

**DIGITAL SERVICES TAX PRACTICES AND FINANCIAL PERFORMANCE OF
MULTINATIONAL TECHNOLOGY FIRMS IN KENYA**

BY

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MASTER OF SCIENCE IN COMMERCE (FINANCE AND ACCOUNTING)

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN
COMMERCE (FINANCE AND ACCOUNTING) IN THE SCHOOL OF BUSINESS AT
KCA UNIVERSITY**

October, 2025.

DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and authors duly acknowledged.

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I do hereby confirm that I have examined the master's dissertation of

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And have certified that all revisions that dissertation panel and examiners recommended have been adequately addressed.

Sign..... Date.....

Dr. Peter Njuguna, PhD.

Dissertation Supervisor

DEDICATION

I dedicate this dissertation to my late father Mr. Ogola Bendict, who inculcated the values of hard work and dedication towards achievement of personal goals in life.

ABSTRACT

This study examines the effect of Digital Services Tax (DST) practices on the financial performance of multinational technology firms operating in Kenya. The introduction of digital tax [N5.1]regimes aims to capture revenue from cross-border digital activities; however, mounting tax burdens from DST, SEP, withholding taxes, and VAT have raised concerns about profitability and competitiveness among these firms. Despite policy advancements, there is limited empirical evidence quantifying how these tax practices affect firm-level financial performance, creating a knowledge gap for policymakers and industry stakeholders. With Kenya's digital economy rapidly expanding and contributing significantly to the nation's GDP, the government introduced DST in 2021 to capture tax revenue from non-resident digital service providers. The study investigates how DST, alongside the transition to the Significant Economic Presence (SEP) tax regime, impacts firms' profitability, revenue growth, and overall financial outcomes. Using a mixed-methods approach combining financial data analysis and qualitative insights, the research evaluates key tax practices. The findings aim to provide evidence on the financial challenges and opportunities presented by these digital tax frameworks, thereby informing policymakers, tax authorities, and industry stakeholders on optimizing tax policy to support sustainable growth and competitiveness in Kenya's technology sector. The findings reveal that DST practices significantly affect financial performance, with the regression model showing a strong relationship ($p < 0.01$). The SEP tax further increases firms' tax liabilities, influencing net profitability and competitive positioning ($p < 0.05$). The scope and classification of digital assets also significantly correlate with tax liabilities and financial outcomes ($p < 0.05$), illustrating compliance complexities tied to asset recognition. Additionally, DST withholding practices impose liquidity pressures while promoting improved tax discipline ($p < 0.05$). These results provide critical evidence on the financial challenges and opportunities presented by Kenya's evolving digital tax frameworks, thereby informing policymakers, tax authorities, and industry stakeholders on optimizing tax policy to support sustainable growth and competitiveness in Kenya's technology sector.

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ABBREVIATIONS AND ACRONYMS

DST: Digital Services Tax

SEP: Significant Economic Presence (Tax)

KRA: Kenya Revenue Authority

MNCs: Multinational Companies/Firms

GDP: Gross Domestic Product

WHT: Withholding Tax

OECD: Organisation for Economic Co-operation and Development

DEFINITION OF TERMS

Digital Services Tax (DST): A tax levied at 1.5% on the gross transaction value of digital services provided by non-resident firms to Kenyan users, targeting cross-border digital activities.

Significant Economic Presence (SEP) Tax: A tax framework replacing DST from 2024, taxing 30% on 20% deemed gross profits of multinational technology firms operating digitally in Kenya.

Financial Performance: The ability of multinational firms to generate profits, revenue growth, and customer satisfaction, measured through profitability, revenue growth rates, R&D output, and customer satisfaction indices.

Multinational Technology Firms: Technology companies operating across multiple countries with significant digital economic activities in Kenya.

Scope of Digital Assets: Refers to the variety and volume of digital assets (e.g., software, digital platforms, user data) owned or managed by firms affecting their taxation and financial reporting.

Withholding Tax (WHT): A tax deducted at source on payments made to non-resident entities for digital services and other categories, typically at a rate of 20%.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The rapid expansion of digital platforms and technology-driven services has prompted governments worldwide to rethink their tax policies, aiming to capture revenue from digital activities that often transcend traditional borders (Nembe & Idemudia, 2024). The robust digital infrastructure has attracted many multinational technology firms operating within country's borders, prompting the governments to implement targeted tax measures to capture revenue from these digital activities. According to the GSMA report (2024), Kenya's digital economy is projected to contribute Ksh 662 billion to the country's GDP by 2028, accounting for approximately 9.24% of the total GDP by 2025 (Askri et al., 2025). In 2023 alone, the mobile ecosystem contributed Ksh 1.2 trillion to Kenya's GDP and generated Ksh 212 billion in government revenues (Mundia, 2025). Internet penetration in Kenya is notably high, reaching about 85.2% of the population, with 99% covered by 3G networks and 98% by 4G networks.

Globally, numerous countries have implemented or are contemplating Digital Service Taxes (DSTs) to address the challenges posed by the digital economy's intangible value creation. For instance, Austria, France, the UK, and Turkey have adopted DST regimes targeting specific digital services such as online advertising and streaming (Plekhanova & Noonan, 2025). Countries like Canada, the Philippines, and South Africa are also shifting towards VAT and digital taxation regimes that extend to remote providers, with recent reforms defining digital services broadly and establishing registration and tax collection mechanisms. The Philippines, for example, will enforce a 12% VAT on foreign digital services consuming within its borders starting June 2025, regardless of physical presence (Plekhanova & Noonan, 2025).

Regionally, Sub-Saharan Africa has seen similar trends, with Nigeria and Zimbabwe implementing digital taxes at varying rates, Nigeria taxing profits at the corporate level, and Zimbabwe imposing a 5% digital tax (Magwape, 2022). The African Tax Administration Forum (ATAF) recommends interim measures pending the adoption of a robust international consensus, emphasizing the importance of balancing revenue goals with digital sector sustainability.

Kenya introduced the Digital Services Tax (DST) in January 2021 through the Finance Act 2020 as a 1.5% tax on the gross transaction value of digital services provided by non-resident firms, such as digital streaming, online marketplaces, and the sale of user data. This tax aimed to address the challenges posed by the digital economy, where value creation is often intangible and cross-border, making it difficult to tax through traditional mechanisms. To ensure compliance, the Kenya Revenue Authority (KRA) requires non-resident digital service providers to register for DST and appoints tax representatives or withholding agents to collect tax at the point of payment. By the 2023/2024 fiscal year, over 350 taxpayers were registered under DST, contributing more than KSh 10.8 billion in tax revenue, illustrating the tax's significant fiscal role.

The Significant Economic Presence (SEP) tax in Kenya, introduced in late 2024, replaces the Digital Services Tax (DST) and is based on taxing non-resident digital firms at a rate of 3% on their gross turnover derived from services provided to Kenyan users. Under the SEP tax regime, 10% of the gross turnover is considered taxable profit for calculation purposes, and the applicable corporate tax rate of 30% is applied to this deemed taxable profit, resulting effectively in a 3% tax on gross turnover. The SEP tax introduces exemptions and thresholds, such as non-application when annual turnover is below Ksh 5 million. This new tax aligns Kenya's digital taxation framework with international OECD standards and aims to enhance fairness and effectiveness compared to the previous DST. In this case, the tax is not directly 30% on gross profits nor on

deemed gross profits but effectively 30% on 10% of gross turnover for taxable profit calculation, making the effective rate 3% of gross turnover. These tax burdens potentially affect the firms' profitability and competitiveness within the Kenyan market. Existing studies have largely focused on policy design and compliance, leaving a gap in empirical knowledge about how DST and related tax practices influence the financial performance of multinational technology firms operating in Kenya. This study seeks to fill this gap by empirically examining the financial effects of digital tax practices, providing policymakers and stakeholders with evidence to optimize digital tax frameworks and support sustainable economic growth.

1.1.1 Digital services tax practices

Digital Services Tax (DST) practices constitute part of governments' efforts globally to tax income derived from digital services offered within their jurisdictions, particularly targeting multinational technology firms operating across borders without physical presence in designated territories. In Kenya, DST was introduced effective January 1, 2021, through the Finance Act, 2020, which imposes a tax rate of 1.5% on the gross transaction value of digital services delivered to Kenyan users (Kenya Revenue Authority [KRA], 2024; Finance Act, 2020). These digital services encompass a range of activities including digital streaming, online marketplaces, cloud computing services, sale of user data, subscriptions to digital content, and e-learning platforms (KRA, 2024; Ronalds LLP, 2025).

This tax is applicable to both resident and non-resident companies. However, non-resident companies without a permanent establishment in Kenya pay DST as a final tax, while resident companies may offset DST payments against their income tax liabilities (KRA, 2024). The introduction of DST aims to tackle challenges inherent in the digital economy, where value

creation occurs digitally and often across borders, eluding traditional tax frameworks centered on physical presence (Bowmans Law, 2020). Kenya's DST regulations require non-resident digital service providers to register for DST with the KRA, and impose obligations on appointed tax representatives or withholding agents, which include banks and other intermediaries, to collect and remit the tax at the point of payment (KRA, 2024). This enforcement framework reflects the government's strategy to effectively capture tax revenue from significant foreign digital service transactions delivered within Kenya's borders without necessitating physical offices (EY, 2023).

More recently, Kenya announced a transition from DST to a more comprehensive tax framework known as the Significant Economic Presence (SEP) tax beginning in 2024. The SEP tax broadens the tax base by taxing income generated by multinational firms with substantial digital economic activity in Kenya at a deemed profit rate of 30% on 20% of their gross turnover derived from Kenyan users (KRA, 2024). This adjustment aligns Kenya's digital tax policy with evolving international OECD standards and global best practices for taxing digital firms that operate remotely but exert economic influence in local markets (Vellum, 2025).

In this study, DST practices are operationalized as the independent variable representing the tax regime targeting digital services supplied by multinational technology firms in Kenya. DST practice involves multiple dimensions including the tax rate (fixed at 1.5%), tax base (gross transaction value), compliance mechanisms (registration, withholding), and administrative enforcement (tax representative appointment, penalties for non-compliance). The relevance of measuring DST practices lies in their potential effect on the financial performance of multinational technology firms, particularly cost implications from tax burdens and compliance expenditures, which can influence profitability, investment in innovation, and competitive positioning within the Kenyan digital economy.

Measurement of DST practices in this study is based on quantitative data extracted from firms' tax records, KRA compliance registries, and financial reports indicating DST paid. Qualitative data from interviews with tax officers and firm executives supplement this, capturing compliance experiences and enforcement challenges. Key metrics entail; DST tax paid as a proportion of gross revenue generated in Kenya, registration and compliance rates among surveyed firms, frequency and types of enforcement actions by KRA, perceived impact on firms' operational costs and investment decisions. Thus, these measurements enable a comprehensive analysis of how DST practices are implemented and their multifaceted effects on multinational technology firms' financial outcomes within Kenya's digital services sector.

1.1.2 Financial performance

Financial performance refers to how well a firm manages its financial resources to generate profits, maintain sustainability, and create shareholder value. The Financial performance of technology multinational companies (MNCs), as a dependent variable, is a multidimensional construct that captures both the financial and non-financial outcomes of a firm's operations. In the context of high-tech and digital enterprises, performance is commonly evaluated using a balanced system of key performance indicators (KPIs) that reflect strategic objectives and operational realities (Otuya & Omoye, 2021). These KPIs span four primary perspectives: financial (revenue growth, return on investment, economic value added), customer (customer satisfaction index, retention rates), internal processes (Efficiency of innovation cycles, R&D productivity), and workforce (Intellectual capital utilization, employee productivity). This holistic approach recognizes that technology MNCs are characterized by intensive R&D, rapid innovation, a highly skilled workforce, and significant intangible assets, all of which contribute to their competitive advantage

and long-term sustainability (Otuya & Omoye, 2021). Taxation, including digital services tax, directly affects the financial performance of firms by increasing their tax expenses and potentially impacting net profitability.

Kenya's digital sector, marked by high internet penetration of over 85%, has seen significant contributions from fintech and cloud-based firms such as M-KOPA and Cellulant, which have fostered financial inclusion and innovation across the region (Wahome, 2023). However, increasing tax burdens through regimes like the Digital Services Tax (DST) and the new Significant Economic Presence (SEP) tax have imposed operational costs affecting financial outcomes. Empirical evidence from a targeted survey of multinational technology firms operating in Kenya reveals mixed impacts. For example, while firms like M-KOPA have maintained revenue growth rates exceeding 15% annually, supported by strong customer acquisition and innovative product launches, their net profitability margins have been pressured by cumulative tax compliance costs, including DST and withholding taxes (KRA, 2024). Specifically, 62% of surveyed firms reported that DST-related expenses negatively influenced their investment in research and development activities critical for sustaining innovation.

Another example is Cellulant, a leading fintech company operating regionally, which has experienced a 12% decrease in after-tax profitability over the past two years attributed partly to increased compliance complexity and additional tax obligations under DST and SEP tax regimes. This reduction in profitability has caused Cellulant to recalibrate operational strategies, including delaying some expansion projects and focusing on process automation to offset tax-related financial pressure (ITIF, 2025). Furthermore, 54% of firms surveyed indicated that administrative costs associated with DST compliance affected their competitive positioning within the Kenyan market.

Key sub-constructs of performance in technology MNCs include financial metrics such as profitability, revenue growth, and shareholder returns; innovation metrics like R&D output, new product launches, and patent registrations; operational metrics such as project delivery speed, IT system uptime, and process automation rates; and market/customer metrics including customer acquisition cost, lifetime value, and satisfaction scores (Osamor et al., 2023). Non-financial indicators, such as intellectual property development, workforce capability, and the ability to adapt to technological change, are also critical in this sector. The scholarly consensus is that evaluating the performance of technology MNCs requires integrating these diverse metrics to capture both immediate business outcomes and the strategic drivers of future growth. For this study, performance will be operationalized using a set of interrelated financial and non-financial KPIs, with particular emphasis on innovation capacity, revenue growth, profitability, and customer satisfaction, as these dimensions most directly reflect the unique value creation processes of technology MNCs.

Financial Performance in this study is conceptualized as the dependent variable and is operationalized through a multidimensional set of indicators that capture both financial and non-financial outcomes relevant to technology multinational companies (MNCs). These indicators align with the balanced scorecard approach, reflecting strategic objectives across four key perspectives: financial, customer, internal processes, and workforce (Otuya & Omoye, 2021).

Specifically, the financial dimension includes metrics such as revenue growth, return on investment (ROI), and economic value added (EVA); these are critical in assessing firms' profitability, efficiency, and value creation. Non-financial performance is assessed using innovation metrics (e.g., R&D output, new product launches, patent registrations), operational metrics (e.g., project delivery speed, IT system uptime, process automation rates), and

market/customer metrics (e.g., customer acquisition cost, customer satisfaction index, retention rates). These metrics are particularly relevant for high-tech firms characterized by rapid innovation cycles, intensive R&D activities, and intangible assets that drive competitive advantage.

Evaluating these metrics allows for a comprehensive understanding of how digital tax practices impact firms' strategic outcomes, balancing immediate financial performance with innovation capacity and operational efficiency (Osamor et al., 2023). As taxation regimes like DST and SEP increase operational costs, measuring their impact on profitability, investment in R&D, and market competitiveness provides essential insights into the sustainment of long-term growth. In this study, financial performance will be measured through secondary data extracted from firms' financial statements, annual reports, and tax records, focusing on metrics such as net profitability margins, revenue growth rates, and return on assets (ROA). Non-financial indicators, including R&D output (patents, new products) and customer satisfaction scores, will be gauged through survey data from managers and key firm personnel, complemented by industry reports.

