

**EFFECTS OF TAX INCENTIVES ON THE PERFORMANCE OF EXPORT
PROCESSING ZONE FIRMS IN KENYA; A CASE OF ATHI RIVER EXPORT
PROCESSING ZONE**

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DECLARATION

This research project is my original work and has not been presented for an award in any other university.

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Reg. Number: HDB335-C016-1517/2017

This project has been submitted for examination with my approval as a university supervisor;

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DEDICATION

I dedicate this research project to God and my family for their moral and financial support in making the journey a success.

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It has been a great and challenging time studying at KESRA. I thank the KESRA administration and staff for the peaceful process during my post graduate program. I'm grateful to all my lectures for their tireless support and sacrifice especially to Mr. Timonah Namutula for his support in writing of this research project. I wish to extend my appreciation to my supervisor Mr. Bernard Matibe for his professional guidance and advice throughout the whole process. To my fellow students, thank you for the support and advice you have given me both in school and while writing this research project, I salute you all. May God bless you.

ABSTRACT

Most governments in this world use trade policies and programs to facilitate trade. This has led to the introduction of several trade related incentives. Export processing zones were introduced in Kenya in 1990 under the EPZ Act 1990, CAP 517 Laws of Kenya to present the opportunity for the country's development and economic growth. This study intended to establish the effect of tax incentives on the performance of Export Processing Zone firms in Kenya. Precisely, it analyzed the various types of tax incentives offered to EPZ firms which directly or indirectly affect performance. Performance was gauged by job creation, skills or technology transfer and foreign exchange earnings. This study adopted a case study design, with Athi River EPZ being suitable for the study as it houses 69 firms in Kenya. Primary data was collected using questionnaires. This study used panel data and pooled panel regression model in testing the significance of the effect of the independent variables on the dependent variable. Descriptive data analysis was also used in conducting data analysis. From the analysis, 89% of the respondents noted that corporate income tax has an effect on performance of EPZ Firms while 11% said it has no effects. 84%, of the respondents said that withholding tax incentive affects the performance while 16% said it has no effect. 78% of the respondents stated that duty exemption affects performance of EPZ firms while 22% said it has no effect. On capital allowance 89% of the respondents stated that it affects the performance while 11% said it does not affect the performance of EPZ Firms in Kenya. The results of multivariate regression model further revealed that corporate income tax incentive had a positive and significant relationship with performance of EPZ firms measured using the number of jobs. The results of bivariate regression models adopted revealed that at 5% significance level corporate income tax incentive, capital allowance tax incentive, duty exemption and withholding tax as well as a positive and significant relationship with performance of EPZ firms measured using technology, foreign exchange and the total number of jobs. The study found out that Firm size moderate the relationship between tax incentives and the performance of EPZ firms in Kenya. The study conducted analysis on the EPZ firms to find out the survival rate of the EPZ after 7 years period of tax holiday. Within this 7 year period EPZ firms benefit from tax incentives available. This finding implies that tax incentives may be valuable in attracting EPZ firms but the performance of these firms depends on other factors different from tax incentives. Based on the findings the study concluded that the government should continue to offer tax exemptions for it to attract and maintain foreign investors in the country. This study recommends that stakeholders in tax policy should reconsider the economic value of corporate tax incentive .The nature of the study called for an emphasis on confidential information related to the manufacturing firms. Disclosure of such confidential information made the respondents feel intruded and hence they were assured of confidentiality and ethical handling of the information they provided.

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ACRONYMS AND ABBREVIATIONS

EPZ	Export Processing Zones
EPZA	Export Processing Zones Authority
FDI	Foreign Direct Investment
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
OECD	Organization for Economic Co-operation and Development
SMEs	Small and Medium-Sized Enterprises
CITI	Corporate Income Tax Incentive
CAI	Capital Allowance Incentive
IDE	Import Duty Exemption
WTH	Withholding Tax Holiday
UNCTAD	United Nations Conference on Trade and Development
MENA	Middle East and Northern Africa
OLS	Ordinary Least Squares
FGLS	Feasible Generalized Least Squares
ROI	Returns on Investment

DEFINITION OF TERMS

Capital allowances tax incentives: refers to sums of money a business can deduct from the overall corporate or income tax on its profits (Khan, 2019).

Corporate income tax incentives: Collins (2013) refers to a reduced corporate income tax rate on qualifying income to particular types of activities.

Duty exemptions: refers to an exemption or a reduction of a tariff or tax on the importation or exportation of goods (Kenny 2011). Commercial goods not yet cleared through customs are held in a bonded store until they are processed.

Withholding tax holiday incentive: refers to the exemptions or tariffs on the tax deducted at source from payments like income interest, dividends, pensions and other related remittances (Gambo, 2011).

Performance: refers to the actual output or results of an organization as measured against its intended outputs (goals/objectives).

Tax incentive: is a government measure that is intended to encourage individuals and businesses to spend money or to save money by reducing the amount of **tax** that they have to pay.

Export Processing Zones: refers to designated parts that are aimed at promoting and facilitating export oriented operations and investments to develop an enabling environment for such investment (Brown,2015).

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Governments in both developed countries and developing countries stiffly compete to attract investments globally. While countries from the western world give investment allowances, the developing countries give tax holidays and accord duty exemptions. The modern day use of taxation as a fiscal tool can be traced back to 1926, during the economic depression, which had struck almost every economy around the globe. This period was marked by unprecedented decline in the overall economic activities which resulted to a decrease in the total earnings, shortages in funding for the private sector and a decline in the standards of living. In a bid to initiate revival, rehabilitation and mobilization of enough capital needed to cover for both economic and social expenses and to raise the standard of living of the people, fiscal policies were formulated and they were inclusive of taxation (Azevedo, Pereira & Rodrigues, 2018).

Galindo (2011) defines taxation as a compulsory levy imposed by the governing authorities through its agencies on the income, consumption and the capital owned by its people. Levy is imposed on personal income like salaries, profits from business activities, dividends and royalties. Through such deductions, the government uses them in the provision of security, social amenities and the conditions necessary for the economy to thrive. However, it was noted that the main objective of taxation is to raise the funds which the governments needs to meet its expenses, manage the economy and aid in the redistribution of wealth. To many governments, taxation has been a significant tool in achieving both fiscal and economic objectives. Laws and bills have been passed, tailored to attract investment, eliminate the obstacles to trade and growth of industries.

Tresch, R. (2014) said to enhance the modern exchange of goods and services across the borders in the world, many of the governments have come up with trade programs and policies to control and facilitate the initiatives. Industrial estates, commonly known as Export Processing Zones (EPZs) which manufacture goods meant for export in fenced regions set up by the government are a product of such trade programs. To promote the growth of exports, EPZ has been a widely adopted phenomenon, and continues to generate substantial impact thus, improving economic activities. To further enhance these economic activities and spur investments by the respective firms, governments have used tax incentives in sectors which

have previously been dormant or which have not reached their full potential. To date, the Kenyan government has overseen the implementation of over twenty fiscal and tax incentives, which sought to solve the stumbling blocks to growth. In addition, institutional reforms have been enabled by the relevant stakeholders in the quest to achieve economic growth.

The government of Kenya, in the efforts to move away from the import-substitution strategy to spur economic growth, has made tremendous efforts in pursuing a growth strategy which centered on exports. Through the creation of the EPZ, exports have surged, in the presence of tax incentives. An example of the tax incentive is the wear and tear allowance which is relative to the depreciation of assets. Another tax incentive for the EPZs is the Investment Deductions Allowance (IDA) which is relative to the expenditures made on machinery. Generally, incentives lower the costs that a firm incurs improving the revenues and the profits registered, and at the same time opening up opportunities which firms can exploit, thus marking an improved overall performance (Just & Weber, 2012).

1.1.1 Tax Incentives

Tax incentives in this research represent the independent variable which when manipulated, affects the outcome of a dependent variable. Tax incentives are defined as the monetary policies which help draw in investments in a country. The United Nations Conference on Trade and Development (UNCTAD) defines tax incentive as the incentives that reduce the burden of tax of any individual, organization or business entity so as to induce them to invest in particular projects or sectors of a country (UNCTAD, 2004). The Kenya Revenue Authority (KRA) defines tax incentive as the provision which grants any person or business entity a favorable condition which is different from the normal tax legislation applicable.

Tax incentives may take different structures depending on the country which implements them. In the case of Kenya, the most common tax incentives include being exempt from payment of taxes for a certain period of time after the start up. For example, companies under EPZ which principally export goods are taxed at 0% rate in capital income tax during their first ten years of operation (EPZA Kenya, 2018). Allowances for investments which are relative to expenses are also a form of a tax incentive as well as tax credits, reduced tax rates on profits, tax holidays and decreased rates of taxation. Companies stand to gain following such incentives with creation of jobs increasing output which subsequently improves

performance. Corporate income tax incentive, capital allowances tax incentives, and import duty exemptions are part of the independent variables relative to this research.

1.1.2 Performance

A dependent variable in this study, performance, changes following manipulation of the independent variable, tax incentives. It is defined as the degree to which a firm achieves its financial objectives. To evaluate how a firm performs financially, the utilization of its assets to general sales has to be assessed, and is measured in monetary terms. Mitchell, Obeidat & Bray (2013), noted that profitability, growth, and market worth form the basis of determining performance. Growth reflects the capacity of a company to build in size. Increase in the size of a firm is directly related to the total profits and the revenues it generates while profitability portrays the ability that the firm has to generate returns. A large firm enjoys economies of scale and gains the ability over other smaller firms to control the market. In addition, it places itself in a better position to enjoy improved revenues and profits not only in the short term but also in the long term. Market worth reflects the appraisal of a firm which is done externally and is connected to the historical performance (Mitchell, Obeidat & Bray, 2013). Contextually, value addition, job creation, skills transfer and foreign exchange gains are attached to this study.

1.1.3 The Relationship between Tax Incentives and Performance

Tax incentives provided by the government provide limitless benefits and advantages to the firms in EPZ. The common tax incentives provided to these firms include corporate income tax incentive, capital allowances tax incentives, and import duty exemptions (Kuria, 2017). For instance, capital allowances are deducted from the corporate tax liability. Through this, firms get the opportunity to report relative profits after tax. Basically, the tax incentives provided helps firms in recovering capital expenditures incurred during their operations. Mayende (2013) noted that this is of great significance especially at times when firms do not register good performance. These incentives are also provided that they may stimulate business operations and investments. They designed and implemented by government agencies in a bid to revive and direct economic performance in sectors which could be underperforming or dormant due to various factors. It was also established that tax incentives help in the creations of employment opportunities and motivating sole proprietors to incorporate as limited liability. Such is important to improve performance even though

profitability (an important facet of determining performance) might not be realized in the short term (Matkin, 2010).

1.1.4 Overview of Export Processing Zones in Kenya

Export Processing Zones (EPZs) in their ancient form emerged in the 1950s where investors who specialized in exports enjoyed free port services. The primary objective of EPZs was to alleviate unemployment and attract investment from foreign investors thus creating income. The industrial estates are fenced to facilitate the manufacturing and the production of goods and products meant for export only. The program became widely known around the world in the late years of 1970s, and was fully adopted by Kenya in the year 1990. This was through the enactment of the Export Processing Zones Act (CAP 517 of the laws of Kenya). The program was undertaken to substitute the import dependent economy with one which was oriented on exports for growth. The EPZ Authority oversees the management of the EPZ and active investors are given tax incentives as well as the needed infrastructure to facilitate success in their operations. The primary intentions of EPZs are to enhance economic development through creation of job opportunities, wealth creation, enhancing export opportunities, and inviting investments from all parts of the world. As of December 2017, the number of gazetted EPZs was 71, with 65 being owned by private investors while 5, in the hands of the public. The firms in these zones are involved in various sectors like garment manufacturing, commercial craft, electrical, food processing, pharmaceuticals and medical supplies and agro processing among others (EPZA Kenya, 2018).

