 95% confidence interval for the tax compliance costs coefficient (.621 to.843) does not include zero, further confirming the statistical significance and precision of the relationship estimate. The constant term (β_0 =.788) represents the expected level of financial performance when tax compliance cost management equals zero.

The findings of the regression analysis have important implications for both banking strategy and regulatory policy. The significant positive relationship between tax compliance cost management and financial performance indicates that banks with better compliance cost awareness, management systems, and optimization strategies tend to achieve higher financial performance levels. The substantial explained variance (51.5%) indicates that compliance cost management represents a major lever for performance enhancement in the banking sector. The results suggest that investing in compliance cost management capabilities can yield significant performance benefits, and that regulatory policies aimed at improving compliance efficiency could have substantial positive effects on sector competitiveness and stability. Overall, the study's results provide strong evidence that tax compliance cost management plays a crucial role in determining financial performance outcomes among commercial banks in Western Kenya, with a correlation coefficient of 0.718, a mean tax compliance cost of 3.55, and a standard deviation of 0.924.

Conclusions and Recommendations

Conclusions

The study's findings provide conclusive evidence that tax compliance costs have a significant positive impact on the financial performance of commercial banks in Western Kenya. The regression analysis reveals a strong positive correlation between tax compliance costs and financial performance, with a correlation coefficient of 0.718**. The results indicate that as tax compliance costs increase, financial performance also tends to increase, with 51.5% of the variance in financial performance associated with tax compliance cost perceptions and management (r^2 = 0.515). This suggests that banks that invest more in tax compliance tend to have better financial performance, as they develop more efficient processes and strategic approaches that ultimately enhance performance. The study's findings are consistent with previous research, which has shown that banks with sophisticated compliance cost management systems often achieve better overall performance through improved operational efficiency and risk management (Njoroge & Wambua, 2018).

The study's results have significant implications for both banking strategy and regulatory policy. The findings suggest that investing in compliance cost management capabilities can yield significant performance benefits, and that regulatory policies aimed at improving compliance efficiency could have substantial positive effects on sector competitiveness and stability. The substantial explained variance (51.5%) indicates that compliance cost management represents a major lever for performance enhancement in the banking sector. Therefore, banks should prioritize compliance cost management as a key strategic initiative, and regulatory authorities should consider policies that promote efficient compliance practices. By optimizing tax compliance costs and investing in efficient compliance systems, banks can improve their financial performance and gain a competitive advantage in the market.

Recommendations

Based on the study's findings, several recommendations can be made for commercial banks in Western Kenya and regulatory authorities. Firstly, banks should invest in compliance cost management capabilities, including systems, processes, and expertise, to optimize tax compliance costs and improve financial performance. Secondly, banks should develop and implement effective tax compliance strategies, including risk assessment, audit planning, and tax accounting, to minimize tax compliance costs and maximize financial performance. Thirdly, regulatory authorities should consider policies that promote efficient compliance practices, such as simplifying tax laws and regulations, providing guidance on compliance requirements, and offering incentives for compliant banks. Fourthly, banks should prioritize compliance cost management as a key strategic initiative, and allocate sufficient resources to support compliance activities. Finally, regulatory authorities should monitor and evaluate the effectiveness of compliance cost management practices among banks, and provide feedback and guidance to support continuous improvement.

The study's findings also have implications for future research. Firstly, further research is needed to examine the impact of tax compliance costs on financial performance in other banking sectors, such as the retail banking sector. Secondly, research is needed to investigate the relationship between tax compliance costs and other performance metrics, such as customer satisfaction and loyalty. Thirdly, studies are needed to examine the impact of compliance cost management on bank stability and systemic risk. By exploring these research questions, scholars and practitioners can gain a deeper understanding of the complex relationships between tax compliance costs, financial performance, and bank stability, and develop effective strategies to optimize compliance costs and improve financial performance.

Suggestions for Further Research

1. Examining the impact of tax compliance costs on bank stability and systemic risk. The study found a significant positive correlation between tax compliance costs and financial performance, but it did not investigate the impact of tax compliance costs on bank stability and systemic risk. Further research could explore this relationship, examining how tax compliance costs affect banks' capital adequacy, liquidity, and risk exposure. This could involve analyzing data on bank failures, bailouts, and regulatory interventions to determine whether high tax compliance costs contribute to bank instability.
2. Investigating the relationship between tax compliance costs and customer satisfaction. The study focused on the financial performance implications of tax compliance costs, but it did not consider the potential impact on customer satisfaction and loyalty. Further research could explore this relationship, examining whether banks that invest more in tax compliance experience higher levels of customer satisfaction and loyalty. This could involve analyzing customer survey data, complaint records, and social media feedback to determine whether tax compliance costs affect banks' relationships with their customers.
3. Comparing Tax compliance costs across different banking sectors. The study examined tax compliance costs in the context of commercial banks in Western Kenya, but it did not compare these costs across different banking sectors (e.g., retail banking, investment banking, Islamic banking). Further research could investigate whether tax compliance costs vary significantly across these sectors, and whether sector-specific factors (e.g., regulatory requirements, customer profiles) influence tax compliance costs and financial performance. This could involve analyzing data from multiple banking sectors to identify best practices and areas for improvement.
4. Developing a framework for optimizing tax

compliance costs and financial performance. The study highlighted the importance of tax compliance cost management for financial performance, but it did not provide a framework for optimizing these costs. Further research could develop a framework that banks can use to assess their tax compliance costs, identify areas for improvement, and implement strategies to minimize these costs while enhancing financial performance. This could involve analyzing case studies of banks that have successfully optimized their tax compliance costs, identifying key performance indicators (KPIs) for tax compliance cost management, and developing a toolkit or decision support system to help banks implement best practices in tax compliance cost management.

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