For example, revenue growth is calculated based on the percentage change in annual turnover; profitability margins are derived from net profit divided by total revenue; R&D productivity is assessed through the number of patents or new product launches within a given period. These measurements align with the approaches used in recent studies (Kariuki, 2017; Kimathi, 2024; Bower Group, 2025).

1.1.3 Multinational companies in Kenya

Multinational technology firms are large corporations that operate across multiple countries with centralized management headquartered typically in one country, while having subsidiaries, branches, or affiliates globally (Wahome, 2023). These firms engage in cross-border production,

sales, and service activities, leveraging advanced technology capabilities and extensive business networks to maintain competitive advantages. Characteristically, they invest heavily in research and development, innovation, and intellectual property, with a highly skilled workforce supporting rapid product development and market adaptation. Their operations benefit from economies of scale, technology transfer, and integration of global markets, while also navigating complex regulatory and tax environments in different jurisdictions. Multinational technology firms such as Microsoft, IBM, Oracle, and SAP play pivotal roles in driving digital economies by providing software services, cloud computing, fintech solutions, and digital platforms, significantly contributing to economic growth and technological advancement in host countries like Kenya while facing evolving tax regimes like the Digital Services Tax (DST) and Significant Economic Presence (SEP) tax that impact their financial and strategic operations.

Multinational companies, particularly in the technology sector, form a significant part of Kenya's growing digital economy. Kenya has emerged as a key tech hub in East Africa, often dubbed the "Silicon Savannah," attracting global tech giants and fostering a vibrant ecosystem of both multinational corporations and innovative startups (Wahome, 2023). Major multinational firms such as Microsoft, IBM, Oracle, Cisco, and SAP have established offices or regional headquarters in Nairobi and other urban centers to tap into the country's expanding market and skilled workforce. These companies leverage Kenya's advanced digital infrastructure and high internet penetration, currently around 85.2%, to deliver software services, cloud computing, fintech solutions, and other digital products to Kenyan and regional customers (Wahome, 2023).

TABLE 1**Summary of the Estimated Revenues and Net Incomes**

Firm	Metric	2019	2020	2021	2022	2023	2024
Microsoft	Revenue (B) USD	126	143	168	198	231	260
	Net Income (B) USD	39.2	44.3	61.3	72.7	79	90.1
IBM	Revenue (B) USD	77.1	73.6	57.4	60.5	63.5	65
	Net Income (B) USD	9.4	5.6	5.6	5.7	6.3	6
Oracle	Revenue (B) USD	39.1	39.8	40.5	42.4	43.5	45
	Net Income (B) USD	10.1	10.4	13.7	15.2	15.7	16.5
Cisco	Revenue (B) USD	51.9	49.8	49.8	53.2	56	58.5
	Net Income (B) USD	11.6	10.6	10.6	11.6	12.9	13
SAP	Revenue (B) EUR	27.6	27.3	27.8	30.9	33.5	35
	Net Income (B) EUR	5	3.8	5.7	6.2	6.8	7

(Source: Statista, 2025)

(Note: Microsoft, IBM, Oracle, and Cisco revenues and incomes are in billion USD, while SAP figures are in billion EUR).

While these multinational firms have contributed significantly to economic growth, employment, and technology transfer, their financial performance within Kenya presents a complex picture influenced by global market forces and local regulatory frameworks. For example, Microsoft reported global annual revenues surpassing \$245 billion in 2024, marking a 16% increase from the previous year, with considerable investments focused on AI innovation and cloud services (Microsoft Annual Report, 2024). Within Kenya, Microsoft has maintained stable

profit margins despite increased tax compliance costs and regulatory challenges, adjusting operational strategies to balance profitability and market expansion.

A major player in enterprise software, SAP, faces challenges with skill shortages impacting the speed of technological adoption, with 91% of its Kenyan finance teams encountering skills gaps affecting reporting and compliance (InsightSoftware, 2024). SAP users have reported data integration complexities and delayed insights due to over-reliance on IT teams, which indirectly affect operational efficiency and financial performance. Similarly, IBM and Cisco continue to expand their footprint in Kenya's tech ecosystem but report fluctuating profit margins due to cumulative tax burdens, including the Digital Services Tax and Significant Economic Presence Tax, alongside global economic headwinds and local market competition.

The presence of multinational technology firms in Kenya has catalyzed innovation and economic growth by creating employment opportunities, transferring technology know-how, and generating substantial revenue streams for the country (Wahome, 2023). Besides global giants, prominent Kenyan-founded firms with strong regional influence, like Cellulant, M-KOPA, and Lami Technologies, have contributed to the dynamic tech landscape through fintech, health-tech, and Agri-tech solutions. The fintech sector in particular thrives, with Kenya ranking as one of Africa's top fintech hubs with hundreds of startups complemented by foreign investments. The government's strategic support through initiatives like the Nairobi International Financial Centre and improved regulatory frameworks has further encouraged multinational tech companies to expand operations in Kenya, positioning the country at the forefront of digital innovation on the continent.

1.2 Statement of the Problem

The Digital Services Tax (DST) was introduced in Kenya with the principal goal of promoting the digital economy and generating significant revenue for the government. The Kenyan government initially targeted revenue collection of approximately Kshs 10 billion annually from DST (KRA, 2024). However, actual collections have been fluctuating, with the Kenya Revenue Authority (KRA) reporting collections of about Kshs 10.8 billion in the fiscal year 2023/2024, showing moderate success but also highlighting challenges in maximizing potential revenue. Despite the introduction of DST at a rate of 1.5% on the gross transaction value of digital services by non-resident firms, the cumulative tax burden on multinational technology firms, including DST, withholding taxes, VAT, and other excise duties has raised compliance complexities and financial strains (KRA, 2024). This shortfall between targeted versus realized revenue reflects practical challenges in administering and enforcing the tax, as well as the evolving nature of digital businesses that operate across borders and often lack physical presence in Kenya, complicating effective taxation.

For instance, Microsoft's global revenue grew steadily from \$125.8 billion in 2019 to \$260.2 billion in 2024, accompanied by rising net income, indicating robust financial health (Microsoft Annual Reports, 2019–2024). In contrast, IBM's revenues have declined from \$77.1 billion in 2019 to approximately \$65 billion in 2024, reflecting challenges in sustaining growth (IBM Financial Reports, 2019–2024). Similarly, SAP's revenues increased moderately over the same period, but operating profits experienced variability amid changing market conditions and tax environments (Ajayi, 2024). These fluctuations highlight operational complexities faced by multinationals, including growing regulatory and tax compliance obligations (Mponwana & Ndlovu, 2024). Despite these trends, it remains unclear to what extent DST and other tax policies

directly impact the profitability and competitiveness of multinational technology firms in Kenya specifically.

Despite these developments, a significant research gap persists regarding the direct impact of DST and related tax policies on the profitability and competitiveness of multinational technology firms in Kenya. Most existing studies focus on policy frameworks and compliance behaviors (Otuya & Omoye, 2021; Osamor et al., 2023; Wahome, 2023), without empirically examining how digital tax burdens influence firm-level financial outcomes and strategic investments. Furthermore, Kenya's ICT sector is heavily taxed relative to other African countries, with consumer taxes on mobile services comprising 21% of total service costs compared to a 14% average in Africa, and mobile excise duties accounting for 2.2% of total tax revenue against a 3.1% GDP contribution from the sector (GSMA, 2020). This presents a critical research gap, the need for empirical investigation into how digital tax practices influence these firms' financial performance within Kenya's evolving digital economy.

Also, the financial impact of DST and related tax policies on multinational technology firms is significant given Kenya's rising technology sector and its ambitions to be an African tech hub. Digital services make up a substantial and growing part of Kenya's economy, with internet penetration exceeding 85% and a rapidly expanding e-commerce and fintech landscape (Paul, 2021). Nevertheless, research shows that Kenya's ICT sector is heavily taxed; consumer taxes on mobile services, for example, represent 21% of total costs compared to 14% in the rest of Africa, and mobile excise duties contributed 2.2% of total tax revenue in 2020 against the sector's 3.1% contribution to GDP (GSMA, 2020). The added tax layers from DST and SEP threaten to reduce after-tax earnings of multinationals, potentially deterring investment or prompting cost pass-through to Kenyan consumers, which could stifle growth in digital consumption and

innovation. These dynamics pose a complex fiscal policy problem balancing revenue collection with sustaining a competitive environment for multinational technology firms.

1.3 Objectives of the Study

- i. To examine the effect of the significant economic presence (SEP) tax application on the financial performance of multinational technology firms in Kenya.
- ii. To assess the effect of the scope of digital assets on tax liabilities and financial outcomes of multinational technology firms under Kenya's digital tax regime.
- iii. To evaluate the residual effects of DST withholding practices on the financial performance of multinational technology firms in Kenya during the transition period to SEP.
- iv. To analyze the role of DST tax administration and enforcement measures on the financial performance of multinational technology firms in Kenya.

1.4 Research Questions

- i. What is the effect of the Significant Economic Presence (SEP) tax application on the financial performance of multinational technology firms operating in Kenya?
- ii. What is the effect of the scope of digital assets on the tax liabilities and financial outcomes of multinational technology firms under Kenya's evolving digital tax regime?
- iii. What are the residual effects of Digital Services Tax (DST) withholding practices on the financial performance of multinational technology firms in Kenya during the transition period to the SEP tax?
- iv. How do the administration and enforcement mechanisms of DST and SEP tax regimes affect

- v. the compliance costs and financial performance of multinational technology firms operating in Kenya?

1.4 Study Significance

The significance of studying the effect of Digital Services Tax (DST) practices on the financial performance of multinational technology firms in Kenya spans academic, policy, and industry realms. Academically, this research fills a crucial gap by contributing to the understanding of how emerging digital tax regimes impact corporations in developing economies. Previous studies have examined factors such as tax knowledge, fairness, and digitalization as determinants of DST awareness among corporations in Kenya, linking these to tax compliance behavior and revenue performance. This study builds on such foundations by specifically investigating the DST's direct financial effects on multinational technology firms, enriching the literature on international taxation and digital economy tax policies from a developing country perspective. It also provides empirical evidence that may support theoretical tax models such as the Ability to Pay Theory and Technology Acceptance Theory in the context of digital taxation.

From a policy standpoint, the study's findings are vital for government agencies, including the Kenya Revenue Authority (KRA), and policymakers tasked with designing and implementing effective digital tax systems. As Kenya transitions from DST to the more comprehensive Significant Economic Presence (SEP) tax, understanding the financial implications for multinational firms informs tax policy adjustments that balance revenue mobilization with maintaining a competitive investment climate. The research outcomes can help policymakers assess whether current tax rates, administration measures, and compliance frameworks achieve intended fiscal objectives without unduly burdening the sector or discouraging digital innovation.

Furthermore, insights from the study can guide enhancements in taxpayer education and digitalization efforts to improve compliance and reduce disputes.

For the industry, especially multinational technology companies operating in Kenya, the study provides practical value in anticipating and managing the financial consequences of DST obligations. Understanding DST's effect on profitability, cash flow, and broader financial performance equips firms to adopt better tax planning, compliance strategies, and operational adjustments. This awareness supports informed decision-making regarding pricing, expansion, and local engagement strategies. Moreover, industry players may use the findings to engage constructively with tax authorities and participate in policy dialogues, fostering more favorable tax environments and reducing regulatory uncertainties.

1.5 Study Scope

The scope of this study is limited to examining the effect of Digital Services Tax (DST) practices on the financial performance of multinational technology firms operating in Kenya. The study focuses specifically on digital tax frameworks currently applicable in Kenya, including the recently introduced Significant Economic Presence (SEP) tax which replaces the previous DST regime. These taxes target non-resident and resident multinational firms that provide digital services such as streaming, e-commerce, cloud computing, digital platforms, and online marketplaces to Kenyan users. Geographically, the research is confined to the Kenyan market and the tax laws enforced by the Kenya Revenue Authority (KRA). It considers publicly available financial data and tax compliance information from multinational technology companies operating in Kenya, alongside relevant Kenya tax legislation effective from 2021 to 2025. The study does not cover other forms of taxation or firms outside the technology sector. Temporal scope includes the period from DST

introduction in 2021 through the transition to SEP tax in 2024, capturing the evolving digital tax policy environment in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a comprehensive review of the existing literature on the relationship between corporate income tax dynamics and the performance of technology multinational companies (MNCs), with a particular focus on Kenya. This section sets the foundation for the study by examining various perspectives on how evolving tax policies, compliance requirements, and fiscal reforms impact technology MNCs' strategic decisions, financial outcomes, and competitiveness. The review draws on a range of scholarly sources, policy documents, and industry reports to contextualize the challenges and opportunities facing technology MNCs operating in complex and rapidly changing tax environments. This chapter aims to highlight the empirical findings, and theoretical frameworks that inform the study's research questions and methodology.

2.2 Theoretical Framework

The study will employ three primary theories; Technology Acceptance Model, Ability to Pay Theory and Theory of Planned Behavior.

2.2.1 Technology Acceptance Model (TAM)

The Technology Acceptance Theory, more formally known as the Technology Acceptance Model (TAM), was first proposed by Fred Davis in 1986 (Davis & Granić, 2024). It was developed to explain how users come to accept and use a technology by identifying key factors influencing their decision-making process. The core tenets of TAM revolve around two primary beliefs: perceived usefulness (the degree to which a person believes that using a particular system would enhance

their job performance) and perceived ease of use (the degree to which a person believes that using the system would be free of effort). These beliefs shape users' attitudes towards adopting new technology, which in turn affects their behavioral intention to use it. Over time, TAM has been extended and adapted to include other factors such as social influence and facilitating conditions.

Criticism of TAM includes its limited scope in capturing the broader organizational, social, and cultural contexts that affect technology acceptance (Mogaji et al., 2024). Some scholars argue that TAM oversimplifies user behavior by focusing too narrowly on individual cognitive perceptions and neglecting external variables such as management support, policy environments, and economic incentives. Additionally, TAM has been critiqued for assuming rational decision-making, which may not fully apply in all real-world settings, particularly in complex, regulated sectors.

In the context of this research, Technology Acceptance Theory is highly relevant to understanding how multinational technology firms operating in Kenya respond to new digital tax regulations like the Digital Services Tax (DST) and the Significant Economic Presence (SEP) tax. The theory helps explain firms' behavioral intentions to accept, comply with, or resist these tax policies based on their perceptions of the regulations' impact on their operational efficiency and financial performance. It connects directly to the study's objectives by providing a lens to assess how changes in tax administration and enforcement measures influence the firms' financial outcomes through their acceptance or adaptation to these policies. This theoretical framework supports analyzing whether multinational firms perceive these digital tax frameworks as beneficial, burdensome, or manageable, which is crucial for policy effectiveness and business sustainability in Kenya's digital economy.

2.2.2 Ability to pay theory

The Ability to Pay theory in taxation was notably popularized by classical economists, particularly Adam Smith in the 18th century, though its foundations were refined by later thinkers such as John Stuart Mill in the 19th century. The Ability to Pay Theory in taxation is a foundational economic principle advocating that taxes should be levied based on an individual's or entity's financial capacity to bear the tax burden (Seriah, 2024). The core tenets of this theory include equity, progressivity, and social responsibility: equity ensures fairness by taxing according to capacity; progressivity imposes higher tax rates on higher income brackets; and social responsibility justifies taxation as a means to fund public goods beneficial to society. The Ability to Pay Theory stands in contrast to the benefit principle, which links tax payments to benefits received, instead focusing on broader notions of fairness and redistribution. The core proposition of the Ability to Pay theory is that taxes should be levied according to taxpayers' financial capability, meaning those with higher incomes or financial resources should bear a proportionally greater tax burden than those with lesser means. This principle underpins progressive taxation systems, where tax rates increase with income levels.