1.2 Statement of the Problem

As importing goods from overseas continues to be a problem in many countries, a search for alternatives which will effectively solve import problems goes on. The formation of EPZs aimed to diversify and promote the exportation of goods as one of the initiatives created as a solution to the existing import conundrums. In this era of globalization, many countries have adopted the EPZs and therefore with increase in competition, the need to have a competitive tax system which will aid in exploitation of potential is evident. Not only will it give it the opportunity to maximize their potential, but also give them a trading advantage in the global market. As the number of EPZ increase in the south of Sahara, there is much to be done with respect to the performance of the EPZs. Notably, the number of employees that are hired continues to go down, as the number of those laid off goes up. This reflects a significant problem that EPZs across the African continent need to address, especially at the time when

the global trade and beneficial competition are on the rise (Jauch, 2002). Misuse of tax incentives is evident as the EPZs don't seem to achieve their main aim. There is expected increase in employment opportunities but this is not the case (Jauch,2002). Total sales also declined by 1.9% in 2017 according to EPZA (2017) as well as a exports decrease by 5.3%.

In their research, Uwaume and Ordu (2014) found out that tax incentives have a significant impact on industrial growth and economic development in Nigeria. Chukwumerije and Akinyomi (2011) carried out a study to investigate the impact that tax incentives had on the overall performance of small scale industries in Rivers State, Nigeria. They noted that the relationship between tax incentives and profitability, growth and development was overwhelmingly positive. Murage (2012) conducted a research investigating the effect that tax incentives have on the investments on export processing zones in Kenya. His findings noted that there was indeed an effect on EPZs as sales and profits surged, but it was quite impact was quite insignificant. Gumo (2013) conducted a research on the effects of tax incentives on foreign direct investments. He established that investments deductions had a positive impact on foreign direct investments industrial allowance incentives influenced negatively.

1.3 Objectives

1.3.1 General Objective

The general objective of this research was to establish the effects of tax incentives on the performance of export processing zones (EPZ) firms in Kenya.

1.3.2 Specific Objectives

The following specific objectives were used as guiding drivers of the study.

- i. To find out if Corporate income tax incentives incentive affects the performance of EPZ firms in Kenya.
- ii. To establish if withholding tax holiday incentive affects the performance of EPZ firms in Kenya.
- iii. To determine if import duty exemptions affect the performance of EPZ firms in Kenya.
- iv. To find if capital allowance tax incentive affects the performance of EPZ firms in Kenya.

1.4 Hypotheses

1.4.1 H₁: Corporate income tax holiday incentive has a significant effect on the performance of EPZ firms in Kenya.

H₀: Corporate income tax holiday incentive has no significant effect on the performance of EPZ firms in Kenya.

1.4.2 H₁: Withholding tax holiday has a significant effect on the performance of EPZ firms in Kenya.

H₀: Withholding tax holiday has no significant effect with the performance of EPZ firms in Kenya.

1.4.3 H₁: Import duty exemptions have a significant effect on the performance of EPZ firms in Kenya.

H₀: Import duty exemptions have no significant effect on the performance of EPZ firms in Kenya.

1.4.4 H₁: Capital allowance tax incentive has a significant effect on the performance of EPZ firms in Kenya.

H₀: Capital allowance tax incentive has no significant effect on the performance of EPZ firms in Kenya.

1.5 Research Questions

This study aimed to answer the following questions.

- i. How does corporate income tax affect the performance of EPZ firms in Kenya?
- ii. How does withholding tax affect the performance of EPZ firms in Kenya?
- iii. How does a duty exemption affect the performance of EPZ firms in Kenya?
- iv. How does capital allowance tax affect the performance of EPZ firms in Kenya?

1.6 Justification

Although several studies have highlighted various phenomena relative to tax incentives, none seemed to highlight the effect of tax incentives on the overall performance of EPZ firms. This study aimed to bridge the gap between these studies and investigate the effects of tax incentives on the overall performance of EPZ firms in Kenya.

This research was of great significance in the sense that, the research questions were answered; it brought new knowledge with respect to the effects of tax incentives on the overall performance on EPZ firms in the country. It therefore provides a deeper understanding to consultants, investors, and government officers who would find the research of great interest. Academic scholars, researchers and other related parties can use the data gathered and the information provided in the research to advance the subject and come up

with new hypothesis that explain the effect of these tax incentives on the performance of EPZ firms. The various stakeholders in the respective industries can use the information in this research to either rectify previous mistakes, or adopt new tactics of taxation, or help in streamlining the whole process of exportation. On top of the information and knowledge that already exists, this research makes enormous contribution, and can be used as a reference point by those interested in the subject. Governments can also use in assisting either start-ups or established businesses on the way forward to exploit and maximize their potential. Subsequently, in the era of globalization, it is significant to have the information easily available, and this research contributes to having a wide range of the available information.

1.7 Scope of the Study

Athi River Export Processing Zone was selected and used for this study as it accounts for 69 operating firms (as at 2017) out of the 131 EPZ firms based in Kenya. The focus of the study targeted finance managers, human resource managers and the administrative officers in charge of operations in the EPZ firms in Athi River EPZ. It also incorporated tax managers and senior directors from the respective EPZ firms. This research study was conducted in the year 2019 and data from the year 2011 to 2017 relative to EPZs was used.

1.8 Limitations of the Study

The nature of the study called for an emphasis on confidential information related to the manufacturing firms. Disclosure of such confidential information made the respondents feel intruded and hence they were assured of confidentiality and ethical handling of the information they provided.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter explains in detail the relevant literature that relates to background of the study. It exhibits a survey of studies from different researchers, academia and scholars in the subject areas of this research. This chapter critically reviews the subject; it begins with an analysis of the theories that give direction to this study, done so that the research can have a strong theoretical foundation. Following the theories is the conceptual framework and lastly a review of empirical studies done to complete the chapter. The majority of information in this chapter will be sources from articles from newspapers, reports from government organizations, academic journals and books, all relevant to the subject discussed in this research.

2.2 Theoretical Literature Review

This section is a discussion of the various theories and concepts relative to tax incentives and an articulation of how these incentives affect the financial performance of EPZ firms. The theories discussed under this section include the cluster approach theory, the normative theory and the agency theory of tax incentives.

2.2.1 Cluster Approach Theory

Developed by Michael Porter in 1990, the Cluster Approach Theory was founded on the concept of competitive advantage and has for a long while been used by many governments and organizations around the world as a springboard or criteria for improvement. Porter came up with this theory based on the idea that investments would be viable and register good financial performances while they are closer to each other (Collins, Bosworth & Soto-Class, 2006). He argued that EPZs, where firms share a common geographical location, enjoy common factors such as infrastructural development; a pool of skilled labor, technical support and the transfer of technology will be evident. The clusters approach by EPZs constraints the ability of the government to impose itself on the firms and after that examining the subsequent ramifications for tax competition. One such perspective is the inadequacy in a government's relative to the organizations or firms that it endeavors to do an assessment. For example, firms may have a difference in interregional versatility, yet such differences might be troublesome for the government to keep watch. In such a case, the

authorities cannot tax a firm in a way that straightforwardly depends on its unobservable parts of firm conduct that may serve as signs of these qualities, for example, the company's business venture choices (Kuria, 2018).

For a period of time now, tax incentives which have targeted particular geographical locations have been implemented by policy makers across all levels of the government. It is worth noting that these incentives have not been uniform from a jurisdiction to the other as they differ greatly. Some tax incentives are meant for capital investment while others are meant to aid in the creation of employment opportunities or other purposes, but in effect they achieve a common cause, which is to effect a tax treatment. Much of the emphasis from previous research on tax incentives which differ from a region to the other have been on job creation. The cluster approach theory is relevant to this research as it incorporates corporate income tax incentive, capital allowance, custom duty exemptions and withholding tax holidays.

2.2.2 Normative Theory

This theory deposits that every incentive given has its advantages and disadvantages (Habermas, 2009) and therefore, it is difficult to tell which incentives will work better in a certain sector of the economy and which will not with respect to the prevailing challenging and circumstances. The foundation of this theory comes from the practical applicability of administering tax on subjects. Thus, depending on the method of tax administration, the incentives given are bound to be effective upon implementation by the government authorities and agencies. It is therefore pertinent that, the success of the various tax incentives is dependent on the tax policies and administration method put in place. As Tresch, (2014) notes, the theory provides a model which is clear, and gives guidance in that guides description and explanation of the different methods of tax administration as well as prediction of its efficiency in applicability. Through this, Boadway, Chua and Flatters (2008) argue that such incentives are vulnerable to abuse and corruption from the public servants working for the respective government agencies.

With regard to how the theory is relevant in this study, theory has crucial and significant provision in variables with respect to capital allowance tax incentives and corporate income tax holiday. These variables, come with them tax incentives which are not expensive or costly in simulating investment in machinery, plants or raw materials for the firms within export processing zones. The study by Chukwumerije and Akinyomi, (2011) indicates that these

incentives through the right policies, the impact could be powerful, and there would not be any significant loss in revenue. For a tax incentive to be considered sound and ideal in the existing conditions, like for instance in Kenya, the corporate tax has to be drawn to levels comparable with other countries in the region. However, if it does not compare to the other corporate taxes in other exporting countries and the reductions are more, the discrepancy would be high thus resulting to a poor performance due to losses in revenue and less gains in investment, as well as lack of skilled labor. The theory has been widely used in the past, in many studies relative to the impact of tax incentives on the various facets of the economy, either on performance, growth, or investment.

With regard to the relevance of this theory to the study, crucial information on variables of capital allowance as well as corporate tax is provided. These variables come up with up-front incentives that are less costly regarding stimulation of the desired investment in such areas as machinery, equipment as well as research for firms within EPZs. Further according to the report by Chukwumerije and Akinyomi, (2011), they provide useful signaling effects that will not witness any loss in revenue. Specific as well as target policy tools will be provided by both investment tax credits as well as allowances to achieve the aforementioned objective.

According to Fletcher, (2003), an existing tax incentive will only be regarded as sound and ideal for the prevailing circumstances if it can significantly draw corporate tax to levels that can be compared with other countries that are operating in that region. A tax incentive that brings about huge discrepancies in corporate tax between a country and its neighbors will directly affect its operations and therefore put it in a disadvantaged position relative to the trading partners in the region Tresch (2014), This adjustment should however not fall way below the level that exists in capital exporting economies For instance if the corporate tax is below twenty percent when compared with the other exporting countries, then it may result to greater losses in revenue than the projected gains in investment.

2.2.3 The Agency Theory of Tax Incentives

Despite there not being any substantial evidence to support the efficacy or efficiency of the various fiscal incentives, government agencies continue to give them out. Wells et al. (2001) argued that tax incentives offer an easy way in compensating the obstacles created by these government agencies in the market or economic environment. This basically means that the tax incentives given out are as a response to the failure by the government to impose itself effectively on the market and ensure the business environment fosters growth and

development. It is worth noting that as a result of these government-created obstacles, some of them cannot be solved by just mere tax incentives and thus, are expensive and take longer in executing an efficient and adequate tax administration which will solve such obstacles. In order to address the distortion trend, a practical way is through the provision of incentives. There exist agency problems between the government and its respective agencies mandated with the task of creating and attracting investment. Whilst the agencies assume a significant role in pushing for incentives which promote and create investment to the business environment, the efficiency of the incentives does not achieve the expected results or are not productive enough as the costs are high. The rationale of incorporating this theory to this study is that the government agencies do assess the effectiveness of the tax incentive, say import duty exemptions in inducing more production and subsequently improved overall performance.