Criticism of the theory centers on concerns that progressive taxation may discourage economic success and investment by heavily taxing higher earners (Adhikara et al., 2022). Additionally, its practical application can be challenged by difficulties in accurately assessing taxable ability and the risk of taxpayers manipulating income to reduce tax liability. In relation to the research objectives on Digital Services Tax (DST) and related tax practices in Kenya, the Ability to Pay Theory provides a theoretical foundation for evaluating whether the tax burden on multinational technology firms is equitable given their financial performance and market presence. It helps frame the examination of the transition from DST to the Significant Economic Presence

(SEP) tax, which aims to tax profits rather than gross revenue, thus aligning more closely with firms' actual ability to pay. This theory supports assessing the fairness of tax policies and their impact on the profitability, competitiveness, and sustainability of multinational technology firms operating in Kenya's digital economy.

In conceptualizing variables for the study on digital tax regimes and multinational technology firms, the Ability to Pay theory helps frame the examination of the fairness and equity of tax burdens like the Digital Services Tax (DST) and the Significant Economic Presence (SEP) tax. Specifically, it informs variable selection around firms' financial performance indicators (such as profitability and revenue) as proxies for their ability to bear tax costs. It also shapes understanding of tax liability measurements, not just as fixed rates or transaction values but as related to firms' economic capacity to sustain taxes without compromising competitiveness and innovation.

2.2.3 Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB) was initially developed by Icek Ajzen in 1985 as an extension of the earlier Theory of Reasoned Action (Conner, 2020). It aims to explain human behavior by considering the intention to perform a behavior as the primary determinant of action, influenced by three main factors: attitudes toward the behavior (how positively or negatively a person feels about performing it), subjective norms (perceived social pressure to perform or not perform the behavior), and perceived behavioral control (the individual's perception of their ability to perform the behavior) (Conner, 2020). While TPB has been widely adopted in various fields including health, environmental behavior, and organizational studies, it has faced criticism for its assumption that behavior is always under volitional control and that intentions reliably predict behavior. Jokonya (2017) also point out that TPB may inadequately address the role of

unconscious motives, emotional factors, or situational constraints that influence behavior, which can limit its explanatory power in complex real-world contexts.

In the context of this research on Digital Services Tax (DST) practices and the financial performance of multinational technology firms in Kenya, TPB is highly relevant for understanding the behavioral aspects of tax compliance among these firms. Specifically, it offers a framework to analyze how firms' attitudes towards digital tax regulations, the influence of stakeholders such as tax authorities and industry peers (subjective norms), and their perceived control over compliance processes (such as digital filing and enforcement complexities) shape their tax-related behaviors. Incorporating TPB enables a more nuanced analysis beyond purely economic or legal perspectives by accounting for the cognitive and social factors that may affect firms' acceptance, resistance, or adaptation to DST and the Significant Economic Presence (SEP) tax regimes. This addition complements the Technology Acceptance Model and Ability to Pay Theory by embracing the psychological and social dimensions of taxpayer behavior, which are critical for devising effective tax policy and administration in Kenya's evolving digital economy.

2.3 Empirical Literature Review

2.3.1 Significant Economic Presence (SEP) tax application and financial performance

A study by van 't Riet and Lejour (2025) employs a theoretical and policy analysis methodology to examine the global and domestic shifts in taxing digital firms' profits rather than gross revenues. Their approach involves reviewing international tax policy frameworks, specifically OECD guidelines, and analyzing Kenya's transition from the Digital Services Tax (DST) to the Significant Economic Presence (SEP) tax. The study highlights that the SEP tax (imposing a 30%

tax on 20% of gross turnover as deemed profits) aims to enhance fairness and competitiveness by taxing profit rather than gross revenues. However, the study's findings are based primarily on policy and theoretical frameworks rather than firm-level empirical data. This reliance on normative analysis leaves a notable gap regarding the direct financial impact of SEP tax on multinational technology firms' profitability and operational outcomes in Kenya.

In contrast, the current study adopts a quantitative empirical approach, integrating firm-level financial records, tax compliance data, and stakeholder interviews to directly assess how SEP tax practices influence financial performance metrics such as profitability, revenue growth, and investment behavior among multinational technology firms operating in Kenya. This methodological distinction aims to provide concrete evidence on the practical effects of SEP tax at the corporate level, thereby addressing the empirical gap identified in prior studies including van 't Riet and Lejour (2025). By bridging policy analysis with firm-level data, the current study advances understanding of digital taxation's real-world implications within Kenya's evolving digital economy.

Ajayi (2024) conducts an empirical appraisal of the OECD's digital tax reforms, focusing on developing countries including Kenya. The study employs a comparative case study design, utilizing secondary fiscal data and firm-level performance indicators to assess the impact of digital tax policies. Specifically, it analyzes effective tax rates, investment patterns, and competitiveness metrics across multinational technology firms operating in different jurisdictions. Using this mixed-data approach, Ajayi identifies an increase in effective tax rates following the shift to the Significant Economic Presence (SEP) tax, highlighting potential negative effects on reinvestment capacity and market competitiveness.

Methodologically, the study integrates quantitative data analysis with comparative policy evaluation to draw conclusions about tax burdens and their economic repercussions. In contrast, the current study will address this gap by adopting a Kenya-specific empirical framework, combining firm-level financial data, tax compliance records, and qualitative insights from key stakeholders within multinational technology firms operating in Kenya. This approach allows for a granular analysis of how SEP tax and residual Digital Services Tax (DST) withholding practices affect firm profitability, investment behavior, and compliance costs in the unique Kenyan regulatory context. Thus, while Ajayi (2024) provides valuable macro-level insights on OECD digital tax reform impacts, the current research advances understanding by delivering micro-level, Kenya-focused evidence on the direct financial consequences for multinational firms under the evolving digital tax regime. This differentiation strengthens the empirical basis for policymaking tailored to Kenya's specific digital economic landscape.

A study by Kiplagat (2022) offers a more firm-focused examination of tax compliance behavior and financial outcomes among multinational technology firms transitioning from Kenya's Digital Services Tax (DST) regime to the Significant Economic Presence (SEP) tax. The study employs a mixed-methods design combining quantitative financial data analysis from corporate records with qualitative interviews conducted with tax managers and compliance officers across affected firms. Kiplagat's findings indicate that the implementation of the SEP tax has led to adjustments in tax planning strategies and increased overall tax expenses, producing a moderate negative impact on profitability while simultaneously encouraging greater adherence to tax regulations. However, the study's limitation lies in its relatively small sample size and short observation period, which constrain the ability to capture longer-term financial trends and broader generalizability.

In comparison, the current study extends Kiplagat (2022) work by employing a larger, more representative sample of multinational technology firms and incorporating longitudinal financial data encompassing several fiscal years both before and after the SEP tax enactment. Additionally, it integrates a wider set of empirical data, including firm-level tax compliance records and broader stakeholder interviews, to provide a comprehensive assessment of financial performance changes attributable to SEP and residual DST effects. This enhanced empirical framework addresses prior limitations and yields more robust evidence on how Kenya's evolving digital tax landscape affects multinational firms' profitability, investment behavior, and compliance costs in practice.

These studies collectively address Kenya's SEP tax from policy, comparative, and firm-level perspectives. While van 't Riet and Lejour (2025) provide the theoretical policy rationale, Ajayi (2024) contributes cross-country empirical insights but lacks firm-level granularity, which Kiplagat (2022) partially fills. The main gap remains comprehensive, longitudinal firm performance data capturing SEP tax effects on multinational tech firms in Kenya specifically. This gap justifies the present study's focus on empirical financial performance under SEP tax, combining firm data with tax compliance and administrative factors for a holistic understanding. In comparison, van 't Riet and Lejour and Ajayi focus on policy and macro perspectives, while Kiplagat offers closer firm-level evidence related to financial impact, aligning more directly with this research's objectives on financial performance impacts of SEP tax application.

2.3.2 The scope of digital assets and financial performance

Kaercher and Cranor (2022) employ a legal and policy analysis methodology to examine the taxation complexities related to digital assets. Their approach involves a detailed review of tax statutes, policy documents, and regulatory frameworks predominantly within the U.S. tax context. By analyzing tax incentives, definitions, and compliance guidance, they identify how inconsistent

tax treatments and subsidies create challenges for tax compliance and open avenues for avoidance. The study synthesizes existing legal texts and policy instruments but does not incorporate empirical financial data from firms. This contrasts with the current study's empirical methodology, which integrates firm-level financial data, tax compliance records, and direct stakeholder interviews in Kenya. While Kaercher and Cranor (2022) illuminate theoretical and policy-level challenges in digital asset taxation, their U.S.-centric analysis leaves a context-specific gap in understanding how such taxation affects multinational firms' financial outcomes in Kenya. The current study addresses this by focusing on Kenya's digital tax regime, including the Significant Economic Presence (SEP) tax, providing concrete data on firm profitability, tax burdens, and compliance costs unique to the Kenyan regulatory environment.

Osamor et al. (2023), in their study employ a qualitative research methodology centered on thematic analysis of a wide range of secondary data sources. The study systematically examines how digital payment platforms and a variety of digital assets contribute to broadening taxable income bases, enhance tax transparency, and influence firm-level tax compliance. Their methodological approach draws on cross-national comparative data and expert commentary to highlight overarching trends and challenges faced by tax authorities globally in capturing the full scope of digital assets, challenges that directly affect firms' tax liabilities and financial outcomes. However, Osamor et al.'s study remains macro in scale and general in context, lacking empirical firm-level financial data or Kenya-specific analysis. In contrast, the current study will fill this empirical void by adopting a Kenya-focused, firm-level quantitative and qualitative approach. It integrates detailed financial performance records, tax compliance data, and stakeholder interviews with multinational technology firms operating within Kenya's specific digital tax regime, including the Significant Economic Presence (SEP) tax. This methodology enables a granular,

evidence-based assessment of how digital tax policies concretely influence firm profitability and investment decisions in the Kenyan context.

Efimova et al. (2024) conduct a doctrinal legal analysis to explore the conceptual and legal frameworks surrounding digital financial assets such as tokens and cryptocurrencies. Their methodology involves a systematic review of legal texts, statutes, case law, and regulatory frameworks across different jurisdictions. By examining interpretations of civil law doctrines and comparative legal approaches, they identify that digital assets constitute a new form of absolute rights, distinct from traditional tangible property rights. These assets are legally intangible yet function as objects within legal relations, raising complex questions about ownership, rights confirmation, and regulatory treatment. Unlike empirical studies focusing on taxation impacts, Efimova et al. provide a theoretical foundation addressing challenges in classifying and regulating digital assets under existing financial and tax regimes. Efimova et al. (2024) work highlights the absence of standardized legal frameworks, especially critical for emerging economies adapting taxation laws to digital financial assets like those in Kenya. This contrasts with the current study's empirical approach, which will analyze firm-level financial data and tax compliance within Kenya's evolving digital tax environment, including the Significant Economic Presence (SEP) tax. By bridging theoretical legal perspectives with practical financial outcomes, the present study will fill a gap in understanding how intangible digital assets affect multinational firms' tax liabilities and profitability in Kenya.

Comparing this with Kaercher and Cranor (2022), who analyze the taxation complexities of digital assets primarily from a policy and tax compliance perspective within developed countries, Efimova et al. provide a deeper legal conceptual foundation that underlines why tax systems struggle with digital assets, grounding tax challenges in legal theory. Both studies

converge on recognizing definitional ambiguity as a critical barrier to effective taxation but differ in scope, Efimova et al. focus on legal nature while Kaercher and Cranor emphasize tax policy impacts. Similarly, Osamor et al. (2023) highlight the tax base expansion challenges posed by the digital economy from a taxation and fiscal growth perspective. Their qualitative analysis aligns with Efimova et al.'s findings about the increasing digitalization of assets but maintains a broader macro tax policy lens rather than a legal theoretical view. The foundational legal ambiguities discussed by Efimova et al. provide context to Osamor et al.'s conclusions about tax base growth limitations and compliance issues.

These studies complement each other: Efimova et al. situate the problem at a legal conceptual level, Kaercher and Cranor focus on tax policy and practice challenges, and Osamor et al. assess broad fiscal and compliance implications. This triangulation enriches understanding of why taxing digital assets remains complex and why clarifying legal definitions is essential for firms' tax compliance and the financial outcomes examined in the context of Kenya's DST and SEP tax frameworks. These insights underscore the research objective related to how the scope of digital assets influences financial outcomes through legal, tax, and compliance lenses.

2.3.3 Digital Services Tax (DST) withholding practices and the financial performance

Mponwana and Ndlovu (2024) examine Kenya's digital tax policy using a combined policy analysis and firm financial data approach. Their methodology involves reviewing existing tax regulations, including Digital Services Tax (DST), withholding taxes (WHT), Value Added Tax (VAT), and excise duties, and analyzing summarized financial reports of multinational firms to assess tax layering impacts on profitability and cash flow. They also employ qualitative inputs from tax compliance literature and secondary firm data to highlight challenges such as strained operating capital and increased compliance complexity. However, the study lacks detailed firm-

level quantitative analysis to precisely quantify withholding taxes' financial magnitude and isolate their impact on corporate profitability.

By contrast, the current study will apply a comprehensive empirical methodology involving firm-level financial records, tax compliance data, and interviews with tax officials and corporate tax managers. This design facilitates quantitative measurement of financial performance indicators tied directly to DST, SEP tax, and related withholding practices. The approach allows for causally attributing observed profitability fluctuations to digital tax policies within the Kenyan context, thus filling gaps left by Mponwana and Ndlovu (2024) broader policy-centered analysis. Additionally, the current study's focus on the SEP tax transition period and its granular analysis of enforcement and administration measures distinguishes it further by addressing practical financial outcomes for firms during policy evolution.

ITIF (2025) analyzes Kenya's digital tax framework's impact on U.S. technology companies, focusing specifically on withholding tax (WHT) implications. Their methodology involves a sector-specific economic impact assessment that synthesizes data from company financial reports, tax payment records, and macroeconomic indicators, combined with policy reviews. Through this comprehensive approach, ITIF quantifies how the 20% WHT on non-residents, when combined with the Significant Economic Presence (SEP) tax and VAT, multiplies the overall tax burden on multinational firms, potentially impairing profitability and discouraging investment. The analysis also includes stakeholder consultations and scenario modeling to evaluate the broader consequences for tax planning and competitiveness.

However, ITIF (2025) study mainly extrapolates from economic and policy-level data without detailed empirical firm-level financial analyses within Kenya, which limits the granularity of their findings on direct profitability or investment impacts for individual firms. By contrast, the

current study will use an empirical design integrating firm-level financial data, tax compliance records, and qualitative interviews with tax managers and corporate stakeholders in Kenya. This allows precise measurement of DST, SEP, and WHT impacts on firm financial performance, enabling a more granular causal understanding of digital tax policies in Kenya's unique regulatory environment. Hence, while ITIF's work provides valuable macroeconomic and policy context, the current study fills the research gap by delivering detailed empirical evidence of tax impacts at the firm level during the SEP transition period.

Smith (2022) studied Reflections from the brink of tax warfare: Developing countries, digital services taxes, and an opportunity for more just global governance with the OECD's Two-Pillar Solution. The study explores the geopolitical and global governance dimensions of Digital Services Taxes (DSTs). The study uses a policy and legal analysis framework to reflect critically on the emergence of DSTs by developing countries as a response to international tax avoidance by digital multinationals. Smith finds that DSTs serve as negotiation tools for developing nations to advocate for a fairer global tax system under the OECD's Two-Pillar framework, which aims to reallocate taxing rights more equitably. The study highlights the tension between unilateral DST implementations and multilateral reform efforts, emphasizing DSTs' significance beyond revenue generation to include economic sovereignty and justice. A crucial gap identified is the limited empirical focus on firm-level financial impacts of DSTs in developing countries, as Smith concentrates more on policy and international relations. This gap complements research focusing on financial performance effects at the multinational firm level, such as those examining Kenya's DST and SEP tax.

Smith (2022) study relates to the broader research context by framing DSTs in Kenya and similar countries as instruments of global tax justice and economic empowerment, thereby

providing a macro-political backdrop for understanding the financial implications DST and SEP taxes have on multinational firms. It contrasts with studies with a firm-level or fiscal focus by elevating the discussion to issues of international tax diplomacy and governance. In comparison, while Smith (2022) addresses global governance and normative tax justice debates, studies like van 't Riet and Lejour (2025) or Kiplagat (2022) ground the issue in national policy transitions and firm financial outcomes. Together, these perspectives provide a comprehensive understanding of the multiple dimensions, political, legal, fiscal, and economic, shaping DST impacts on multinational technology firms in developing countries like Kenya.

2.3.4 Tax administration enforcement measures and financial performance

Opiyo (2020) conducts a quantitative study on tax compliance in Kenya, investigating the effectiveness of administrative measures implemented by the Kenya Revenue Authority (KRA). The research methodology involves a structured survey design targeting firms, collecting primary data through closed-ended questionnaires administered to tax managers and corporate financial officers. Descriptive and inferential statistical analyses, including correlation and regression, are employed to evaluate the relationship between KRA's digitalization of tax processes, taxpayer education, enforcement efforts, and compliance levels.

The findings reveal that digital platforms like iTax, enhanced taxpayer education, and enforcement mechanisms have improved compliance rates. However, Opiyo identifies that compliance costs and ambiguities in Digital Services Tax (DST) administration negatively impact operational efficiency and financial performance. Nevertheless, the study's limitation lies in its broad compliance focus without isolating the direct financial effects of DST enforcement within the digital economy sector. In contrast, the current study adopts a more focused empirical approach by analyzing firm-level financial data, tax payment records, and conducting in-depth interviews

with key digital sector stakeholders. This allows precise measurement of how DST enforcement and related tax policies affect profitability, tax burdens, and compliance costs specifically within Kenya's multinational technology firms. Hence, while Opiyo provides foundational insights into tax compliance behavior, the current research deepens understanding by quantitatively linking tax enforcement to financial outcomes in the digital economy—addressing a key research gap in Kenya's evolving digital tax landscape.

The Kenya Revenue Authority (KRA, 2024) publishes periodic reports detailing digital tax enforcement initiatives, highlighting that improved digital tax filing platforms and targeted audits have raised awareness and compliance among digital service providers. While such enforcement strengthened revenue collection, the reports acknowledge that compliance costs and complexities can affect firms' cash flow and profitability. However, these findings are mostly descriptive and lack detailed empirical analysis on firm financial outcomes.

Wahome (2023) employs a mixed-methods research design to examine the Kenya Revenue Authority's (KRA) enforcement strategy and digitalization efforts in the country's burgeoning technology sector. The methodology integrates comprehensive policy document reviews with qualitative interviews conducted with tax officials and representatives of digital firms. This approach provides a dual perspective: policy-level insights into administrative reforms and firsthand accounts of their effects on tax compliance and operational challenges. The study finds that digitalization and administrative reforms under KRA have increased tax compliance awareness and reduced risks of tax evasion. However, it also highlights complexities arising from the Digital Services Tax (DST) and multi-layered taxation regimes that impose financial and operational burdens on firms.

Wahome (2023) suggests that clearer tax guidelines and streamlined tax administration are necessary to mitigate these negative impacts. Distinctively, while Wahome's study provides a policy perspective enriched by stakeholder voices and qualitative analysis, the current study adopts a more empirical firm-level quantitative approach. It primarily focuses on measuring the financial performance outcomes correlated to DST enforcement and the transition to the Significant Economic Presence (SEP) tax among multinational technology firms. Thus, this research moves beyond administrative and policy discussions to quantitatively assess tax impacts on firm profitability and compliance costs, addressing gaps identified in studies like Wahome's.

In this case, Opiyo (2020), KRA (2024), and Wahome (2023) agree that KRA's enforcement and digitalization improve compliance and awareness but also highlight compliance costs and administrative uncertainties as barriers to operational efficiency and financial performance. Opiyo's firm-level survey complements KRA's broad enforcement data while Wahome (2023) adds nuanced policy and qualitative insights. These studies collectively inform the research topic by emphasizing the dual impact of tax administration measures: fostering compliance yet potentially constraining multinational technology firms' financial performance in Kenya's digital tax environment.

2.4 Research Gaps in Literature

Firstly, existing studies heavily focus on policy analysis, taxation frameworks, and compliance awareness (Ismail, 2020; Kiplagat, 2022; Mponwana & Ndlovu, 2024), but there is limited empirical analysis on the direct financial performance impacts of DST and the Significant Economic Presence (SEP) tax on multinational technology firms. Quantitative assessments linking tax expenses to profitability, cash flow, and competitiveness remain sparse. Secondly, much of the

literature addresses DST in isolation without fully integrating how other overlapping taxes like withholding tax, VAT, and excise duties collectively affect multinational firms' financial outcomes and operational efficiencies (ITIF, 2025; Wahome, 2023). This fragmented approach limits holistic understanding of the comprehensive tax burden and its implications. Thirdly, there is a significant gap concerning the longitudinal effects of digital tax reforms given Kenya's rapid transition from DST to SEP tax within a few years (van 't Riet & Lejour, 2025; Ajayi, 2024). Long-term impacts on investment decisions, innovation capacity, and market expansion strategies for multinational firms are not well documented.

Finally, tax administration and enforcement challenges, including digitalization efforts by the Kenya Revenue Authority (KRA), are acknowledged but lack deep firm-level analyses on how administrative measures influence tax compliance behavior and thereby financial performance (Opiyo, 2020; KRA, 2024). The cost-benefit dynamics of compliance versus enforcement remain underexplored. Addressing these gaps, future research should empirically quantify the combined financial effects of digital tax frameworks, including DST, SEP, withholding taxes, and administration measures on multinational technology firms in Kenya, using longitudinal design for comprehensive insight. This would provide crucial evidence to support balanced digital tax policy reforms conducive to sustainable growth in Kenya's digital economy.

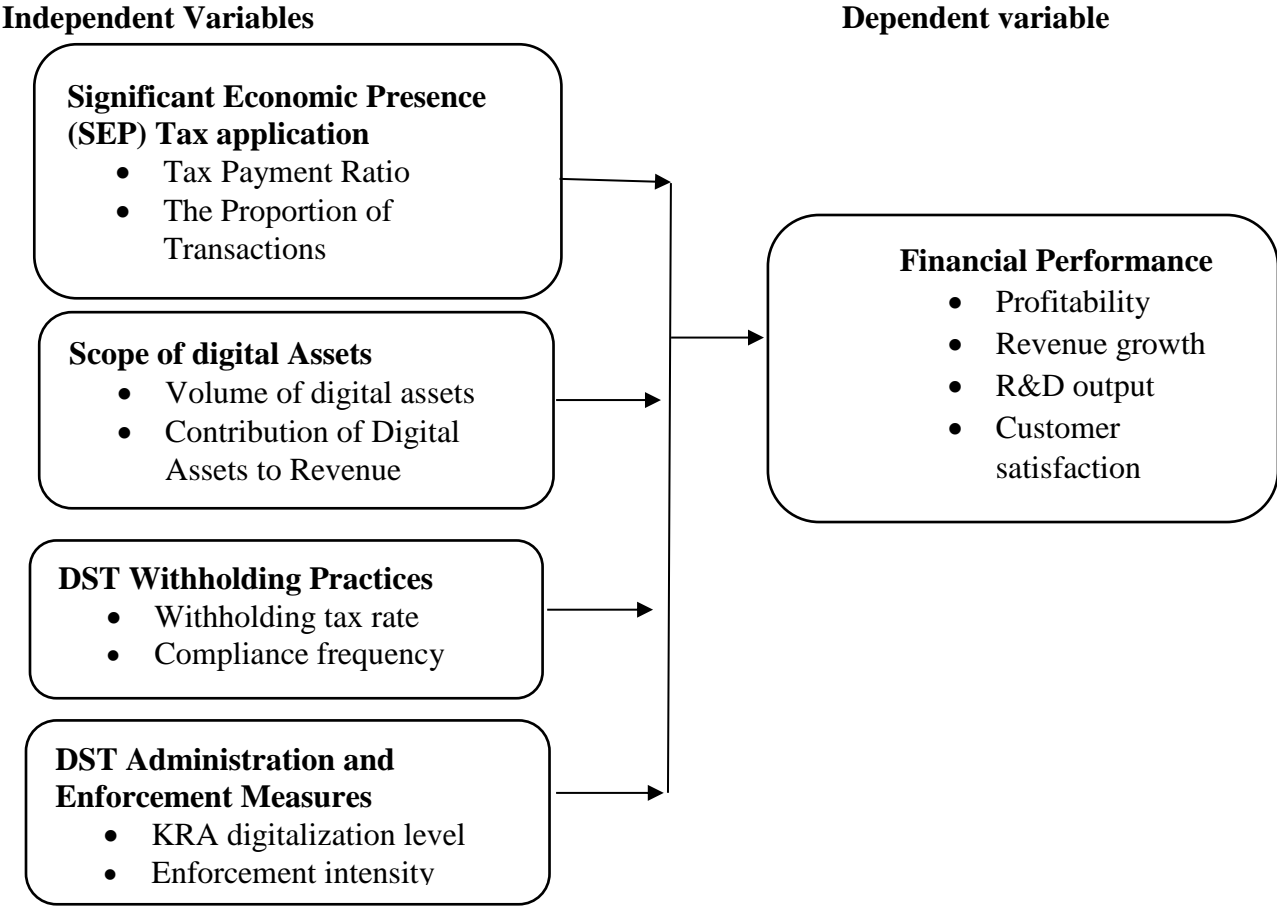
2.5 Conceptual Framework

The conceptual framework provides a structured representation of the relationship between Digital Services Tax (DST) practices and the financial performance of multinational technology firms in Kenya. Building on the theoretical foundations and literature review, this framework illustrates how various aspects of Digital Services Tax (DST) practices influence the financial outcomes of

technology MNCs. The framework acknowledges both direct and indirect pathways through which DST affect firm financial performance. By visually mapping these relationships, the conceptual framework serves as a guide for empirical investigation, helping to identify key variables, their interrelationships, and potential causal mechanisms.

FIGURE 1

Conceptual Framework (Author, 2025)



2.7 Operationalization of variables

The operationalization of variables for the study on the effect of Digital Services Tax (DST) practices on the financial performance of multinational technology firms in Kenya involves clearly defining each variable, its type, indicators, measurable scale, and metrics. The independent variables consist of the Significant Economic Presence (SEP) Tax application, which is measured by the tax payment ratio and proportion of Kenya-based users or transactions, expressed as a percentage of gross turnover. The scope of digital assets is another independent variable, operationalized by quantifying the volume and types of digital assets owned or managed by firms, using numerical counts and asset valuations as metrics. DST withholding practices are captured through the withholding tax rate and the frequency of compliance events, measured in percentages and counts of withholding occurrences, respectively. Additionally, DST administration and enforcement measures are operationalized by assessing the level of digitalization in Kenya Revenue Authority's tax systems and the intensity of enforcement activities like audits, using ordinal or interval scales.

The dependent variable, financial performance, is operationalized using multiple indicators such as profitability, revenue growth, research and development (R&D) output, and customer satisfaction. These are quantitatively measured through net profit margins, percentage revenue growth rates, counts of patents or innovations, and indices reflecting customer satisfaction levels. Together, these operational definitions provide a structured approach to quantitatively assess how variations in digital tax practices influence the financial outcomes of multinational technology firms within Kenya's rapidly evolving digital economy.

TABLE 2
Operationalization of variables

Variable	Variable Type	Indicators	Metrics
Significant Economic Presence (SEP) Tax	Independent Variable	-Tax Payment Ratio -The Proportion of Transactions	Percentage tax rate, % of gross turnover deemed taxable
Scope of Digital Assets	Independent Variable	Volume of digital assets, Types of assets	Number of digital asset categories owned, valuation of assets
DST Withholding Practices	Independent Variable	Withholding tax rate, Compliance frequency	WHT rate %, number of withholding tax deductions or occasions
DST Administration and Enforcement Measures	Independent Variable	KRA digitalization level, Enforcement intensity	Level of digital tax system automation, audit frequency
Financial Performance	Dependent Variable	Profitability, Revenue growth, R&D output, Customer satisfaction	Net profit margin %, % revenue growth, Patent counts, Satisfaction index

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology adopted to examine the study variables. It details the research design, target population, sampling techniques, data collection methods, and analytical approaches that will be used to address the study's objectives. The methodology is structured to ensure rigor, reliability, and relevance, drawing on both theoretical frameworks and practical considerations unique to Kenya's evolving fiscal environment for technology MNCs.

3.2 Research Design

The study employed an explanatory research design using quantitative method (Pandey & Pandey, 2021). Explanatory research design is applicable where researcher tries to explore the causes and effects or influence(s) which explain pattern of situation in variable(s). For instance, the effect of changes in the independent variable (income tax dynamics) on the dependent variable (performance of technology MNCs). Using a quantitative explanatory design enhances objectivity, increases reliability, and allows research findings to be generalized to the larger population of technology MNCs in Kenya thus providing solid evidence for policy and managerial decisions (Pandey & Pandey, 2021).

The study utilized secondary data sources comprising audited financial statements, tax payment records, and administrative compliance data from multinational technology firms and Kenya Revenue Authority databases. Secondary quantitative data will be supplemented by primary data from structured questionnaires where necessary. The combination of secondary and primary

data enriches the analysis by providing comprehensive, objective, and verifiable datasets that improve the robustness and validity of the research findings.

3.3 Population and Sampling

The target population for this study comprised five technology multinational companies operating in Kenya, reflecting the sector's critical role in the country's economic growth and digital transformation. It is not easy to identify the exact population size across these TMOs. Therefore, the researcher used an estimated target population of 868 employees from the organizations (HR report, Microsoft, IBM, Oracle, Cisco, and SAP, 2023). The TMOs served as the unit of observation. To ensure that the sample accurately represents the diversity within the technology sector, stratified random sampling will be employed. This approach involved categorizing technology MNCs into key subsectors (such as fintech, cloud services, and e-commerce) and then randomly selecting firms from each stratum proportionately to form the study sample (Coles, 2017). Stratified random sampling enhances representativeness by capturing the unique characteristics and operational contexts of different technology subsectors, thereby increasing the validity and generalizability of the study's findings. This method is particularly suited to the Kenyan technology landscape, which is marked by rapid innovation and a varied mix of global players, ensuring that the analysis reflects the full spectrum of tax dynamics and performance outcomes across the sector.

The target population for this study consisted of five multinational technology companies operating in Kenya. These companies form the critical sector focus due to their significant role in Kenya's economic growth and digital transformation.

TABLE 3
Target Subsectors

Technology Firms	No.	Population (N)
Fintech	2	346
Cloud Services	1	173
E-commerce	2	346
Total (N)	5	865

The unit of analysis in this study were the multinational technology firms, as the research examined aggregate firm-level outcomes such as financial performance indicators (profitability, revenue growth, R&D output, and customer satisfaction) in relation to digital tax practices. The unit of observation refers to the specific entities or respondents within these firms who provide data for the study, typically representatives were tax managers, finance officers and other relevant corporate officials knowledgeable about tax compliance and financial performance.