2.3 Conceptual Framework

Conceptual framework is a diagram which represents the relationship between independent and dependent variables. The independent variable is the variable which shows great stability and remains unaffected by the other variables that are being measured. It refers to the condition of an experiment that is systematically manipulated by the investigator. It represents the cause. On the other hand, a dependent variable is defined as the variable which depends on other factors that are being measured. Such variables are expected to change or vary as a result of an experimental manipulation of the independent variable or variables. It represents the effect. The independent variables in this study are various tax incentives which include corporate income tax holiday incentive, withholding tax holiday incentive, import duty exemptions and capital allowance tax incentive while the performance of EPZ firms inclusive of value addition, job creation, skills or technology transfer and foreign exchange gains represents the dependent variable. The conceptual relationship between variables is shown below.

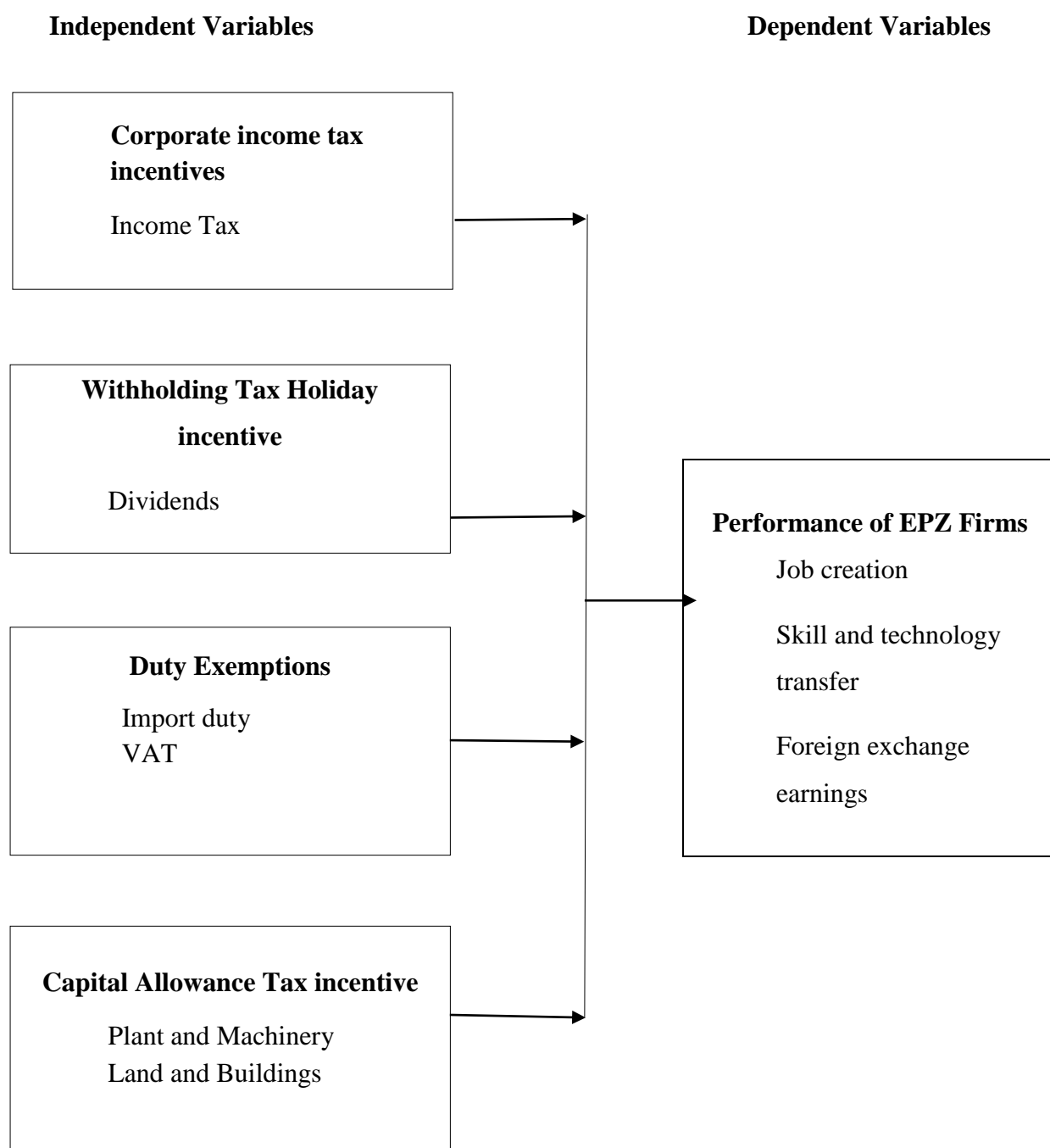


Figure 2.1: Conceptual Framework

2.4 Measurements of Performance

Performance is defined as the accomplishment of a task measured in the standards of accuracy or cost. Contextually, it is defined as the elements which contribute to efficiency on operations, induce growth. Performance extends to how a company or firm uses its resources towards the achievement of its objectives. This research measures overall performance through four aspects: value addition, job creation, skills or technology transfer and foreign

exchange earnings. This will be possible by looking into growth in the number of employees in the EPZ firms, quantity of imports and exports as well as returns on investments.

2.5 Empirical Literature Review

Many global and local scholars have concluded many studies concerning the effect of tax incentives on particular facets of the economy. They are outlined below in reference to every tax incentive offered.

2.5.1 Types of Tax Incentives

The main objective of a tax system is to help the government raise revenue to aid in its operations and delivery of services. A tax incentive therefore helps a person, a business entity or an organization in a positive way through the provision of a tax treatment which helps spur business activities in different sectors. There are four tax incentives discussed in this research.

2.5.1.1 Corporate Income Tax Incentives

Corporate income tax incentives are the tax which is levied by a state government on the profits made by businesses. Many companies use different ways in the tax code to ensure that they lower the costs they incur in payment of taxes. To help companies in various industries record high performances financially and aid in initiating investment, the government gives tax holidays. According to the Export Processing Zone Authority, a 10 year corporate income tax holiday is given with a 25% tax rate imposed thereafter. In addition, the corporate tax rate imposed for the other local companies is 30% while other foreign companies pay 37.5%. This indicates the excellent program that the government has come up with to ensure success and growth in the EPZ sector (EPZA Kenya, 2018). Gumo (2013) investigated the relationship between tax incentives and investments. Secondary data obtained from Export Processing Zone Authority, Kenya Revenue Authority and Kenya National Bureau of Statistics was used in the study. Descriptive statistic, correlation and multiple linear regression models were used in the process of data analysis. He concluded that corporate income tax holiday incentive has a positive relationship with foreign direct investments as it spurs both local and foreign investment which positive impacts the performance of an EPZ firm. A study by Klinger and McFate (2013) which investigated the effect of lower taxes on corporate profits found that there was no relationship between lower taxes and corporate profits or job creation.

2.5.1.2 Withholding Tax Holiday Incentive

This is the tax deducted at source from payments like income interest, dividends, pensions and other related remittances. They could be levied as a final tax or an advance tax payment. A 10 year withholding tax holiday on dividends and other remittances is given to nonresident parties in EPZ. The tax rates in this case after the eclipse of the 10 years differ depending on the type of payment that is, pension, interest, dividends, etc. In a bid to establish the relationship between tax incentives and investment in Middle East and Northern Africa (MENA) as well as non-MENA countries, Organisation for Economic Co-operation and Development (OECD) in 2007, it was found that a poor business environment could not be compensated by either withholding tax incentives or other forms of tax subsidies from the government. Giving tax incentives with a poor infrastructural development, erosion of tax base was most likely and thus, not many investments would be drawn to the economy. Ireland and Malaysia were some of the countries which attracted investment without giving tax incentives; instead, they focused on improving the infrastructure and ensuring a good political and economic climate. Onyango (2015) in his study to establish the effect of tax incentives on five star hotels in Kenya found out that direct tax incentives (including withholding tax holiday incentives) helped hotels record high profits thus leading to growth and their respective development.

2.5.1.3 Duty Exemptions

Import duty is the tax collected by the custom authorities and agencies from the government on imports. In practice, when goods are shipped from another country to Kenya, the owner or purchaser of the goods pays a 25% customs duty fee. The import duty exceptions are an incentive given to investors in the sector, for example the EPZ, who are either constructing or upgrading their facilities. It also applies to raw materials, machinery, office equipment, building materials among other supplies. For a country to stimulate its exports, the custom duty incentives applicable have to be used up to efficiency so as to abundance to give the country and the respective firms a competitive edge in the global market. Alegana (2014) sought to establish the effects of tax incentives on the economic growth in Kenya, she found out that import exemption to do not contribute to economic growth, with marginal growth rate in the economy reported as import exemptions continue to increase increase significantly. Kandie (2011) in his study on the effects of tax incentives on exchequer revenue in the country concluded that import tax incentives have a negative effects on

exchequer revenues. With the constant deficits in the budget financing, such tax incentives do not help in filling the revenue gaps or deficits in the budget.

2.5.1.4 Capital Allowance Tax Incentive

Capital allowances are tax incentives given to firms and organizations on capital expenditure. They are tax allowable which means that a firm cannot be taxed on them. Some expenditures which get this tax relief include the wear and tear allowances, industrial building deduction, investment deduction and farm works deductions and related machinery. Ngure (2018) did a study to establish the relationship between tax incentives and economic growth in Kenya. The study population was all the 725 manufacturing firms in all categories (large, medium and small) under the Kenya Association of Manufacturers directory as at 2016. Selected randomly, the study sampled 90 companies and collection of secondary data for a six year period was collected from the annual reports and the firm's internal sources. Ngure found out that capital allowance tax incentives channeled by the government on machinery, plant and raw materials to the manufacturing firms in Kenya affected the performance of the manufacturing industry and significantly improved the literacy levels of the population. Chukwumerije and Akinyomi (2011) sought to examine the impact that tax incentives had on the overall performance of registered small scale industries in Rivers State, Nigeria. Out of the 22 registered industries, 11 were selected randomly and 260 respondents from the industries involved in data collection through the use of questionnaires. Frequency distribution and chi-square tests were used in data analysis and testing of hypotheses. It was capital tax allowances, as part of the several tax incentives offered to SMEs significantly impacted these industries with marked improvements in profits noted, leading to their expansion, growth and development.

2.6 Critique of Existing Literature

This chapter has explored various studies from different scholars who highlighted different variables. Throughout the review, various topics were not covered, thus the exposing the literature gaps in the respective studies. Chukwumerije and Akinyomi (2011) investigated the relationship between tax incentives and performance of SMEs in River State, Nigeria. It was established that the relationship was positively significant, on every aspect of the SMEs. Gumo (2013) investigated the effect of tax incentives on foreign direct investment but did not seek out the impact of the incentives on the overall performance of EPZs. Moreover, Gumo's study concluded that not every tax incentive was positive, as others had a negative impact.

Onyango (2015), sought to establish the effect of tax incentives on financial performance of five-star hotels in Nairobi County, but did not touch on the EPZs. This study therefore, seeks to bridge the gap in literature, and investigate the impact of tax incentives on the overall performance of export processing zones, using the Athi River EPZ as a case study.

2.7 Summary of Literature Reviewed

This study sought to bridge the research gap by investigating on the effects of tax incentives available on the performance of EPZ firms in Kenya. The chapter also explored the conceptualization of the independent and the dependent variables by analysing the relationships between the two set of variables. The dependent variable is performance of EPZ firms while the independent variables are represented by the corporate income tax incentive, capital allowance, VAT incentives, customs duty incentives and excise tax incentive.

The chapter discussed in detail, the various theories which are relative to both the independent variable and the dependent variable and showed the correlation that exists. In empirical literature, the chapter explored many scholars, both international and local, who have previously explored the tax incentive factors and its effects on different facets. For example, Gumo (2013), Ngure (2018), (Barbour (2005), Chukwumerije and Akinyomi (2011), Musyoka (2012), Kimeu (2013), and Klinger and McFate (2013) used different variables to explain the effect of taxincentives. Through the critique, the chapter highlighted the existing research gaps that this study intends to fill.

2.7 Research Gaps

Despite the increased attention on Tax and most especially on Export process zone none of the studies has addressed the effects of tax incentives on the performance of EPZ firms in Kenya. In the literature reviewed, tax influence on Kenya EPZ firms and its influence on performance of EPZ firms was not empirically researched, thus it is not clear whether tax were reducing the performance or increasing in Kenya. The available studies touched on financial performance of EPZ firms but none seemed to address the effect of tax incentives on the overall performance of EPZ firms. This study will therefore focus on collecting primary data that assesses the real situation on the ground, more so at the EPZ Athi River.

CHAPTER THREE RESEARCH METHODOLOGY

3.1 Introduction

This chapter aimed to give an insight into the methodologies used by the researcher in the study. It explains the research design and strategy employed. The target population is also addressed as well as the methods of data collection. The data processing and analysis techniques are also discussed in the chapter. The contribution to this research has come from both the use of primary data and secondary data. Primary data is data that was collected by the researcher through questionnaires. On the other hand, secondary data was collected from existing researches and studies by other scholars and involve the re-analysis of the data that answers the same question using previous data to answer the research questions appropriately (Saunders et al., 2015). Primary data will be collected from Athi River EPZ to give an idea of the performance of firms in EPZs in Kenya. EPZ firms in Kenya formed the source of secondary data during the year 2011-2017.

3.2 Research Design

The research design is defined as the general plan that is related to the subject problem of the research and has relevance according to the empirical research of the study. It is the plan to be followed in answering the research questions. Subject to the research objectives, the research design gives a guideline on the appropriate data collection methods to be used in the research, through a coherent and effective integration of components in the study (Saldanha, 2015). Among the various research designs used in this study is the case study. It is one of the methods that are commonly used in the collection of qualitative data. It involves exploring in details a certain case either in the community, industry or an organization (Saunders et al., 2015). In this context, the case study will be carried out within the EPZs in the Kenya. When a research design like the case study is used, questions like how, when, in which manner among others are answered.

3.3 Target Population

A population is defined as a group of individuals, events or objects which have common observable characteristics. The target population in this study will be the staff in Athi River EPZ. The study will focus on the various members of staff selected from different firms which enjoy tax incentives.

Category	Population
Top Level Management	5
Middle Level Management	10
Operational	90
Total	105

Table 3.1: Target Population

3.4 Data Collection Methods

Data collection involved gathering pieces of information that will allow the researcher to find an answer to the research problem (Fletcher, 2016). In this section, the method used by the researcher in collection of data was use of questionnaires and secondary data sheets.

3.5 Sample and Sampling Frame

In the field of research, sampling involved selection of individuals, a subset, from a population in which the researcher can gather or estimate the characteristics of the population so as to give true feedback (Gillett-Swan, 2017). The researcher used a sample size of 69 employees from Athi River EPZ.

Category	Frequency	Sample Size	Percentage
Top Level Management	5	3	4
Middle Level Management	10	7	10
Operational	90	59	86
Total	105	69	100

Table 3.2 Sample Size

3.6 Questionnaire Design

A good questionnaire design helps the researcher in getting correct and credible feedback from the sampled population. To achieve the objectives of the survey, the researcher gives accurate information so that the respondents of the survey can have it easy in giving feedback; otherwise, a complicated questionnaire might give the respondents' difficult time

filling (Saunders et al., 2015). The questionnaire in this research is designed in such a way that it makes a good and clear intent, the interpretation is very simple and the answers need to be as direct. To improve the response rate, the questionnaires will be dropped to the respective respondents and picked at a later date.

3.7 Data Processing and Analysis

After the collection of primary data, the study employed both the descriptive and inferential statistics in the analysis of the field data. Descriptive statistics methods described the basic features of the data. By using measures of central tendency like mean, mode and median, the researcher gives an understanding of the basic features of the population. On the other hand, inferential statistics use sample of data taken from a population in describing and making inferences about the population.

3.7.1 Model Specification

In order to do an analysis of the effect that tax incentives has on the performance of EPZ firms in Kenya, the study will do a modification of the pooled panel data model used by Ban˜os-Caballero, Garcıa-Teruel, and Martınez-Solano (2011), which is depicted in the equation 3.1. This study will employ pooled panel data regression model to investigate the effect of tax incentives on performance of EPZ firms in Kenya. According to (Hsiao, 2003), panel data has observations from various phenomena which is obtained in different multiple time periods for the same firm or organization. Such data is preferred as it reveals the changes that occur at the firm’s level and establishes time order of variables to depict the emergence of relationships (Frees, 2004). Since the study focuses on the 69 EPZ employees, using cross-section data alone will give a small sample but incorporating the time series of 7 years, the sample will expand to 483 observations. According to Gujarati (2003) the resultant large sample will make it possible for the study to satisfy asymptotic requirements. The general empirical model used in the study is defined as follows:

$$Y_{it} = \alpha + \beta X_{it} + \epsilon_{it} \dots\dots\dots (3.1)$$

Where: Y_{it} is the dependent variable denoting performance of EPZ firm i at time t ; t denoting the observation (firm), $i = 1 \dots\dots 30$ while t is the time period, $t = 2011 \dots\dots 2017$. X_{it} denotes a vector of independent variables, β are coefficients to be estimated, α is a constant term, and ϵ_{it} is a composite error term.

Equation 3.1 undergoes expansion to obtain equations 3.2 which will be used for estimation.

$$Y_{it} = \alpha + \beta_1 A_{it} + \beta_2 B_{it} + \beta_3 C_{it} + \beta_4 D_{it} + \epsilon_{it} \dots \dots \dots (3.2)$$

Where;

Y_{it} = Performance of firm i at time t ;

A_{it} = Corporate income tax incentives that has been waived for firm i at time t ;

B_{it} = Capital allowances received by firm i at time t ;

C_{it} = Duty exemptions that firm i has benefited at time t ;

D_{it} = Withholding tax holiday incentive that firm i has benefited at time t ;

α = Constant term.

β_s = Coefficients of the independent variables;

Subscript i = Firms (cross-section dimensions) ranging from 1 to 69;

Subscript t = Years (time-series dimensions) ranging from 2011 to 2017;

ϵ_{it} = Composite error term of the model

Job Creation = $\beta_{0it} + \beta_{1it}$ Corporate Income Tax Incentives + β_{2it} Capital Allowance + β_{3it} Import duty exemptions + β_{4it} Excise Tax Incentive + β_{5it} Withholding tax incentives+ ϵ_{it}

Skills Transfer = $\beta_{0it} + \beta_{1it}$ Corporate Income Tax Incentives + β_{2it} Capital Allowance + β_{3it} Import duty exemptions + β_{4it} Excise Tax Incentive + β_{5it} Withholding tax incentives+ ϵ_{it}

Foreign Exchange Earnings = $\beta_{0it} + \beta_{1it}$ Corporate Income Tax Incentives + β_{2it} Capital Allowance + β_{3it} Import duty exemptions + β_{4it} Excise Tax Incentive + β_{5it} Withholding tax incentives+ ϵ_{it}

The panel data obtained was analyzed using descriptive statistics, correlation analysis, and panel regression analysis. The panel methodology was supported by STATA software. Feasible Generalized Least Square estimation was done after an account for various violations of classical linear assumptions is done. There are three ways of estimating a panel data model: the Pooled Ordinary Least Square (OLS) regression model, Fixed Effect (FE) model and Random Effect (RE) model. The method used in this case is dependent on if the individual cross-section effects are considered to be constant, fixed or random. Consequently, all three models estimated and then the necessary tests applied before a choice on the appropriate model is made. However, the idea that the unit-specific effects did not differ in

Pooled OLS regression model made it very restrictive and usually unrealistic. As argued by Baum (2006), Pooled OLS regression can have a complicated error process such as heteroscedasticity across panel units and serial correlation within panel units. Due its severe limitations, this study considered the FE or RE models.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter gives the results of the analysis of the data that were ascertained from the questionnaire as outlined in the research methodology in the previous chapter.

4.2 Response Rate

From the results, there were 45 respondents out of a total sample of 69 translating to 65% response rate. This, according to Cooper and Schindler (2003) is a good response rate for the data collection tool used. Constant calls and follow up to the respondents was one of the reasons for the high response rate.

Table 4. 1 Response Rate

Response Rate	Frequency	Percentage (%)
Response	45	65
No response	24	35
Total	69	100

4.3 Demographics

Demographics give a description of the respondents, giving features such as experience, education level and the type of goods.

4.3.1 Level of Education

Table 4. 2 Level of Education

Category	Frequency	Percentage
Secondary level	8	18
College level	10	22
Degree level	15	33
Post graduate level	7	16
Doctorate level	5	11
Total	45	100

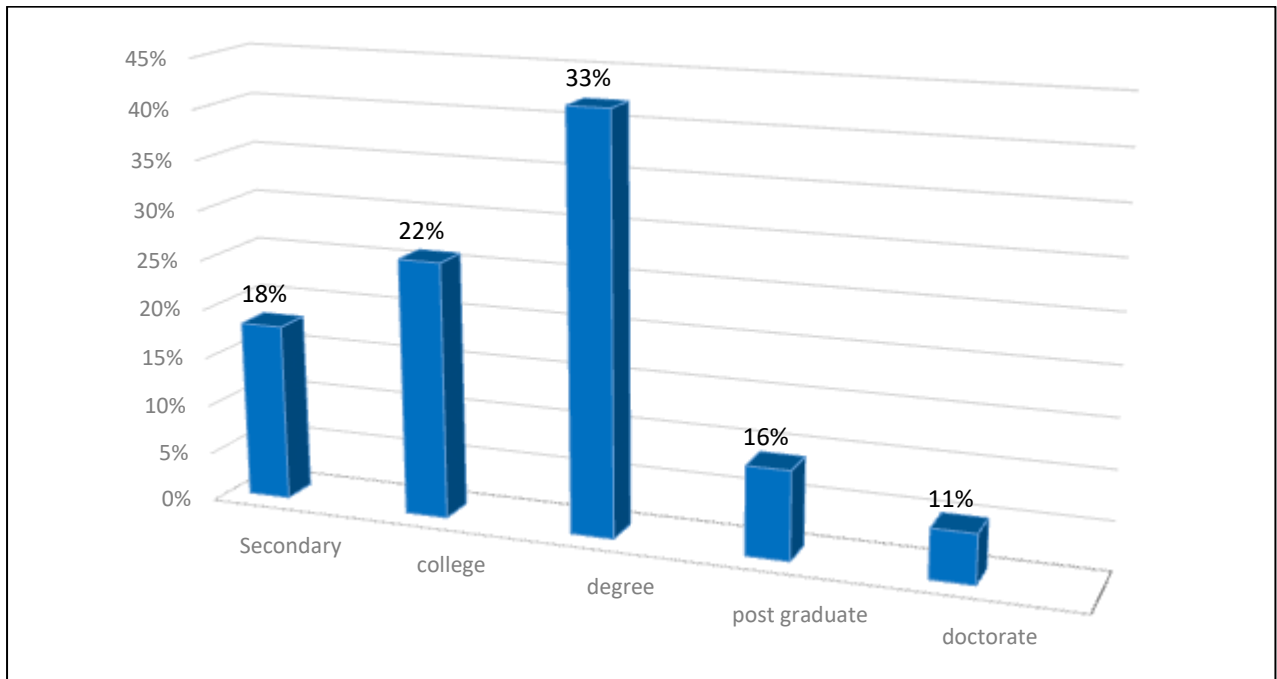


Figure 4. 1 Level of Education

Table 4.2 and figure 4.1 indicates the response from the Secondary level were 18%, college level represented 22%, those from degree represented 33%, those from post graduate represented 16% and those who reached post doctorate level of education represented 11%.