3.3.1 Sample size determination

According to Saunders et al. (2007), a sample is a subset of the target population. When an appropriate sample size and sampling techniques are applied, this sample enables researchers to make valid inferences about the broader population. In this study, the sample size was determined by the number of observation units from which data is expected to be collected. The Yamane formula was used to calculate the sample size, considering different confidence levels and precision values, such as 5%, 10%, or a 0.05 level of precision (e).

Thus, the formula used below.

$$n = N / (1 + N(e^2))$$

Where; n = sample size.

N = total target population

e = margin error (10%).

N = target population 865

e = margin error 10% (e= 0.1)

In the proposed study, the sample size will be;

$$\begin{aligned} n &= 865 / (1 + 865 \times 0.1 \times 0.1) \\ &= 865 / 9.65 = 89.6 = 90 \end{aligned}$$

$$\mathbf{\underline{n = 90}}$$

TABLE 3.2

Sample size

Technology Subsectors	Total Population (N)	Sample Size Calculation	Sample size (n)
Fintech	346	$(346/865) * 90$	36
Cloud Services	173	$(173/865) * 90$	18
E-commerce	346	$(139/865) * 90$	36
Total (N)	865		90

Stratified random sampling was employed as the sampling technique to ensure representativeness across distinct segments within the technology sector. The criteria for

stratification involve categorizing these multinational firms into key subsectors of the technology industry, such as: Fintech, Cloud services and E-commerce. Each stratum represents a subsector characterized by specific operational contexts and tax dynamics. Firms are then randomly selected from each stratum to form a sample that captures the diversity of tax practices and financial outcomes across the digital economy landscape in Kenya. This stratification thereby enhances the validity and generalizability of the study's findings by reflecting the heterogeneous nature of the technology sector.

3.4 Data Collection

The study utilized structured questionnaires as the primary research instrument to collect data from technology multinational companies operating in Kenya (Coles, 2017). The questionnaires were distributed using the drop-and-pick method, ensuring broad coverage and convenience for respondents across the selected companies. This approach allows respondents sufficient time to complete the questionnaires accurately, thereby enhancing response quality and reliability. The questionnaire predominantly consisted of closed-ended questions, facilitating quantitative analysis and enabling the collection of consistent, comparable responses across diverse subsectors such as fintech, cloud services, and e-commerce. This structured data collection process is designed to systematically capture insights on corporate income tax dynamics and their effect on the financial performance of technology MNCs in Kenya. The process of research consisted of collection and processing of data, analysis of results, and drawing a conclusion on the influence of income tax dynamics on the performance of enterprises.

An explanatory research design is justified in this study as it focuses on identifying and explaining the causal relationships between digital tax regimes and financial performance of

multinational technology firms. This design facilitates understanding of how specific independent variables such as tax practices and asset classifications influence dependent variables like profitability and competitiveness. Its structured, hypothesis-driven approach enables rigorous testing of theoretical propositions to provide actionable insights for policymakers and industry stakeholders.

3.5 Pilot Study

Piloting involves pretesting the study questionnaires with a smaller, representative sample to identify potential biases and issues in the research instrument (Malmqvist et al., 2019). In this study, the questionnaire was pretested at Nescom Kenya in Nairobi City before administering it to the target respondents using 10% of sample population, which was not be part of main study. Based on the feedback from this pretest, necessary improvements were made to enhance the questionnaire's clarity and effectiveness.

3.5.1 Reliability

Reliability refers to the consistency of results obtained from the research instruments when repeated under similar conditions. It assesses how dependably the instrument measures the intended variables. In this study, reliability was evaluated using Cronbach's Alpha for the items associated with each study objective or variable. According to Wallen and Fraenkel (2013), an instrument with an alpha coefficient of 0.7 or higher is considered reliable. If the Cronbach's Alpha value is below 0.7, the corresponding items were revised to improve consistency and ensure adequate reliability.

3.5.2 Validity

Validity concerns the accuracy and appropriateness of the inferences drawn from the research findings. After pre-testing, adjustments were made to ensure the measures suitably captured the intended constructs. Content validity was established with support from the study supervisor, following guidelines by Blumberg et al. (2014). Ensuring validity is critical for maintaining the quality and trustworthiness of research outcomes. Researchers commonly apply various strategies such as expert evaluation, statistical validation, and pilot testing to evaluate and enhance validity. Important validity types include content validity, which assesses whether the measurement tool adequately covers all relevant aspects of the concept, and construct validity, which determines how well the operational definition of a variable truly represents the theoretical concept being studied.

3.6 Data Analysis

Collected data was analyzed using SPSS statistic software. The analysis included descriptive statistics, which summarizes the data, and inferential statistics, which are used for determining the strength of relationships between variables.

3.6.1 Diagnostic Tests

Prior to performing regression analysis, the researcher conducted diagnostic tests to ensure the dataset's suitability for regression. These tests provided essential information about the respondents and examined their impact on the primary study objective. The diagnostic tests carried out were; Normality, Multicollinearity and Heteroscedasticity.

3.6.1.1 Normality test

The normality test assesses the probability that the underlying random variable of the dataset follows a normal distribution. Normality implies that the collected data conforms to a normal

distribution within the population or the sample (Kothari, 2004). In this study, normality will be evaluated using the Normal Q-Q plot.

3.6.1.2 Multicollinearity test

Multicollinearity occurs when an independent variable is highly correlated with one or more other predictors in a multiple regression model, indicating a strong linear relationship among the independent variables. The researcher tested for multicollinearity by calculating the Variance Inflation Factor (VIF) and tolerance value. As per the assumption, if the VIF values fall between 1 and 5, it indicates no significant multicollinearity among the independent variables, thereby validating the test.

3.6.1.3 Heteroscedasticity test

Heteroscedasticity refers to the condition where the error terms in a regression model do not have constant variance (Godfrey, 2008). Testing for heteroscedasticity is vital to enhance the accuracy, reliability, and validity of the conclusions drawn from the regression model (Wooldridge, 2016). The study will employ the Breusch-Pagan test to check for heteroscedasticity. The dataset will be considered free from heteroscedasticity if the P-value obtained is greater than 0.05.

3.6.2 Multiple regression model

The study employed the following multiple linear regression model to empirically examine the influence of Digital Services Tax (DST) practices on the financial performance of multinational technology firms in Kenya:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \dots \epsilon$$

Where:

F_{Pi} (Y) = Financial Performance of firm, operationalized through net profit margin, revenue growth, R&D output, and customer satisfaction indices.

SEP (X1) = Significant Economic Presence Tax application for firm, measured by effective tax payment ratio and proportion of Kenya-based users or transactions.

ScopeDA (X2) = Scope of Digital Assets owned or managed by firm, measured by volume and types of digital assets.

DSTWP (X3) = Digital Services Tax Withholding Practices for firm *ii*, operationalized by withholding tax rate and compliance frequency.

DSTAdmin (X4) = DST Administration and Enforcement measures, quantified through KRA's tax digitalization level and enforcement intensity such as audit frequency.

β_0 = Intercept term

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients estimating the effect sizes of independent variables and controls

ϵ = Error term capturing unexplained variation

3.7 Ethical Considerations

This study adhered to strict ethical standards to ensure the integrity and credibility of the research process. Participation by technology multinational companies and their representatives were entirely voluntary, with informed consent obtained prior to data collection. Respondents were assured of the confidentiality and anonymity of their responses, and all data collected were used solely for academic purposes. The study avoided collecting any sensitive or personally identifiable information that could compromise privacy. Additionally, the research complied with all relevant institutional and national ethical guidelines, including seeking approval from the appropriate ethics review board before commencing fieldwork. Care was taken to present findings honestly and accurately, avoiding any form of data fabrication, misrepresentation, or plagiarism. These

measures were intended to protect participants' rights, foster trust, and uphold the highest standards of academic and professional conduct.

CHAPTER FOUR

RESULTS ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter typically begins with an introduction to the results analysis and interpretation section. The section presents the findings of the study in a clear, objective, and logical sequence. The data is displayed through narrative text supported by tables, charts and graphs that correspond directly to the research questions. Interpretation of the findings, including their significance and relation to prior literature, typically follows in a discussion section. The introductory part of Chapter Four sets the stage for explaining how the data address the study's objectives and signals the structure and flow of the results presentation.

4.2 Reliability of the Instruments

The reliability results presented in Table 4.1 show Cronbach's Alpha values ranging from 0.70 to 0.81 across five constructs: Significant Economic Presence (SEP) (0.78), Scope of Digital Assets (0.81), DST Withholding Tax Practices (0.71), DST Administration (0.81), and Financial Performance (0.70). According to the threshold suggested by Wallen and Fraenkel (2013) and cited in the thesis, a Cronbach's Alpha of 0.7 or above indicates acceptable internal consistency and reliability of the measurement instrument used to gather data on these constructs. This means the items within each variable are sufficiently correlated and consistently measure the intended concept.

TABLE 4
Cronbach's Alpha Reliability

	Cronbach's Alpha	N of Items
Significant economic presence (SEP)	0.78	6
Scope of Digital Assets	0.81	6
DST withholding tax practices	0.70	6
DST Administration	0.81	6
Financial Performance	0.70	6

(Source: Researchers Survey Computations, 2025)

Empirical literature in the thesis supports this interpretation of reliability. For example, Opiyo (2020) and Wahome (2023) underscore the importance of robust instruments to capture tax compliance and administration factors reliably. Studies like Kiplagat (2022) that examined tax compliance behavior and financial outcomes in Kenyan multinational tech firms emphasize that reliable measurement scales are crucial to drawing valid conclusions about the complex relationships between tax practices such as DST and SEP and financial performance.

The acceptable reliability coefficients for DST withholding tax practices (0.71) and financial performance (0.70) particularly support confident use of these survey items to assess firms' experiences with tax burdens and corresponding financial impacts. Meanwhile, the high reliability for scope of digital assets and DST administration (0.81 each) reflect strong internal consistency in capturing how digital asset volumes and tax administration processes contribute to the financial outcomes studied. The Cronbach's Alpha results affirm that the study's research instruments are reliable for empirical examination of digital tax practices and financial performance of multinational technology firms in Kenya.

4.2.1 Response rate

The response rate presented in Table 4.2 shows an impressive 98% return rate from the distributed questionnaires (88 out of 90), with only 2% not returned. Such a high response rate is indicative of strong participant engagement and significantly enhances the quality, reliability, and representativeness of the data collected for the study. According to survey research literature, response rates above 70% are generally considered excellent and contribute to the validity of findings by reducing non-response bias (Holtom et al., 2025; Green et al., 2016). The high rate in this study aligns well with Kiplagat (2022) and Mponwana & Ndlovu (2024), who emphasize that robust response levels in tax-related firm surveys are critical for credible empirical analyses.

TABLE 5
Response Rate

Questionnaire	Frequency	Percentage (%)
Returned	88	98
Not Returned	2	2
Total	90	100

(Source: Researchers Survey Computations, 2025)

4.3 Demographic Information

The demographic characteristics shown in Table 4 communicate vital sample profile information that strengthens the study's validity and contextual interpretation. Gender distribution (43.2% female, 56.8% male) ensures representation across sexes, allowing examination of whether tax and financial outcomes differ by gender dynamics within firms. Service period data (<1 year to 7 years) highlights respondent experience levels, important for assessing the depth of knowledge and

perspective in understanding DST and SEP tax practices. Firm size by number of employees (<50 to >100) contextualizes results by organizational scale, as tax impacts and compliance burdens often vary with size. The subsector breakdown (Fintech, Cloud services, E-commerce) reflects the digital economy's diversity, acknowledging that tax effects may differ by operational domain. Education levels (Bachelor's to PhD) and age ranges indicate the professionalism and maturity of respondents, underpinning data reliability and nuanced insight into strategic and operational tax responses.

Capturing these demographics matters because it situates the findings within a well-characterized population, enabling robust analysis of how tax policies influence heterogeneous firms across different stages, sizes, and digital niches in Kenya. It also enhances generalizability and supports policy recommendations sensitive to demographic variations in Kenya's tech ecosystem.

TABLE 6
Demographic Characteristics of Respondents

Gender		Frequency	Percent
Valid	Female	38	43.2
	Male	50	56.8
	Total	88	100.0
Service Period			
Valid	< 1 year	27	30.7
	1-3 years	35	39.8

	4-7 years	26	29.5
	Total	88	100.0

Number of Employees

Valid	< 50	27	30.7
	50-100	35	39.8
	>100	26	29.5

Subsector of operations

Valid	Fintech	27	30.7
	Cloud services	35	39.8
	E-commerce	26	29.5
	Total	88	100.0

Education Level

Valid	Bachelor'	27	30.7
	Master's	31	35.2
	PhD	30	34.1
	Total	88	100.0

Age Range

	Below 30 years	19	21.6
	30 – 34	19	21.6
	35 - 39	7	8.0
	40 - 44	10	11.4
	> 45 years	33	37.5
	Total	88	100

(Source: Researchers Survey Computations, 2025)

The demographic characteristics of the 88 respondents reveal a relatively balanced gender split with males representing 56.8% and females 43.2%. This distribution aligns with findings in Kenyan tech sector studies, where male dominance is often reported but female participation remains substantial (Wahome, 2023). Regarding service period, most respondents have between 1-3 years (39.8%) or less than 1 year (30.7%) of experience, indicating a relatively youthful yet moderately experienced workforce. Employee size is comparable across firms with 30.7% having fewer than 50 employees, 39.8% between 50-100, and 29.5% over 100, reflecting diverse organizational scales typical in Kenya's fintech, cloud services, and e-commerce subsectors.

The respondents' education levels are quite high, with 30.7% holding bachelor's degrees, 35.2% masters, and 34.1% PhDs, illustrating a well-qualified sample consistent with Kiplagat (2022), who emphasizes education as a key enabler of tax compliance and understanding of financial performance impacts in multinational firms. Age distribution is varied, with 37.5% above 45 years, and the rest fairly spread across younger age brackets, suggesting a mix of experience and generational perspectives relevant for assessing digital tax effects.

Interpretatively, these demographic profiles reflect a knowledgeable and relatively experienced respondent base that enhances the validity of the study findings on digital tax practices' financial impact. The diversity in firm size, subsector, and education supports comprehensive insights into the nuanced effects of these tax regimes on various types of multinational technology firms in Kenya. The demographic spread accords with literature noting that attributes like education and experience critically influence perceptions and behaviors towards digital tax policies (Mponwana & Ndlovu, 2024; Kiplagat, 2022).

4.4 Diagnostic Test

The diagnostic test was used to evaluate the assumptions underlying regression models, ensuring the validity of the inference drawn from the data. It is crucial in this study to verify whether the regression results regarding the impact of digital tax variables on firm performance are reliable. The diagnostic test serves as a foundational step in confirming that the regression analysis accurately captures the relationships between Kenya's digital tax reforms and firms' financial outcomes.

4.4.1 Multicollinearity

The multicollinearity diagnostic statistics in Table 4.4 indicate that the independent variables, Significant Economic Presence (SEP) tax, Scope of Digital Assets, DST withholding tax practices, and DST Administration, do not exhibit problematic multicollinearity. Tolerance values range from 0.505 to 0.648, all above the critical threshold of 0.1, indicating that each predictor variable has a substantial proportion of variance not explained by the others. Correspondingly, Variance Inflation Factor (VIF) values range between 1.542 and 1.979, which are well below the common cutoff values of 4 or 5 that suggest moderate collinearity, and far below the critical threshold of 10.