4.3.2 Working Experience

Table 4. 3 Working Experience

Category	Frequency	Percentage
Less than 2 Year	10	22
3-5 Years	20	45
Above 5 Years	15	33
Total	45	100

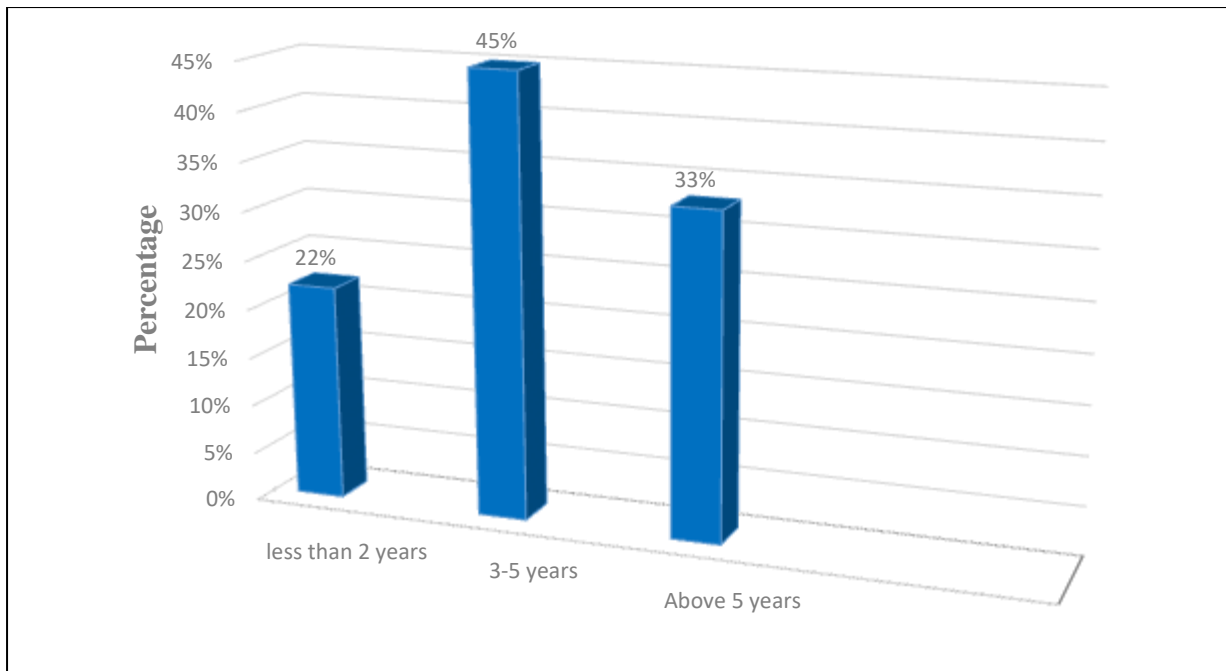


Figure 4. 2 Working Experience.

From table 4.3 and figure 4.2 shows that 22% of the respondents had worked in the organization for less than 2 year, 45% between 3-5 years, and 33% had worked in the for more than 5 years.

Table 4. 4 Level of Employment

Category	Frequency	Percentage
Top Level Management	2	4
Middle Level Management	5	12
Operational staffs	38	84
Total	45	100

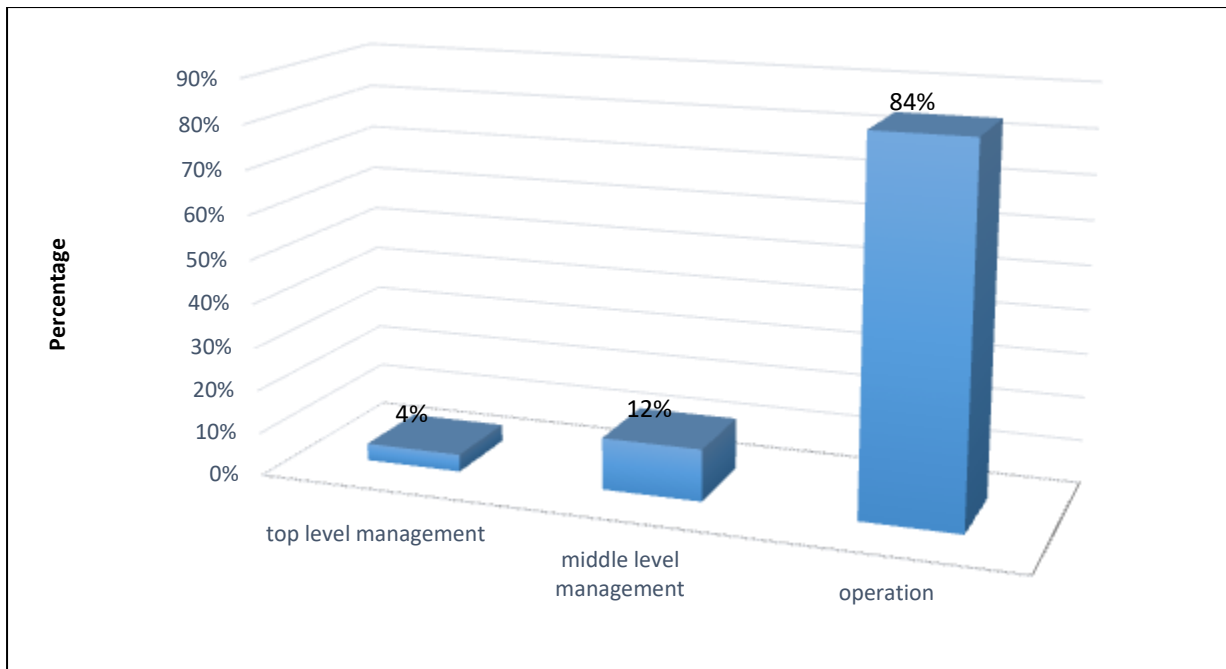


Figure 4. 3 Level of Employment

From table 4.4 and figure 4.3, 4% of the respondents were top level management, 12% middle level management and 84% of the respondents were in the operations level.

4.4 Factors influencing Tax Incentives on the performance of EPZ firms.

Descriptive analysis was used to ascertain the influence of predictor variables on tax incentives. From the analysis of the data, the results are as shown below.

4.4.1 Corporate Income Tax for primary data

Table 4. 5 Effect of Corporate Income Tax on performance of EPZ Firms in Kenya.

Category	Response	Percentage
Yes	40	89
No	5	11
Total	45	100

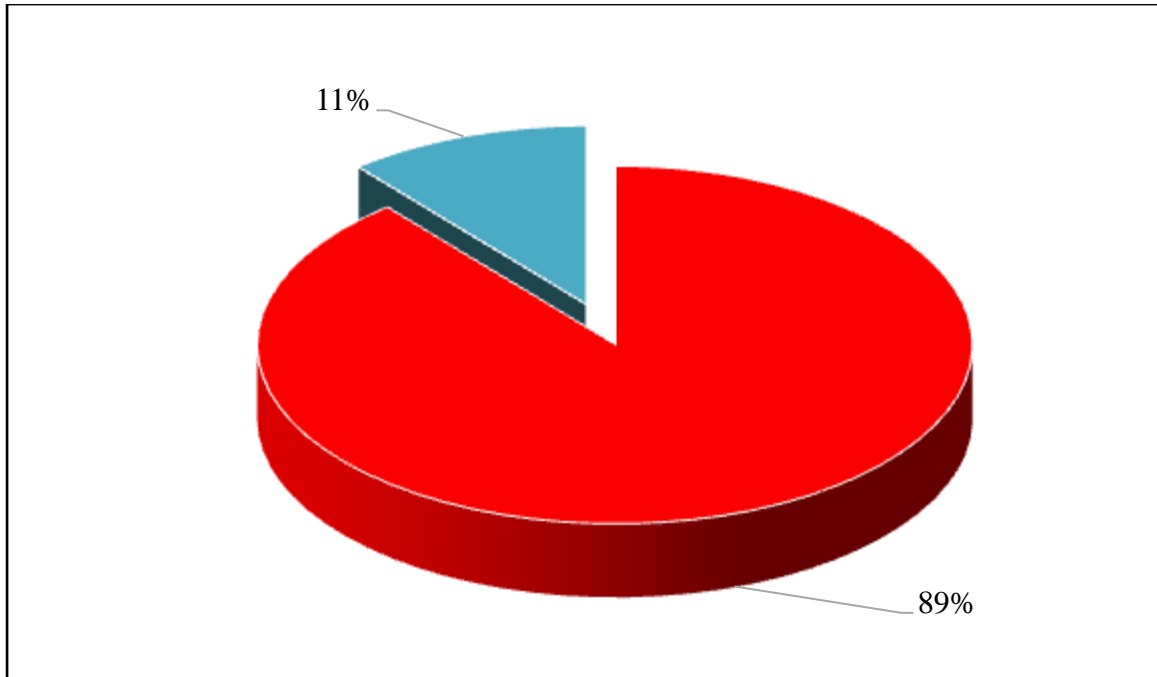


Figure 4. 4 Effect of Corporate Income Tax on performance of EPZ Firms in Kenya.

The analysis from table 4.5 and figure 4.4 above shows the responses on whether Corporate Income Tax affects tax incentives on performance of EPZ Firms in Kenya. According to the study, 89% of the respondents indicated that Corporate Income Tax affects performance of EPZ Firms in Kenya. While the remaining 11% of the respondents indicated that Corporate Income Tax does not affect performance of EPZ Firms in Kenya

Table 4. 6 Extent to which Corporate income tax incentives affects performance of EPZ Firms in Kenya

Category	Frequency	Percentage
No	5	12
Low	6	13
Moderate	9	20
High	15	33
Very High	10	22
Total	45	100

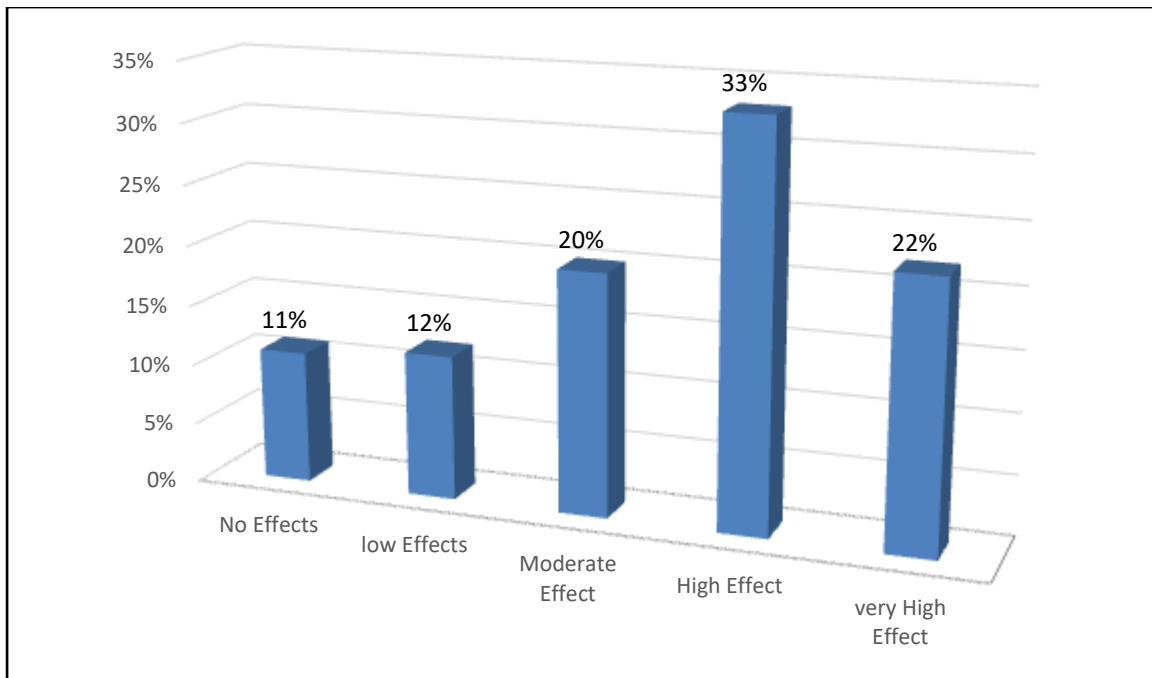


Figure 4. 5 Effects of Corporate income tax incentives on performance of EPZ Firms in Kenya

On the Effects of Corporate income tax incentives on performance of EPZ Firms in Kenya, table 4.6 and figure 4.5 above shows that 12% of the respondents said the effect is very high, 13% of the respondents indicated to a high effect, 20% of the respondents indicated on a moderate effect, 33% of the respondents indicated low effect while the remaining 22% of the respondents said that there was no effect.

4.4.1.1 Description of Corporate income tax incentives from Secondary Data

The study conducted an assessment on corporate income tax incentive that the EPZ firms benefited from 2011 to 2017. The findings indicated an increasing trend of corporate income tax incentive waived for EPZ firms in Kenya. In 2011 a total of about KES 45,547,871 in terms of corporate income tax was waived. In 2014 the figures fall to about Kshs 43 million which increased to Kshs 52 million the following year. The highest corporate income tax waived was in the year 2017 which amounted to Kshs 54,842,540.

Table 4. 7 Descriptive Corporate income tax incentives Incentive on EPZ firms performance

Year	N	Mean (Million)	Std. Deviation
2011	20	45,547,871	22,773,926
2012	21	47,733,489	23,866,734
2013	23	47,204,195	23,602,086
2014	31	43,982,932	21,991,451
2015	18	54,127,925	27,663,953
2016	19	46,786,138	23,393,060
2017	22	52,842,540	26,421,259
Total	154	48,317,870	24,244,638

The trend analysis in the table above indicates that corporate income tax incentive for the EPZ firms has been fluctuating from 2011 to 2017 with the lowest and the highest waiver occurring in 2014 and 2015 respectively.

4.4.1.2 Effects of Corporate income tax incentives on Number of jobs

The results presented in table 4.8 present the fitness of model used of the regression model in explaining the study phenomena. Corporate income tax explained 21.2% of variation in Number of jobs

Table 4. 8 Model Fitness

Indicator	Coefficient
R	0.46
R Square	0.212
Adjusted R Square	0.0435
Std. Error of the Estimate	4.8953

The study conducted a linear regression to ascertain the influence of corporate income tax incentive on the EPZ firm's performance. The performance of firms was measured by the total number of workers.

Table 4. 9 Effects of Corporate Income Incentive on Number of jobs

	B	Std. Error	Beta	T	Sig.
Constant	-5.88	0.587		-10.01	0.000
Log corporate Income incentive	0.656	0.036	0.64	18.296	0.000

$$Y = -5.88 + 0.656 X$$

Y=Ln (Total Number of workers (EPZ Performance))

X=Ln (Corporate Income tax Incentive)

From the findings, the study rejected the null hypothesis that corporate income tax incentive has no significant relationship with performance of EPZ firms in Kenya. This is because the probability value (p-value = 0.000) was less than the conventionally value of 0.05. Therefore, the study concluded that corporate income tax incentive has a positive relationship with the performance of EPZ firms as measured using the total number of workers created in Kenya.

4.4.1.3 Effects of Corporate Income Tax on Technology

The results presented in table present the fitness of model used of the regression model in explaining the study phenomena. Corporate income incentives explained 31.3% of variation in Technology.

Table 4. 10 Model Fitness

Indicator	Coefficient
R	0.56
R Square	0.313
Adjusted R Square	0.055
Std. Error of the Estimate	3.5556

Table 4. 11 Effects of corporate Income Incentive on technology

Parameter Estimate	B	Std. Error	Beta	t	Sig.
Constant	-2.345			3.981	0.002
Log Corporate Income Incentive	0.233	0.2331	0.289	23.899	0.000

The following was tested:

The study conducted a linear regression to establish the influence of corporate income tax incentive on the EPZ firm's performance. The performance of firms was measured by Technology.

$$Y = -2.345 + 0.233 X$$

Y=Ln (technology (EPZ Performance))

X=Ln (Corporate Income tax Incentive)

From the findings, the probability value (p-value = 0.000) was less than the conventionally value of 0.05. Therefore, the study concludes that corporate income tax incentive has a positive relationship with the performance of EPZ firms in Kenya.

4.4.1.4 Effects of Corporate Income Incentive on Foreign Exchange Earnings

The results presented in table below shows the fitness of model used of the regression model in explaining the study. Corporate income incentives explained 24% of variation in Foreign Exchange

Table 4. 12 Model Fitness

Indicator	Coefficient
R	0.49
R Square	0.240
Adjusted R Square	0.055
Std. Error of the Estimate	3.55566

The study conducted a linear regression to ascertain the influence of corporate income tax incentive on the EPZ firm's performance. The performance of firms was measured by the foreign exchange.

Table 4. 13 Effects of Corporate Income Incentive on Foreign Exchange

Parameter	B	Std. Error	Beta	t	Sig.
(Constant)	-3.972	0.498		-7.969	0.000
corporate Income incentive	0.339	0.03	0.515	11.356	0.000

$$Y = -3.972 + 0.339 X$$

Y=Ln (Foreign Exchange (EPZ Performance))

X=Ln (Corporate Income tax Incentive)

From the findings, the study rejected the null suggestion that corporate income tax incentive has no significant relationship with performance of EPZ firms in Kenya. This is because the probability value (p-value = 0.000) was less than the conventionally value of 0.05. Therefore, the study concluded that corporate income tax incentive has a positive relationship with the performance of EPZ firms as measured using foreign exchange.

4.4.2 Withholding Tax for primary data

Table 4. 14 Effect of withholding Tax on performance of EPZ Firms in Kenya.

Category	Response	Percentage
Yes	38	84
No	7	16
Total	45	100

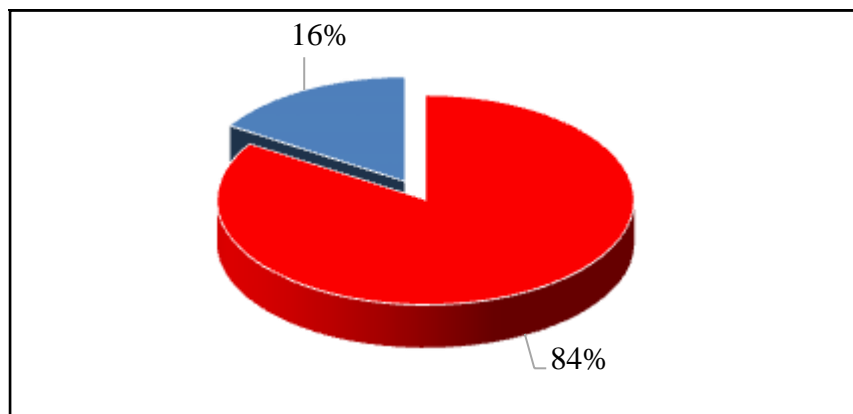


Figure 4. 6 Effect of withholding Tax on performance of EPZ Firms in Kenya.

The analysis from table 4.14 and figure 4.6 above shows the responses on whether withholding Tax incentives affects performance of EPZ Firms in Kenya. According to the study, 84% of the respondents indicated that it has an effect on performance of EPZ Firms in Kenya while the remaining 16% of the respondents indicated that it does not affect performance of EPZ Firms in Kenya.

Table 4.15 Effect of withholding Tax on performance of EPZ Firms in Kenya.

Category	Frequency	Percentage
No	2	4
Low	5	11
Moderate	9	20
High	17	38
Very High	12	27
Total	45	100

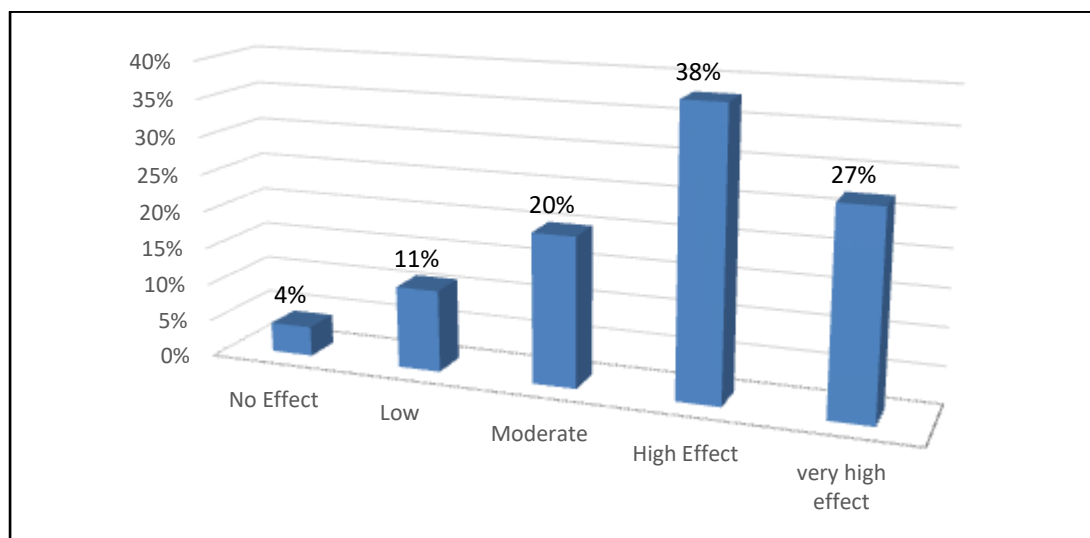


Figure 4.7 Effect of withholding Tax on performance of EPZ Firms in Kenya.

From table 4.15 and figure 4.7 above 27% of the respondents indicated to a very high effect of withholding tax on EPZ performance, 38% of the respondents said the effect is high, 20% of the respondents indicated on a moderate, 11% of the respondents indicates low while the remaining 4% of the respondents said no extent.