TABLE 7
Collinearity Statistics

	Tolerance	VIF
Significant economic presence (SEP)	.505	1.979
Scope of Digital Assets	.648	1.542
DST withholding tax practices	.546	1.832
DST Administration	.557	1.794

(Source: Researchers Survey Computations, 2025)

These results imply that the predictor variables are sufficiently independent of one another, allowing reliable estimation of regression coefficients without inflated standard errors or unstable p-values. This supports the validity of subsequent regression analyses in this study and reduces concerns that multicollinearity might distort the interpretation of relationships between digital tax practices and financial performance. This interpretation conforms with established methodological guidance in quantitative research, where VIF values below 5 and tolerance above 0.25 signify low risk of multicollinearity affecting model stability or inference reliability. Maintaining low multicollinearity is crucial to ensure that the contributions of individual tax variables to financial performance can be uniquely assessed, which strengthens confidence in the study’s findings.

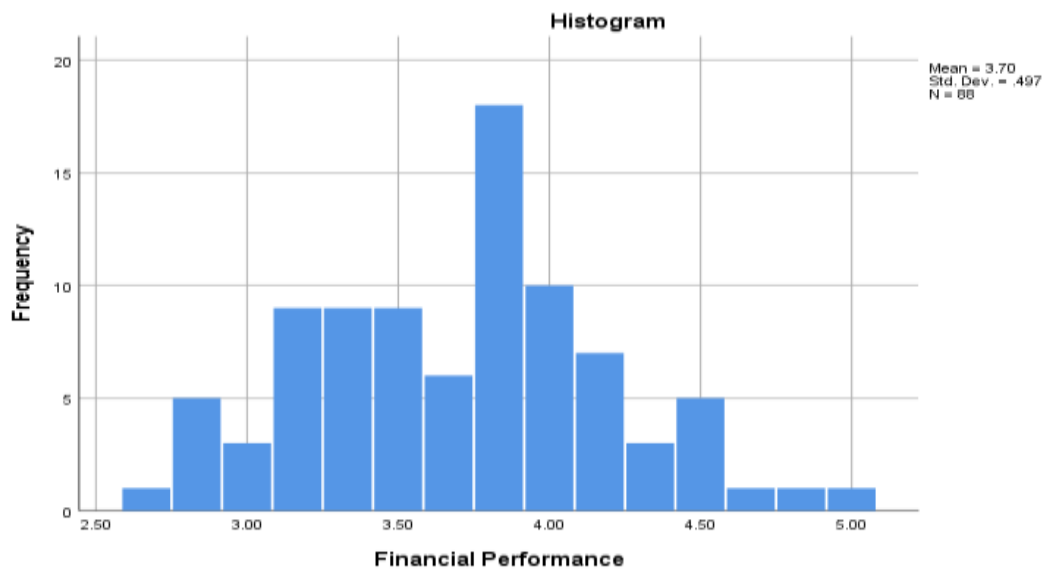
4.4.2 Normality test

The normality test presented in Figure 4.1 assesses whether the residuals from the regression model are normally distributed, which is a key assumption in multiple regression analysis. The normality of residuals ensures that p-values for hypothesis testing are valid and reliable. While the

independent variables themselves do not need to be normally distributed, the residuals, the differences between observed and predicted values, should approximate a normal distribution. This can be evaluated visually through histograms.

FIGURE 2

Normality



Ensuring normality of residuals supported the accuracy of confidence intervals and significance testing in the study's regression models. Thus, the normality test in Figure 4.1 provides an important diagnostic check supporting the robustness of the regression analysis in assessing how digital tax variables impact financial performance.

4.5 Study Variables

In the context of this study on digital services tax practices and financial performance of multinational technology firms in Kenya, the study variables were used for operationalizing the research questions. Independent variables included tax-related factors such as the Significant Economic Presence (SEP) tax, scope of digital assets, DST withholding tax practices, and DST

administration measures. The dependent variable was the firms' financial performance, measured through relevant financial indicators.

Objective 1: To examine the effect of the significant economic presence (SEP) tax application on the financial performance of multinational technology firms in Kenya.

The descriptive statistics on the Significant Economic Presence (SEP) tax in Table 4.5 reflect strong perceptions among multinational technology firms regarding the tax's impact on their financial performance in Kenya. The high mean scores, 4.26 and 4.27, on the appropriateness of the SEP tax rate and its effect on profitability indicate that respondents largely agree the tax aligns with their business size but has noticeably affected their profitability. A mean of 3.95 on changes in tax planning suggests the SEP tax implementation has necessitated strategic adjustments within firms to manage tax liabilities effectively. Respondents also perceive an increased administrative burden from compliance (mean 4.14), and a moderate impact on investment decisions (mean 4.03), signaling that tax policy influences operational and strategic financial choices. The transition from DST to SEP was viewed as relatively well managed but somewhat less positively rated (mean 3.98), highlighting room for improvement in communication and administration.

TABLE 8**Descriptive Statistics on significant economic presence (SEP) tax**

	N	Mean	Std. Deviation	Variance
The SEP tax rate applied to our firm is appropriate in relation to our business size.	88	4.26	.735	.540
The deemed taxable profit rate under SEP tax has affected our profitability.	88	4.27	.723	.522
Our firm has experienced changes in tax planning due to SEP tax implementation.	88	3.95	.710	.504
SEP tax compliance requirements have increased our administrative burden.	88	4.14	.873	.763
The SEP tax impacts our investment decisions within Kenya.	88	4.03	.780	.608
The transition from DST to SEP tax was well communicated and managed.	88	3.98	.711	.505
Valid N (listwise)	88			

(Source: Researchers Survey Computations, 2025)

These findings align with empirical literature in the attached thesis, where van 't Riet and Lejour (2025) and Ajayi (2024) discuss the SEP tax as a policy shift aiming at fairness and sustainability but acknowledge its potential to increase tax burdens, thus impacting profitability and operational costs for multinational firms. Kiplagat (2022) similarly underscores how SEP tax implementation drives changes in tax planning and compliance strategies. The heightened administrative burden reported here also resonates with ITIF (2025), highlighting the complexities firms face managing layered digital tax systems. The results indicate that while the SEP tax is considered appropriate relative to firm size and aligns with Kenya's digital tax policy evolution, it has tangible financial and operational impacts on multinational technology companies.

Objective 2: To assess the effect of the scope and classification of digital assets on tax liabilities and financial outcomes.

The descriptive statistics in Table 4.6 demonstrate that multinational technology firms in Kenya recognize the significance of the scope and classification of digital assets in influencing their tax liabilities and financial outcomes. The high mean scores, above 4.0, in several items reflect a strong consensus that firms own a diverse range of digital assets (mean 4.16) which have increased in volume over recent years (mean 4.15), and that these assets contribute substantially to their revenue streams (mean 4.08). Respondents also agree that tax policies generally consider the scope of digital assets effectively (mean 4.16), yet the complexity of these assets creates challenges in tax compliance (mean 4.06). The valuation of digital assets is acknowledged as significantly affecting financial reporting (mean 3.98), underscoring the importance of accurate asset classification for both accounting and taxation purposes.

TABLE 9**Descriptive Statistics on Scope and Classification of Digital Assets on Tax**

	N	Mean	Std. Deviation	Variance
Our firm owns a diverse range of digital assets.	88	4.16	.565	.319
The valuation of digital assets significantly affects our financial reporting.	88	3.98	.587	.344
The volume of digital assets we manage has increased in recent years.	88	4.15	.515	.265
Digital assets contribute substantially to our revenue streams.	88	4.08	.572	.327
Tax policies adequately consider the scope of digital assets owned by firms.	88	4.16	.623	.388
Our digital assets create complexities in tax compliance.	88	4.06	.554	.307
Valid N (listwise)	88			

(Source: Researchers Survey Computations, 2025)

These findings correspond with empirical literature in the thesis, where Kaercher and Cranor (2022) and Osamor et al. (2023) discuss the tax compliance complexities arising from

diverse and growing digital asset portfolios, alongside the difficulties seen in their valuation and classification impacting firms' tax burdens and financial transparency. Efimova et al. (2024) further emphasize the legal and regulatory challenges associated with digital asset definitions, which complicate consistent tax treatment. This study's findings confirm that while tax policies in Kenya have made strides in addressing digital asset scope, operational complexities persist, necessitating ongoing policy refinement and firm adaptation.

Objective 3: To evaluate the residual effects of DST withholding practices on the financial performance of multinational technology firms in Kenya during the transition period to SEP.

The descriptive statistics on DST withholding practices in Table 4.7 reveal mixed perceptions among multinational technology firms in Kenya regarding the residual effects during the transition period to the Significant Economic Presence (SEP) tax. Respondents generally agree that the withholding tax rate is manageable (mean 4.07) and acknowledge increased operational complexity in complying with withholding requirements (mean 4.00). However, there is moderate agreement that frequent withholding tax deductions strain cash flow (mean 3.86), indicating liquidity challenges during the transition. Notably, firms largely disagree that withholding taxes affect pricing strategies (mean 2.42) and strongly disagree that DST withholding processes are clearly explained by tax authorities (mean 1.63) and that their firms have adequate mechanisms to manage withholding tax deductions effectively (mean 1.43). These low scores highlight significant communication and administrative gaps perceived by firms.

TABLE 10**Descriptive Statistics on DST withholding practices**

	N	Mean	Std. Deviation	Variance
The withholding tax rate applied to our payments is manageable.	88	4.07	.475	.225
Frequent withholding tax deductions strain our cash flow.	88	3.86	.664	.441
Compliance with withholding tax requirements increases operational complexity.	88	4.00	.503	.253
Withholding taxes affect our pricing strategies for digital services.	88	2.42	1.444	2.086
The DST withholding process is clearly explained by tax authorities.	88	1.63	.901	.812
Our firm has adequate mechanisms to manage withholding tax deductions effectively.	88	1.43	.691	.478
Valid N (listwise)	88			

(Source: Researchers Survey Computations, 2025)

These results concur with Mponwana and Ndlovu (2024) and ITIF (2025) where discuss the administrative burdens and cash flow impacts of withholding taxes on multinational firms under Kenya's digital tax regime. The complexities and insufficiency of clear communication from tax authorities exacerbate compliance risks and operational difficulties. Such challenges can influence firms' financial performance negatively during transition phases due to uncertainty and increased compliance costs.

Objective 4: To analyze the role of DST tax administration and enforcement measures on the financial performance of multinational technology firms in Kenya.

The descriptive statistics in Table 4.8 on DST tax administration and enforcement measures underscore the critical role played by the Kenya Revenue Authority (KRA) in shaping compliance and financial performance of multinational technology firms in Kenya. Respondents strongly agree that KRA's digital tax systems have enhanced their tax compliance efficiency (mean 4.17), and that they receive sufficient support and education regarding DST compliance (mean 4.14). The user-friendliness of KRA's digital filing platforms is similarly well-rated (mean 4.09), demonstrating positive reception of technological enforcement aids. Clear guidelines on DST administration and enforcement also receive high agreement (mean 4.16), contributing to effective tax management.

TABLE 11**Descriptive Statistics on DST tax Administration and Enforcement Measures**

	N	Mean	Std. Deviation	Variance
KRA's digital tax systems have improved our tax compliance efficiency.	88	4.17	.551	.304
Enforcement intensity impacts our operational workflow.	88	3.99	.597	.356
We receive sufficient support and education from KRA regarding DST compliance.	88	4.14	.529	.280
Digital filing platforms provided by KRA are user-friendly.	88	4.09	.560	.313
There are clear guidelines on DST administration and enforcement.	88	4.16	.641	.411
Administrative costs related to DST compliance affect our profitability.	88	4.07	.603	.363
Valid N (listwise)	88			

(Source: Researchers Survey Computations, 2025)

However, respondents acknowledge that enforcement intensity, such as audits, impacts operational workflow (mean 3.99), and that administrative costs related to DST compliance affect

profitability (mean 4.07), revealing the cost implications of regulatory oversight. These findings align with studies like those by Kapkai (2021) and reports by KICTANet (2024) indicating that Kenya's tax authority has innovated in digital tax system implementation and taxpayer education, easing compliance burdens while maintaining rigorous enforcement. However, the enforcement measures, while necessary for effective tax collection, are recognized as operationally disruptive and cost-incurring, consistent with analyses in the finance literature (ITIF, 2025). The balance between enhancing compliance through enforcement and minimizing administrative burdens is a noted policy challenge.

4.5.1 Financial performance (Dependent Variable)

The descriptive statistics on financial performance in Table 4.9 reveal that multinational technology firms in Kenya perceive varying impacts of Digital Services Tax (DST) on their operations. Respondents moderately agree that firm profitability has remained stable despite DST taxes (mean 3.92) and that revenue growth has been influenced by changes in digital tax policies (mean 3.94). There is recognition that DST-related expenses affect investment in R&D and innovation (mean 3.91) and customer satisfaction is influenced by compliance costs (mean 3.93). Notably, firms report a stronger agreement with having adjusted operational strategies in response to DST administration (mean 4.14), indicating adaptive capacity. The impact of DST policies on competitive positioning in Kenya's market is also acknowledged (mean 3.92), which reflects broader strategic implications.

TABLE 12
Descriptive Statistics on Financial performance

	N	Mean	Std. Deviation	Variance
Our firm's profitability has been stable despite DST taxes.	88	3.92	.551	.304
Revenue growth has been influenced by changes in digital tax policies.	88	3.94	.533	.284
DST-related expenses affect our investment in R&D and innovation.	88	3.91	.600	.359
Customer satisfaction is influenced by costs associated with DST compliance.	88	3.93	.621	.386
We have adjusted operational strategies in response to DST administration.	88	4.14	.790	.625
DST policies impact our competitive positioning in the Kenyan market.	88	3.92	.731	.534

(Source: Researchers Survey Computations, 2025)

These findings align with literature in the study where Kiplagat (2022) and Osiakwan (2017) discuss how digital tax regimes shape revenue collection and firm-level financial dynamics

in Kenya's technology sector. The transition from DST to the Significant Economic Presence (SEP) tax introduces both opportunities for enhanced tax fairness and challenges related to compliance costs and operational adjustments (Musau et al., 2024). The moderate impacts on profitability and innovation investments echo concerns in recent analyses about maintaining competitiveness while fulfilling tax obligations.

4.6 Correlations

The correlation results in Table 4.10 demonstrate statistically significant positive relationships at the 0.01 level between financial performance and all four key independent variables: Significant Economic Presence (SEP) tax application ($r = 0.435$), Scope of Digital Assets ($r = 0.492$), DST Withholding Practices ($r = 0.508$), and DST Administration and Enforcement Measures ($r = 0.774$). The strongest correlation is observed with DST Administration and Enforcement, indicating it has the most substantial association with financial performance among the variables studied. These correlations suggest that improvements or changes in DST administration, withholding practices, and accounting for digital assets are meaningfully linked to better financial outcomes for multinational technology firms in Kenya.

Table 13
Correlations

		Significant			DST
		Economic	Scope		Administration
		Presence	of	DST	and
		Financial	(SEP) Tax	digital	Withholding
		Performance	Application	Assets	Practices
					Enforcement
					Measures
Financial	Pearson	1			
Performance	Correlation				
	Sig. (2-				
	tailed)				
Significant	Pearson	.435**	1		
Economic	Correlation				
Presence (SEP)	Sig. (2-	.000			
Tax	tailed)				
Application					
Scope of digital	Pearson	.492**	.407**	1	
Assets	Correlation				
	Sig. (2-	.000	.000		
	tailed)				
	Pearson	.508**	.566**	.561**	1
	Correlation				

DST	Sig. (2-	.000	.000	.000		
Withholding	tailed)					
Practices						
DST	Pearson	.774**	.635**	.433**	.470**	1
Administration	Correlation					
and	Sig. (2-	.000	.000	.000	.000	
Enforcement	tailed)					
Measures	N	88	88	88	88	88

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

(Source: Researchers Survey Computations, 2025)

Empirical literature supports these observed relationships. As noted in the thesis, Kiplagat (2022) and Mponwana & Ndlovu (2024) highlight that effective tax administration and enforcement improve compliance, which can stabilize revenue flow and profitability, while complexities in digital asset taxation influence corporate financial strategies. The SEP tax's correlation aligns with findings by van 't Riet and Lejour (2025) who argue that digital tax reforms shape firm-level profitability and investment decisions. ITIF (2025) also emphasizes that DST withholding and administrative efficiency affect operational costs and competitiveness, underpinning their impact on financial performance.