4.4.2.1 Withholding Tax for secondary data

The results in the Table below show the mean for year 2011 to 2017 for withholding Tax for EPZ firms in Kenya. The result indicated that withholding tax for EPZ firms has been increasing across time. A cumulative total of 148 firms benefited from withholding Tax.

Table 4. 15 Withholding tax Statement from Secondary Data

Year	N	Mean (Millions)	Std. Deviation
2011	21	54,082,118	48,798,620
2012	20	12,116,015	77,276,955
2013	18	53,629,966	57,906,898
2014	20	23,636,443	57,511,760
2015	15	40,164,248	17,095,486
2016	30	24,217,706	31,798,682
2017	24	30,243,305	37,080,179
Total	148	34,012,828	50,062,882

4.5.2 Effects of withholding tax on the Number of jobs

The results presented in table present the fitness of model used of the regression model in explaining the study. Withholding explained 22.5% of variation in Number of jobs.

Table 4. 16 Model Fitness

Indicator	Coefficient
R	0.150
R Square	0.225
Adjusted R Square	0.3235
Std. Error of the Estimate	4.8764

The study conducted a linear regression to ascertain the influence of withholding tax on the EPZ firm's performance. The performance of firms was measured by the total number of workers.

Table 4. 17 Effects of withholding tax Incentive on the Number of jobs

Parameter	B	Std. Error	Beta	T	Sig.
Constant	-4.138	0.47		-8.812	0.000
Log withholding Tax	0.525	0.028	0.564	18.928	0.000

H0: There is no significant relationship between withholding tax and performance of EPZ firms in Kenya.

$$Y = -4.138 + 0.525X$$

Y=Ln (Number of jobs (EPZ Performance))

X=Ln (Custom duty Incentive)

From the findings, the probability value (p-value= 0.000) was less than the conventionally value of 0.05. Therefore, the study concluded that withholding tax has a positive relationship with the performance of EPZ firms as measured using the total number of workers in Kenya.

4.4.2.3 Effects of withholding tax on Technology

The results presented in table below shows the fitness of model used of the regression model in explaining the study phenomena. Withholding tax explained 50.1% of variation on technology.

Table 4. 18 Model Fitness

Indicator	Coefficient
R	0.710
R Square	0.501
Adjusted R Square	0.0345
Std. Error of the Estimate	3.7865

This study aimed to determine the effect of withholding tax on the performance of EPZ firms in Kenya. A linear regression model was adopted to ascertain the relationship between withholding tax and performance of EPZ firms which was measured by technology. The findings are shown in Table below.

Table 4. 19 Effects of withholding tax on technology

Parameter	B	Std. Error	Beta	t	Sig.
(Constant)	-2.543			2.812	0.000
Log withholding Incentive	0.521	0.195	0.461	11.971	0.000

H0: There is no significant relationship between Custom duty Incentive and performance of EPZ firms in Kenya.

$$Y = -2.543 + 0.521X$$

Y=Ln (technology (EPZ Performance))

X=Ln (withholding tax)

From the findings, the probability value (p-value = 0.000) was less than the conventionally value of 0.05. Therefore, the study concludes that withholding tax has a positive relationship with the performance of EPZ firms in Kenya.

4.4.2.4 Effects of withholding tax on foreign exchange

The results presented in table 4.48 present the fitness of model used of the regression model in explaining the study. Withholding tax explained 14.4% of variation in foreign exchange.

Table 4. 20 Model Fitness

Indicator	Coefficient
R	0.120
R Square	0.144
Adjusted R Square	0.3344
Std. Error of the Estimate	4.5623

The study conducted a linear regression to ascertain the influence of withholding tax on the EPZ firm's performance. The performance of firms was measured by the foreign exchange

Table 4. 21 Effects of withholding tax on foreign exchange

Parameter	B	Std. Error	Beta	t	Sig.
(Constant)	-3.454	0.381		-9.055	0.000
Log custom	0.295	0.022	0.49	13.378	0.000

duty

Results revealed that withholding incentive was positively and significantly related with length of stay ($r=0.295$, $p=0.000$). The negative constant value of -3.454 shows that without withholding, holding other factors constant, the length of stay of firms will be decreasing over time.

$$Y = -3.454 + 0.295X$$

$Y = \text{Ln}(\text{foreign exchange (EPZ Performance)})$

$X = \text{Ln}(\text{withholding tax})$

From the findings, the study rejected the null hypothesis that withholding tax incentive has no significant relationship with performance of EPZ firms in Kenya. This is because the probability value ($p\text{-value} = 0.000$) was less than the conventionally value of 0.05 . Therefore, the study concluded that withholding tax has a positive relationship with the performance of EPZ firms as measured using foreign exchange.

4.4.3 Duty Exemption for primary data

Table 4. 22 Effect of duty exemption on performance of EPZ Firms in Kenya.

Category	Frequency	Percentage
Yes	35	78
No	10	22
Total	45	100

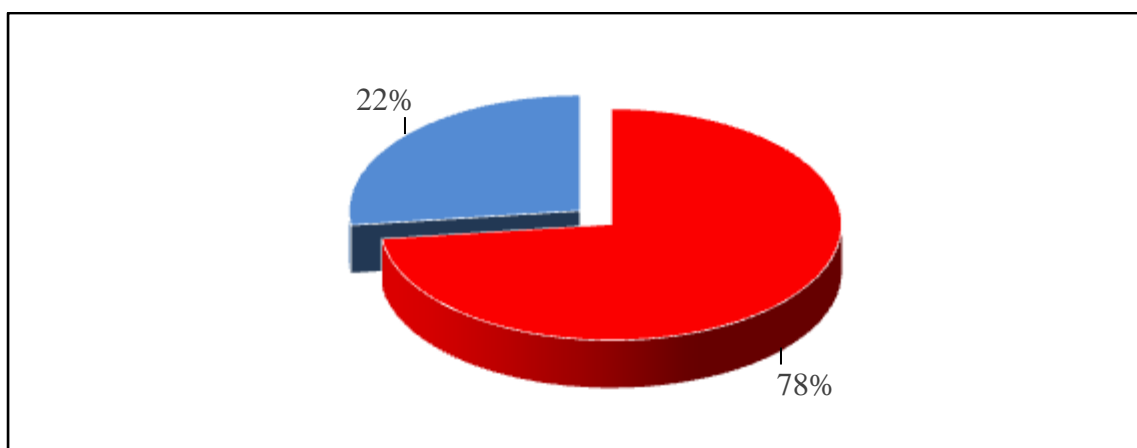


Figure 4. 8 Effect of duty exemption on performance of EPZ Firms in Kenya.

Table 4.23 and figure 4.8 above shows the analysis of duty exemption on performance of EPZ Firms in Kenya. Based on the analysis, 78% of the total respondents indicated that duty

exemption affects performance of EPZ Firms in Kenya while 22% stated that duty exemption has no effect on performance of EPZ Firms in Kenya.

Table 4. 23 Effect of duty exemption on performance of EPZ Firms in Kenya.

Category	Frequency	Percentage
No	5	11
Low	6	13
Moderate	8	18
High	14	31
Very high	12	27
Total	45	100

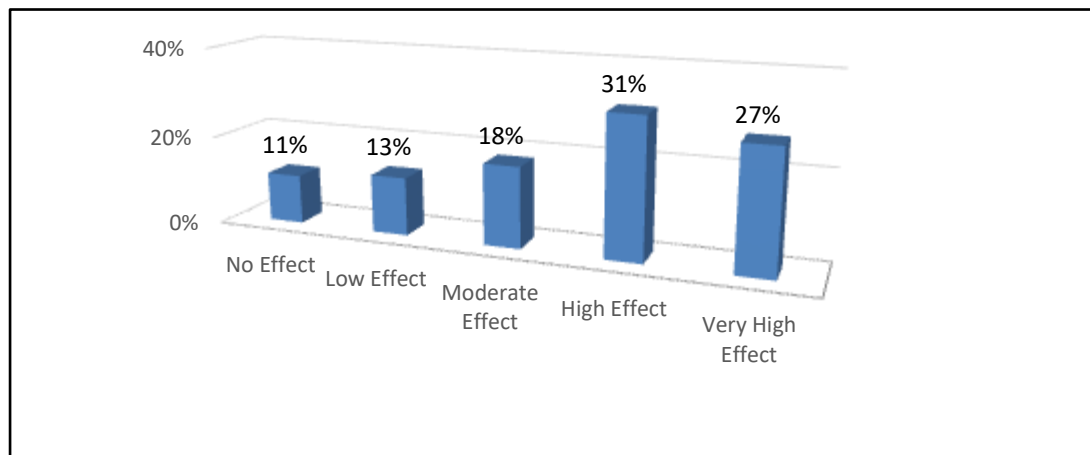


Figure 4. 9 Effect of duty exemption on performance of EPZ Firms in Kenya.

Table 4.24 and figure 4.9 above indicates how the respondents rated effects duty exemption on performance of EPZ Firms in Kenya. Based on the analysis, 27% of the respondents rated the effects as very high, 31% of the respondents rated the effect as high, 18% of the respondents rated it as moderate, 13% of the respondents rated the effects as Low while the rest of the respondents 11 % rated as no effects.

4.4.3.1 Duty Exemption for secondary data

Assessment of duty exemption incentives waived for EPZ firms in Kenya revealed that a cumulative total of 130 firms benefited from this duty exemption for the period between 2011 and 2017. The study revealed EPZ firms were relieved of import duty between Kshs 16,914,764 and Kshs 38,431,210.

Table 4. 24 Description of Duty Exemption Statement from secondary Data

Year	N	Mean (Millions)	Std. Deviation
2011	15	35,643,685	51,753,967
2012	20	28,348,606	93,582,750
2013	26	38,431,210	49,226,251
2014	18	32,585,044	80,675,110
2015	22	27,269,985	53,551,485
2016	16	23,947,562	49,226,251
2017	13	16,914,770	45,141,931
Total	130	29,020,123	65656708

4.4.3.2 Effects of Duty exemption on the Number of jobs

The results presented in table 4.18 present the fitness of model used of the regression model in explaining the study phenomena. Import duty incentives explained 18.9% of variation in Number of jobs.

Table 4. 25 Model Fitness

Indicator	Coefficient
R	0.170
R Square	0.189
Adjusted R Square	0.2357
Std. Error of the Estimate	4.9734

The study conducted a linear regression to ascertain the influence of excise duty incentive on the EPZ firm's performance. The performance of firms was measured by the total number of workers.

H₀: There is no significant relationship between duty exemption and performance of EPZ firms in Kenya.

$$Y = -6.878 + 0.701 X$$

Y=Ln (Number of jobs (EPZ Performance))

X=Ln (duty exemption Incentive)

From the findings, the study rejected the null hypothesis that duty exemption has no significant relationship with performance of EPZ firms in Kenya. This is because the probability value (p-value = 0.000) was less than the conventionally value of 0.05. Therefore, the study concluded that excise duty incentive has a positive relationship with the performance of EPZ firms as measured using the total number of workers in Kenya.

Table 4. 26 Effects of Duty Exemption on the Number of jobs

	B	Std. Error	Beta	t	Sig.
(Constant)	-6.878	0.508		-13.536	0.000
Log Duty exemption	0.701	0.031	0.6	22.305	0.000

4.4.3.3 Effects of Duty Exemption Incentive on technology

The results presented in table below present the fitness of model used of the regression model in explaining the study phenomena. Import duty exemption explained 42.3% of technology transfer.

Table 4. 27 Model Fitness

Indicator	Coefficient
R	0.65
R Square	0.423
Adjusted R Square	0.0289
Std. Error of the Estimate	3.2341

This study sought to investigate the influence of duty exemption incentive given to EPZ firms on the performance of the firms. The findings are shown in Table below.