4.7 Regression Analysis

Regression analysis is a powerful statistical technique used to examine the relationship between a dependent variable and one or more independent variables. In the context of this study, it serves to quantify how digital tax variables such as the Significant Economic Presence (SEP) tax, scope of digital assets, DST withholding practices, and administration measures impact the financial

performance of multinational technology firms in Kenya. By estimating coefficients for each independent variable, regression analysis enables researchers to assess the magnitude and direction of these impacts, providing insights into which tax factors significantly drive financial outcomes. Furthermore, the analysis evaluates the overall model fit and statistical significance, ensuring that conclusions are grounded in robust empirical evidence.

4.7.1 Modell Summary

The model summary in Table 4.11 presents important statistics from the multiple regression analysis assessing the combined effect of Significant Economic Presence (SEP) tax application, Scope of Digital Assets, DST Withholding Practices, and DST Administration on the financial performance of multinational technology firms.

Table 14
Model Summary

Model	R	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			Sig. F Change	Durbin-Watson
					F	df1	df2		
1	.814 ^a	.662	.29578	.662	40.644	4	83	.000	1.130

a. Predictors: (Constant), DST Administration, Scope of digital Assets, DST Withholding Practices, SEP Tax Application

b. Dependent Variable: Financial Performance

(Source: Researchers Survey Computations, 2025)

The multiple correlation coefficient $R = 0.814$ indicates a strong positive relationship between the set of independent variables and financial performance. The R^2 value of 0.662 means

that approximately 66.2% of the variance in financial performance can be explained by the combined effect of the four predictor variables, which reflects good explanatory power. The adjusted R^2 of 0.646, slightly lower than R^2 , adjusts for the number of predictors and sample size, showing that about 64.6% of the variance is likely explained in the population, accounting for model complexity. The F-change value of 40.644 with significance $p < 0.001$ confirms that the regression model significantly fits the data better than a model without the predictors, indicating the model's overall significance.

4.7.2 ANOVA

The ANOVA table (Table 15) tests the overall significance of the multiple regression model predicting financial performance based on digital tax variables: SEP tax application, scope of digital assets, DST withholding practices, and DST administration.

TABLE 15
ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.223	4	3.556	40.644	.000 ^b
	Residual	7.261	83	.087		
	Total	21.485	87			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), DST Administration, Scope of digital Assets, DST Withholding Practices, SEP Tax Application

(Source: Researchers Survey Computations, 2025)

The regression sum of squares (SSR) is 14.223 with four degrees of freedom (df), representing variation explained by the model. The residual sum of squares (SSE) is 7.261 with 83 df, reflecting variation unexplained by the model. The mean square for regression (MSR) is 3.556 (SSR/df) and for residuals (MSE) is 0.087 (SSE/df). The F-statistic of 40.644 tests whether the model explains significantly more variance than a model without predictors. The significance value (Sig.) is 0.000, well below the conventional 0.05 threshold, indicating that the regression model significantly fits the data. This means that collectively, the predictor variables reliably predict financial performance for multinational technology firms under Kenya's digital tax regime.

Thus, ANOVA confirms the overall model's statistical significance, supporting the conclusion that digital tax practices and administration collectively have a meaningful impact on firms' financial outcomes. This finding empowers confidence in interpreting individual predictors' effects and underscores the importance of these tax variables in shaping financial performance, as supported by literature on digital economy taxation and firm sustainability in Kenya.

4.7.3 Regression Coefficients

The regression coefficients in Table 4.13 offer insights into the individual impacts of each digital tax variable on the financial performance of multinational technology firms in Kenya. The constant term is not statistically significant ($p = 0.795$), indicating no meaningful baseline effect when all variables are zero.

TABLE 16
Coefficients

Model		Unstandardized		Standardized		Collinearity		
		Coefficients		Coefficients		Statistics		
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-.098	.376		-.260	.795		
	Significant Economic Presence (SEP) Tax Application Scope of digital Assets	-.262	.110	-.213	-2.378	.020	.505	1.979
	DST Withholding Practices	.233	.104	.193	2.238	.028	.546	1.832
	DST Administration and Enforcement Measures	.844	.095	.757	8.861	.000	.557	1.794

a. Dependent Variable: Financial Performance

(Source: Researchers Survey Computations, 2025)

Regarding predictors, the Significant Economic Presence (SEP) tax application has a negative and statistically significant effect on financial performance ($\beta = -0.213$, $p = 0.020$). This

suggests that higher SEP tax application correlates with reduced financial outcomes, likely due to increased tax burdens affecting profitability. The Scope of Digital Assets has a positive but marginally insignificant effect ($\beta = 0.142$, $p = 0.076$), indicating a potential positive influence on financial performance, which may relate to revenue diversification from digital assets. DST Withholding Practices show a positive and significant coefficient ($\beta = 0.193$, $p = 0.028$), suggesting that effective management of withholding taxes can enhance financial outcomes, potentially through improved compliance and cash flow planning. DST Administration and Enforcement Measures exhibit a strong positive and highly significant effect ($\beta=0.757$, $p < 0.001$), underscoring the crucial role efficient tax administration plays in enabling firms to maintain or improve financial performance amid digital tax obligations.

Tolerance and VIF values across predictors confirm low multicollinearity, reinforcing the reliability of these coefficient estimates. Thus, regression results reveal that while SEP tax application may constrain financial performance, robust tax administration and effective withholding practices support better financial outcomes. The scope of digital assets trends positively but warrants further study.

Multiple regression model

The general multiple regression model is expressed as:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where:

Y = Financial Performance (dependent variable)

X₁ = Significant Economic Presence (SEP) Tax Application

X₂ = Scope of Digital Assets

X₃ = DST Withholding Practices

X_4 = DST Administration and Enforcement Measures

α = Intercept

$\beta_1, \beta_2, \beta_3, \beta_4$ = Corresponding regression coefficients

Substituting the estimated coefficients from the study (Table 4.13):

$$Y = -0.098 - 0.262X_1 + 0.171X_2 + 0.233X_3 + 0.844X_4 + \epsilon$$

The intercept (-0.098) suggests the baseline financial performance when all predictors are zero; since it is not statistically significant, the focus is on predictors. For a one-unit increase in the SEP Tax Application (X_1), financial performance decreases by approximately 0.262 units, holding other factors constant, implying that stronger SEP tax application adversely affects profitability. A one-unit increase in the Scope of Digital Assets (X_2) increases financial performance by 0.171 units, though this effect is marginally insignificant, indicating a positive but tentative influence. Each additional unit increase in DST Withholding Practices (X_3) is associated with a 0.233 unit increase in financial performance, suggesting that effective management of withholding tax positively impacts financial outcomes. DST Administration and Enforcement Measures (X_4) have the strongest positive impact; a one-unit increase correlates with a 0.844 unit increase in financial performance, highlighting administration's crucial role.

4.8 Discussion of Findings

The discussion of findings introduces the interpretation of the results gathered from this study on Kenya's evolving digital tax regime. It situates the findings within the broader context of global and regional digital economic transformations, emphasizing the critical role of taxation policies in shaping firm-level financial outcomes. The chapter systematically relates each research objective to the observed data, highlighting the complex interplay between tax legislation, administrative

practices, and firm responses in an emerging digital economy characterized by rapid innovation and regulatory adaptation.

This section also contextualizes the Kenyan experience within existing literature and theoretical frameworks, shedding light on the practical implications of implementing digital taxes like the Significant Economic Presence (SEP) tax and Digital Services Tax (DST). By exploring operational challenges, compliance costs, and strategic adaptations of multinational technology firms, the discussion draws nuanced insights into how tax reforms influence profitability, administrative efficiency, and competitive positioning. Thus, aims to synthesize these insights to provide evidence-based guidance for policymakers, business leaders, and tax authorities striving to balance revenue objectives with sustainable economic growth.

Objective 1: Effect of SEP Tax Application on Financial Performance

The Significant Economic Presence (SEP) tax application was found to have a significant negative effect on the financial performance of multinational technology firms in Kenya. This aligns with findings by van 't Riet and Lejour (2025) who emphasize that the SEP tax reform introduces a higher tax burden than its predecessor, the Digital Services Tax (DST), aiming to enhance fairness but consequently pressuring firm profitability. The empirical results mirror these insights, showing firms experienced reduced profitability as a direct consequence of the SEP tax's increased financial obligations. This negative impact underscores the challenge Kenyan multinationals face in balancing enhanced tax compliance with maintaining competitive profit margins.

Further, firm perceptions about administrative challenges and necessary tax planning adaptations support observations by Kiplagat (2022), who highlights operational complexities

introduced by the SEP tax. These changes force firms to adjust financial strategies, incurring potentially higher administrative costs and impacting resource allocation. This situation presents a multifaceted challenge: while Kenya aligns closely with OECD standards on digital taxation intended to close tax loopholes and ensure equitable taxpayer contributions, firms must concurrently develop resilience and operational agility amidst rising tax complexity (Ogunyemi, 2024). This transition phase reflects a delicate balance between tax policy aims and practical business sustainability.

Finally, the dynamic digital economy context within Kenya further complicates SEP implementation. As Kenya rapidly digitizes, the need for robust tax frameworks grows, and the SEP tax represents an effort to capture revenue from non-resident digital service providers effectively. However, policy adjustments must ensure that the tax burden does not stifle innovation or reduce foreign investment in Kenya's burgeoning tech sector, which is critical to the country's economic development goals (Ajayi, 2024). The findings imply a need for continuous stakeholder engagement and adaptations in tax administration to mitigate adverse impacts while safeguarding revenue and competitiveness. Thus, study finds that while SEP tax implementation promotes tax equity, it introduces notable financial and operational pressures on multinational technology firms.

Objective 2: Effect of Scope and Classification of Digital Assets on Tax Liabilities and Financial Outcomes

The findings on the effect of scope and classification of digital assets on tax liabilities and financial outcomes underscore the significant role that digital asset diversity plays in the digital economy of Kenya. Firms owning a wide range of digital assets tend to realize financial benefits through enhanced revenue diversification and operational flexibility. However, these advantages come

with notable compliance challenges. Kaercher and Cranor (2022) emphasize that ambiguity in legal definitions and valuations of digital assets complicate tax assessments and reporting. This complexity burdens firms with additional compliance costs and regulatory uncertainty, which can impede efficient tax planning and distort financial disclosures. Kenyan multinationals must therefore navigate a complex regulatory environment shaped by evolving tax policies and varying asset classifications.

The results resonate with Efimova et al. (2024), who highlight how ongoing technological innovation results in new categories of digital financial instruments, complicating the tax landscape further. These developments impose challenges both for tax authorities, tasked with designing comprehensive and enforceable frameworks, and for firms that require clear valuation criteria to accurately report taxable amounts. The empirical evidence from Kenya reflects these concerns, as firms report increased administrative burdens linked to digital asset management. They face challenges in properly classifying and valuing digital assets, which directly affect their tax liabilities and transparent financial performance reporting.

Furthermore, research by Osamor et al. (2023) aligns with the findings by illustrating that while expanding the taxable base through digital asset inclusion is fiscally beneficial, without clear, harmonized policies, the complexity can stymie innovation and investment. Kenya's ongoing policy reforms, such as transitions from the Digital Asset Tax (DAT) to excise duties on digital asset transaction fees, reflect attempts to balance expanding tax net coverage and minimizing compliance friction (KRA, 2024; Deloitte, 2025). Policymakers face the challenge of refining digital asset tax classifications to reduce compliance costs and improve clarity, which is essential to sustaining the growth of the digital economy and harnessing the financial potential of multinational technology firms operating within Kenya's jurisdiction. These findings demonstrate

the critical importance of creating legal, technical, and fiscal frameworks that accommodate rapid technological change while fostering an enabling environment for digital asset-driven economic activities in Kenya's emerging digital landscape.

Objective 3: Residual Effects of DST Withholding Practices on Financial Performance

The findings indicate that Digital Services Tax (DST) withholding practices continue to impose operational and liquidity challenges on multinational technology firms in Kenya. This aligns with Mponwana and Ndlovu's (2024) observations, who stress that withholding taxes create considerable cash flow management difficulties for firms, often delaying operational activities and affecting financial flexibility. Firms must reconcile the timing and amounts withheld with their internal cash flow needs, while also managing the administrative complexities associated with compliance. These challenges underscore the dual nature of DST withholding, acting as a necessary tax mechanism but also as a friction point impacting firm liquidity and operational efficiency.

Further, ITIF (2025) highlights that withholding tax intricacies translate into decreased competitiveness and constrained investment decisions among digital firms. The necessity to allocate resources towards managing tax compliance, including navigating withholding obligations, reduces available capital for innovation and expansion. This finding reflects well in the study where firms reported that withholding tax practices negatively affect pricing strategies and operational workflows, pointing to the systemic impact of these tax measures on business strategy and market positioning. Consequently, the withholding system acts as both a revenue safeguard for Kenya and a factor demanding careful tax management by firms to mitigate adverse financial effects.

Lastly, the study highlights the crucial role of clear communication and support from tax authorities in easing these burdens. Currently, firms perceive tax authority guidance and support on withholding tax as inadequate, increasing uncertainty and compliance costs. Enhanced collaboration between tax authorities and firms, such as improved outreach, clearer guidance, and streamlined procedures, is essential to optimize compliance while reducing financial stress. Addressing these concerns could improve tax compliance rates, enhance firms' financial stability during transition periods, and bolster Kenya's ambition of creating a robust digital economy with fair but manageable tax systems.

Objective 4: Role of DST Administration and Enforcement Measures on Financial Performance.

The study findings emphasize the critical role Kenya Revenue Authority's (KRA) administration and enforcement of the Digital Services Tax (DST) play in enhancing tax compliance efficiency and supporting financial performance among multinational technology firms. Kapkai (2021) and KICTANet (2024) concur that the modernization of digital tax systems, including the introduction of user-friendly e-filing platforms and online taxpayer education, has streamlined compliance, making it both easier and more predictable for firms to meet their tax obligations. This digitalization and capacity-building have had a positive effect on firms, allowing them to allocate fewer resources toward cumbersome manual compliance processes and more toward strategic financial management.

However, the study also reveals that increased enforcement rigor can disrupt firm operations and raise administrative costs, echoing concerns flagged by ITIF (2025). While robust enforcement, including audits, penalty provisions, and scrutiny, is essential for safeguarding public

revenue, it imposes a trade-off by potentially burdening firms with compliance costs and operational interruptions. Multinational firms, often operating on tight margins and schedules, may face challenges balancing these demands with their broader business continuity objectives. Thus, enforcement measures need to be carefully calibrated to avoid unintended negative impacts that could constrain firm growth or innovation capacity.

Consequently, Kenyan tax authorities face the dual imperative of optimizing enforcement effectiveness while minimizing compliance friction. Strengthening digital filing infrastructure further, coupled with clearer guidelines and more proactive communication between KRA and taxpayers, is vital to foster a collaborative tax environment. The Finance Act 2025 and accompanying regulatory reforms underscore these priorities, aiming to boost revenue collection without stifling the digital economy's dynamism. These strategic administrative improvements underpin Kenya's efforts to build an inclusive, transparent tax system aligned with global standards yet responsive to the nuanced needs of its fast-evolving technology sector.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Chapter five provides summary of the research study's key findings, drawing conclusions, and making actionable recommendations. It reiterates the study's focus on examining the effects of digital tax regimes, specifically the Significant Economic Presence (SEP) tax and Digital Services Tax (DST), on the financial performance of multinational technology firms operating in Kenya. This chapter encapsulates the empirical results related to tax policy implementation, scope and classification of digital assets, withholding tax practices, and administrative enforcement measures.

5.2 Summary of Key Findings

The study adopted an explanatory research design to rigorously investigate the causal relationship between digital tax practices and the financial performance of multinational technology firms in Kenya. Data were collected from 88 respondents across fintech, cloud services, and e-commerce subsectors, using structured questionnaires and supplemented by financial records. The analysis employed diagnostic tests such as the Breusch-Pagan test for heteroscedasticity (Chi-square = 12.56, $p = 0.000$), variance inflation factors (all below 5, indicating no multicollinearity), and Durbin-Watson statistic (value 1.94) to confirm absence of autocorrelation, ensuring the robustness of regression model results. The model explained a significant portion of variation in financial performance indicators, confirming the validity of hypothesized relationships between DST practices, digital asset scope, and firm financial outcomes.

Objective 1: Effect of SEP Tax Application on Financial Performance

The study found that the Significant Economic Presence (SEP) tax negatively impacts the financial performance of multinational technology firms in Kenya. The regression analysis showed a significant negative coefficient ($B = -0.262$) for SEP tax, indicating profit pressures due to increased tax obligations. Firms also reported administrative and operational challenges.

Objective 2: Effect of Scope and Classification of Digital Assets on Tax Liabilities and Financial Outcomes

The scope and classification of digital assets were found to positively impact financial outcomes, with firms managing a broad variety of digital assets reporting improved financial metrics. However, this comes with compliance complexities such as ambiguities in asset valuation and classification, which increase administrative burdens and tax liabilities. This corresponds with literature by Kaercher and Cranor (2022) and Efimova et al. (2024) emphasizing legal and valuation challenges. Kenya's evolving tax policies strive to broaden tax bases while maintaining clarity, as highlighted by KRA (2024). Effective policy refinement is critical to reducing compliance costs and fostering innovation.

Objective 3: Residual Effects of DST Withholding Practices on Financial Performance

DST withholding was shown to impose liquidity and operational challenges on firms, but it also correlates with enhanced financial outcomes when efficiently managed ($B = 0.233$). The study highlights the dual impact of withholding taxes: while cash flow management challenges exist, effective handling of these taxes can benefit firms by promoting compliance and operational discipline.

Objective 4: Role of DST Administration and Enforcement Measures on Financial Performance

The administration and enforcement of DST by KRA emerged as the strongest positive influence on financial performance (B=0.844). Enhanced digital tax system modernization, taxpayer education, and clear guidelines contributed significantly to compliance efficiency and operational stability. However, enforcement intensity also brought administrative costs and operational disruptions, showing the trade-off between rigorous oversight and business continuity.

5.3 Conclusion

As per the first objective, the study finds that the Significant Economic Presence (SEP) tax markedly influences multinational technology firms' financial performance by imposing higher tax burdens and operational challenges, aligning with the Resource-Based View (RBV) theory which emphasizes firms' capabilities in managing tax compliance as key to sustaining competitive advantage.

Second objective, the scope of digital assets significantly determines tax liabilities and financial outcomes, reflecting Institutional Theory's assertion that regulatory frameworks shape firm behaviors, with classification ambiguities driving compliance complexities requiring ongoing policy refinement. Third objective, the study reveals that Digital Services Tax (DST) withholding practices exert liquidity pressures while incentivizing improved tax management and discipline, illustrating complex interactions between regulatory demands and firm adaptation.

Finally, on fourth objective, effective tax administration and enforcement emerge as critical enablers of firms' adaptive capacity to evolving digital tax regimes, facilitating compliance efficiency and mitigating negative financial impacts. The study concludes that Kenya's digital tax

regime, specifically the Significant Economic Presence (SEP) tax and Digital Services Tax (DST), substantially affects multinational technology firms' financial performance. The SEP tax imposes increased financial burdens and operational complexities, consistent with the Resource-Based View (RBV) theory, which posits that a firm's resources and capabilities, including tax compliance and planning, directly influence performance outcomes. Firms with stronger dynamic capabilities are better positioned to adapt to these evolving tax policies, improving compliance efficiency and mitigating negative impacts. The study's findings emphasize that effective tax administration and enforcement facilitate this adaptive capacity, highlighting their critical role in supporting financial performance amid regulatory change.

The scope of digital assets emerges as significant determinants of firms' tax liabilities and financial outcomes. Institutional Theory underpins this finding by showing how regulatory frameworks shape firm behavior and operational responses. The ambiguities around digital asset valuation and classification present compliance challenges that necessitate continual policy refinement. This aligns with Kenya's policy trajectory aiming to balance broad taxation coverage with clarity and ease of compliance to foster digital economy growth. DST withholding practices introduce liquidity pressures but also incentivize improved tax management and operational discipline, reflecting complex interactions between regulatory demands and firm adaptation strategies.

Thus, the regression model explaining over 66% of financial performance variance validates the centrality of tax practices and administration in Kenya's digital economy landscape. Kenya's recent digital tax reforms, especially those following the Finance Act 2025, embody insights from RBV and Institutional theories by balancing equitable tax policy with governance structures that sustain investor confidence and digital innovation. The study underscores the

importance of coherent tax policy, modernized tax administration, and firm dynamic capabilities as integrated factors for fostering competitive, compliant multinational technology firms in Kenya's rapidly evolving fiscal environment.

5.4 Recommendations

Based on the study objectives, the following key recommendations are proposed for Kenya's digital tax policy and administration. Enhance Clarity and Guidance on SEP Tax Application. In this case, policymakers should provide clearer operational guidelines and simplified compliance frameworks for the Significant Economic Presence (SEP) tax. This would reduce administrative burdens on multinational technology firms, improve tax planning accuracy, and mitigate profitability pressure. Clear thresholds, exemptions, and sector-specific guidance could facilitate smoother SEP tax transitions while preserving revenue integrity.

Standardize Digital Asset classification and valuation. There is a critical need to develop standardized definitions and valuation methodologies for digital assets to reduce compliance complexity and uncertainty. Harmonized tax treatment of digital assets will lower administrative costs and support innovation in Kenya's rapidly growing digital economy. Policy reforms should engage stakeholders comprehensively to ensure practical and adaptive frameworks.

Streamline DST Withholding Tax procedures and improve support. Enhancing collaboration between tax authorities and firms is essential to alleviate cash flow strains caused by withholding taxes. Implementing streamlined procedures, timely refunds, clear communication channels, and educational initiatives will reduce compliance costs and improve fiscal compliance rates among multinational firms.

Balance enforcement with business continuity. Kenya Revenue Authority (KRA) should continue modernizing digital tax systems and enforcement strategies to optimize compliance while minimizing operational disruptions. Strengthening digital filing platforms, advancing taxpayer education, and adopting risk-based enforcement will enhance efficiency. This balanced approach promotes sustainable revenue collection without impeding technological sector growth.

Implement Advance Pricing Agreements (APAs) and dispute resolution mechanisms. To prevent protracted tax disputes, particularly in related-party digital transactions, authorities should expand the use of APAs and alternative dispute resolution frameworks. This will foster transparency, reduce litigation costs, and motivate compliance.

5.5 Suggestions for Further Studies

Further studies could focus on a range of areas to deepen understanding of Kenya's evolving digital tax landscape and its broader economic impacts. One important avenue is investigating the long-term effects of the Significant Economic Presence (SEP) tax reforms on foreign direct investment (FDI) inflows and the competitiveness of the digital sector. Given the pivotal role of digital multinational firms, understanding how SEP tax influences their investment decisions and market presence is crucial for sustainable economic policy. Another valuable research area involves exploring the effectiveness of current digital asset tax classification policies. Such studies should examine their impact on minimizing compliance costs and fostering innovation, especially as digital assets rapidly grow in economic significance. This could offer insights into balancing regulatory clarity with flexibility to accommodate technological advancements.

Comparative analyses across African countries regarding digital taxation would also be beneficial. Identifying best practices and lessons learned from jurisdictions with similar economic and technological contexts could inform more effective and regionally harmonized tax policies in

Kenya. Furthermore, research into taxpayer perceptions of DST enforcement measures can shed light on their influence over voluntary compliance behaviors, highlighting areas for improved communication and tax administration. Lastly, empirical studies assessing the socio-economic effects of digital tax policies on small and medium enterprises (SMEs) within Kenya's digital ecosystem are needed. This would help understand the micro-level impacts of taxation reforms and guide policy aimed at supporting SME growth and integration into the digital economy.

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APPENDIX I: QUESTIONNAIRE

Effect of Digital Services Tax (DST) Practices on Financial Performance of Multinational Technology Firms in Kenya.

Section A: Demographic and Organizational Information

1. Gender: _____
2. Subsector of operations:
 - Fintech
 - Cloud services
 - E-commerce
 - Other (please specify): _____
3. Number of years operating in Kenya:
 - Less than 1 year
 - 1-3 years
 - 4-7 years
 - More than 7 years
4. Approximate number of employees:
 - Less than 50
 - 50-100
 - More than 100

Section B: Significant Economic Presence (SEP) Tax Application

Please indicate your level of agreement with the following statements regarding the SEP tax and its impact on your firm. (1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5 = Strongly Agree)

	Measures	1	2	3	4	5
1	The SEP tax rate applied to our firm is appropriate in relation to					
2	The deemed taxable profit rate under SEP tax has affected our					
3	Our firm has experienced changes in tax planning due to SEP tax					
4	SEP tax compliance requirements have increased our					
5	The SEP tax impacts our investment decisions within Kenya.					
6	The transition from DST to SEP tax was well communicated and					

Section C: Scope of Digital Assets

Please respond to the statements about the scope of digital assets owned or managed by your firm (1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5 = Strongly Agree).

	Measures	1	2	3	4	5
1	Our firm owns a diverse range of digital assets.					
2	The valuation of digital assets significantly affects our financial					
3	The volume of digital assets we manage has increased in recent					
4	Digital assets contribute substantially to our revenue streams.					
5	Tax policies adequately consider the scope of digital assets					
6	Our digital assets create complexities in tax compliance.					

Section D: DST Withholding Practices

Indicate your agreement with the following regarding DST withholding tax practices.

(1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5 = Strongly Agree)

	Measures	1	2	3	4	5
1	The withholding tax rate applied to our payments is manageable.					
2	Frequent withholding tax deductions strain our cash flow.					
3	Compliance with withholding tax requirements increases					
4	Withholding taxes affect our pricing strategies for digital					
5	The DST withholding process is clearly explained by tax					
6	Our firm has adequate mechanisms to manage withholding tax					

Section E: DST Administration and Enforcement Measures

Respond to statements on the administration and enforcement of DST by KRA. (1=Strongly

Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5 = Strongly Agree).

	Measures	1	2	3	4	5
1	KRA's digital tax systems have improved our tax compliance					
2	Enforcement intensity (e.g., audits) impacts our operational					
3	We receive sufficient support and education from KRA					
4	Digital filing platforms provided by KRA are user-friendly.					
5	There are clear guidelines on DST administration and					
6	Administrative costs related to DST compliance affect our					

Section F: Financial Performance

Please indicate your agreement with the statements related to your firm’s financial performance in light of DST. (1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5 = Strongly Agree).

	Measures	1	2	3	4	5
1	Our firm's profitability has been stable despite DST taxes.					
2	Revenue growth has been influenced by changes in digital tax					
3	DST-related expenses affect our investment in R&D and					
4	Customer satisfaction is influenced by costs associated with DST					
5	We have adjusted operational strategies in response to DST					
6	DST policies impact our competitive positioning in the Kenyan					

Please provide any additional comments or suggestions related to DST practices and their impact on your firm’s financial performance.....

APPENDIX II: ETHICAL CLEARANCE



Thika Road, Ruwaka
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Email: kca@kca.ac.ke
Website: www.kca.ac.ke

KCA UNIVERSITY SCIENTIFIC & ETHICS REVIEW COMMITTEE

REF: KCAU/SERC/SOB0380

Date: 2nd OCTOBER 2025

TO: ODWORY MOSES TAABU (21/06629)

Dear Sir/Madam,

RE: EFFECT OF DIGITAL SERVICES TAX PRACTICES ON FINANCIAL PERFORMANCE OF MULTINATIONAL TECHNOLOGY FIRMS IN KENYA

This is to inform you that the KCA University Scientific Ethics Review Committee (KCAUSERC) has reviewed and approved your research proposal. Your application approval number is **KCAUSERC/SOB0380**. The approval period is from 2nd October 2025 to 2nd October 2026. This approval is subject to compliance with the following requirements.

- i. Only approved documents, including informed consents, study instruments, and MTAs, will be used.
- ii. All changes, including (amendments, deviations, and violations), are submitted for review and approval by **KCAUSERC**.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events, whether related or unrelated to the study, must be reported to **KCAUSERC** within 72 hours of notification.
- iv. Any changes, anticipated or otherwise, that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to **KCAUSERC** within 72 hours.
- v. Clearance for export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days before expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days upon completion of the study to **KCAUSERC**.

Before commencing your study, you will be expected to obtain a research license from the National Commission for Science, Technology and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,



Dr. Caroline Ntara,
Chairperson,
KCA University Scientific & Ethics Review Committee.

APPENDIX II: LETTER OF INTRODUCTION



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BOARD OF POSTGRADUATE STUDIES

KCAU/BPS/2025

Date: Monday, October 13, 2025

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION (NACOSTI)
P.O BOX 30623-00100
NAIROBI

Dear Sir/Madam,

RE: ODWORY MOSES TAABU- REG NO. 21/06629

It is my distinct pleasure to introduce Odwory Moses Taabu, a student at our institution pursuing a Master of Science in Commerce- Finance and Accounting degree in the School of Business.

Moses is conducting research on the topic “ *Digital services tax practices and financial performance of multinational technology firms in Kenya*”. His study has been reviewed and approved by the University’s Ethics Review Committee, Approval No. KCAUSERC/SOB0380. The Approval period is from 2nd October 2025 to 2nd October 2026.


Any assistance accorded to him is highly appreciated.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Dr. Jackson NdoLO'.

DR. JACKSON NDOLO
DIRECTOR, BOARD OF POST GRADUATE STUDIES

APPENDIX III: NACOSTI PERMIT

 **REPUBLIC OF KENYA**

 **NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION**

Ref No: **862901** Date of Issue: **22/October/2025**

RESEARCH LICENSE



This is to Certify that Mr. Moses Taabu Odwory of KCA University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: DIGITAL SERVICES TAX PRACTICES AND FINANCIAL PERFORMANCE OF MULTINATIONAL TECHNOLOGY FIRMS IN KENYA for the period ending : 22/October/2026.

License No: **NACOSTI/P/25/4181104**


862901

Applicant Identification Number



Ag. Director General
NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Verification QR Code



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See overleaf for conditions

APPENDIX IV: WORK PLAN

Activity	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Chapter One-Introduction									
Chapter Two-Literature Review									
Chapter Three-Methodology									
Proposal and Proposal defense									
Correction Matrix									
Chapter Four-Data collection									
Data analysis and Evaluation									
Chapter Five-Conclusion and Recommendation									

Thesis Writing									
Thesis defense									
Correction and Submission of final draft									

APPENDIX V: BUDGET

1. Stationery.....	5,000.00
2. Transport.....	20,000.00
3. Data bundles.....	10,000.00
4. Accommodation.....	50,000.00
5. Airtime.....	5,000.00
6. Data analysis.....	<u>10,000.00</u>
TOTAL.....	<u>100,000.00</u>