Table 4. 28 Effects of duty exemption on technology

Parameter	B	Std. Error	Beta	t	Sig.
Constant	-5.452			3.891	0.000
Log Excise duty Incentive	0.931	0.732	0.148	9.671	0.000

H0: There is no significant relationship between duty exemption Incentive and performance of EPZ firms in Kenya.

$$Y = -5.452 + 0.931 X$$

Y=Ln (technology (EPZ Performance))

X=Ln (duty exemption Incentive)

From the findings, the study rejected the null hypothesis that duty exemption Tax Incentives has no significant relationship with performance of EPZ firms in Kenya. The probability value (p-value = 0.000) was less than the conventional value of 0.05. Therefore, the study concludes that Excise tax Incentives has a positive relationship with the performance of EPZ firms in Kenya.

4.4.3.4 Effects of Duty Exemption Incentive on Foreign Exchange

The results presented in table below present the fitness of model used of the regression model in explaining the study phenomena. Excise duty incentives explained 16.9% of foreign exchange.

Table 4. 29 Model Fitness

Indicator	Coefficient
R	0.130
R Square	0.169
Adjusted R Square	0.3975
Std. Error of the Estimate	4.5556

The study conducted a linear regression to ascertain the influence of duty exemption incentive on the EPZ firm's performance. The performance of firms was measured by foreign exchange.

Table 4. 30 Effects of Duty Incentive on foreign exchange

Parameter	B	Std. Error	Beta	T	Sig.
(Constant)	-3.457	0.44		-7.865	0.000
Log excise duty Incentive	0.304	0.026	0.421	11.472	0.000

H0: There is no significant relationship between duty exemption Incentive and performance of EPZ firms in Kenya.

$$Y = -3.457 + 0.304X$$

X=Ln (duty exemption tax)

Y =Ln (foreign exchange (EPZ Performance))

From the findings, the study rejected the null hypothesis that duty exemption incentive has no significant relationship with performance of EPZ firms in Kenya. This is because the probability value (p-value = 0.000) was less than the conventionally value of 0.05. Therefore, the study concluded that excise duty incentive has a positive relationship with the performance of EPZ firms as measured using the number of years in operation

4.4.4 Capital Allowance Tax incentive for primary data

Table 4. 31 Effect of capital allowance tax incentive on performance of EPZ Firms in Kenya.

Category	Frequency	Percentage
Yes	40	89
No	5	11
Total	45	100

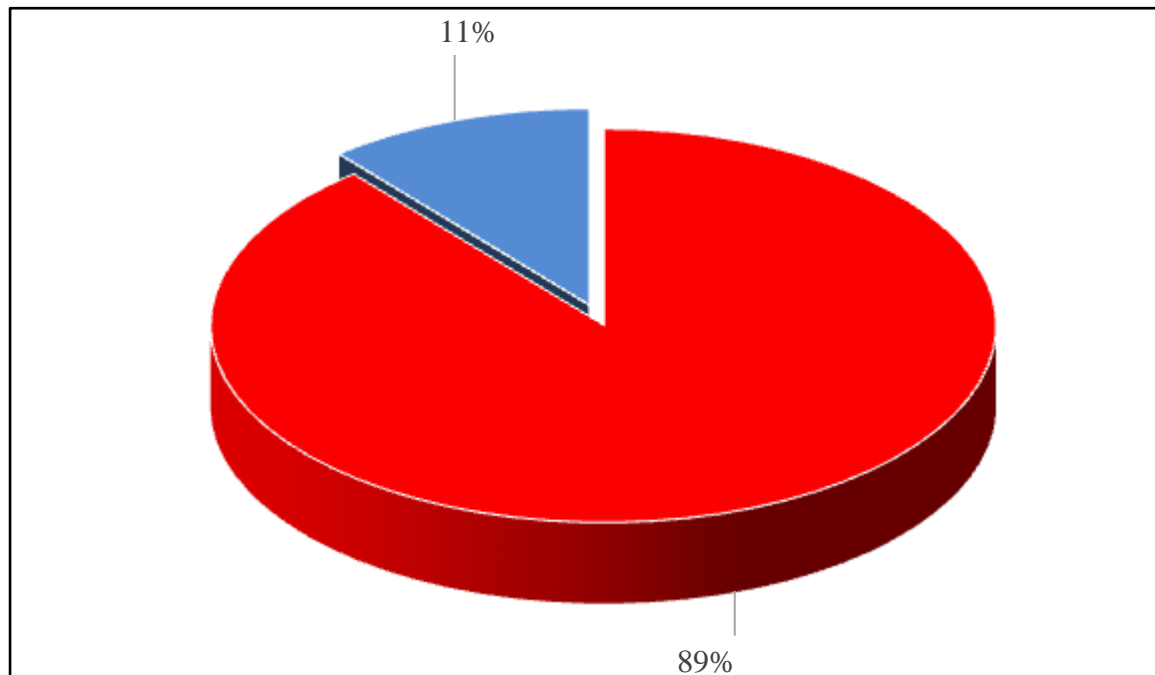


Figure 4. 10 Effect of capital allowance tax incentive on performance of EPZ Firms in Kenya.

Table 4.31 and figure 4.10 above shows the analysis of the effect of capital allowance tax on performance of EPZ Firms in Kenya. Based on the analysis, 89% of the total respondents indicated that capital allowance tax affects performance of EPZ Firms in Kenya. While 11% of the respondents stated that capital allowance tax has an effect on tax incentives on performance of EPZ Firms in Kenya.

Table 4. 32 Effect of capital allowance tax incentive on performance of EPZ Firms in Kenya.

Category	Frequency	Percentage
No	5	12
Low	6	13
Moderate	9	20
High	15	33
Very High	10	22
Total	45	100

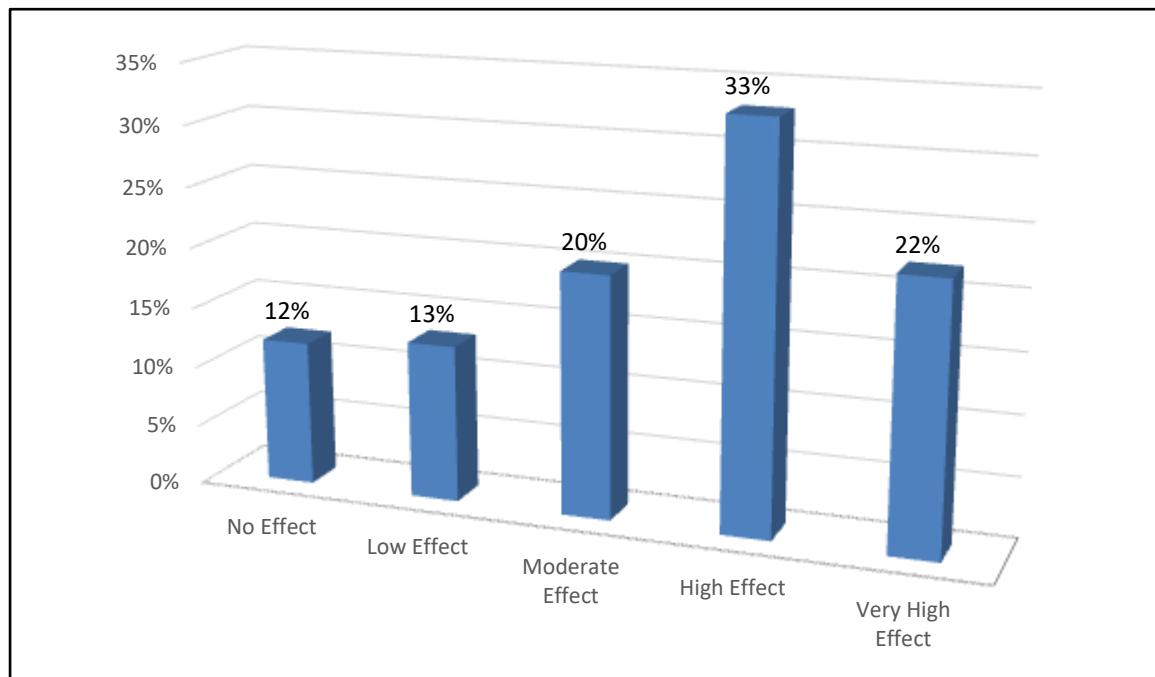


Figure 4. 11 Effect of capital allowance tax on performance of EPZ Firms in Kenya.

Table 4.32 and figure 4.11 above indicate how the respondents rated effects of capital allowance tax on tax incentives on performance of EPZ Firms in Kenya. Based on the analysis, 22% of the respondents rated the effects of public relation officers as very high, 33% of the respondents rated the effect as high, 20% of the respondents rated it as moderate,

13% of the respondent rated the effects as low while 12 % of the respondents rated as no effects.

4.4.4.1 Capital Allowance Tax incentive for secondary data

The study analysed the secondary data on capital allowance tax incentives given to EPZ firms for the period of 2011 to 2017 collected from EPZA. The descriptive statistics of the data revealed that the total cumulative number of EPZ firms that benefited from capital allowance tax incentive between 2011 and 2017 were 150. The results also revealed that the highest capital allowance incentive was given in 2010 while the lowest was given in 2007. The means and standard deviation for the period from 2003 to 2014 are shown in Table below:

Table 4. 33 Descriptive of Capital Allowance Tax Incentive for EPZ firms

Year	N	Mean (Million)	Std. Deviation
2011	25	6,122,338	16,618,672
2012	30	4,654,335	9,666,155
2013	24	4,310,442	9,086,340
2014	21	3,968,622	9,439,480
2015	20	2,595,046	4,274,967
2016	18	7,527,464	21,878,425
2017	12	9,498,141	42,985,676
Total	150	5,525,198	17,522,076

The study conducted a linear regression to ascertain the influence of capital allowance incentive on the EPZ firm's performance. The performance of firms was measured by the number of total workers.

Table 4. 34 Effects of Capital Allowance tax Incentive on the Number of jobs

Parameter	B	Std. Error	Beta	t	Sig.
(Constant)	2.526	0.624		4.046	0.000

Log capital allowance incentive	0.208	0.045	0.248	4.6	0.000
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H0: There is no significant relationship between Capital allowance incentive and performance of EPZ firms in Kenya.

$$Y = 2.526 + 0.208 X$$

Y=Ln (Number of jobs (EPZ Performance))

X=Ln (Capital allowance Incentive)

From the findings, the study rejected the null hypothesis that capital allowance incentive has no significant relationship with performance of EPZ firms in Kenya. This is because the probability value (p-value = 0.000) was less than the conventionally value of 0.05. Therefore, the study concluded that capital allowance incentive has a positive relationship with the performance of EPZ firms as measured using the number of total workers created in Kenya.

4.4.4.2 Effects of Capital Allowance Incentive on Technology

The results presented in table below present the fitness of model used of the regression model in explaining the study phenomena. Capital allowance incentives explained 33.6% of technology

Table 4. 35 Effects of Capital Allowance Incentive on technology

Parameter	B	Std. Error	Beta	t	Sig.
Constant	-5.423			6.345	0.023
Log Capital Allowance	0.893	2.891	0.123	3.281	0.002

H0: There is no statistical significant relationship between Capital allowances Incentive and the performance of EPZ firms in Kenya.

$$Y = -5.423 + 0.893 X$$

Y=Ln (Technology (EPZ Performance))

X=Ln (Capital allowance Incentive)

From the findings, the study rejected the null hypothesis that Capital allowance incentive has no significant relationship with the performance of EPZ firms in Kenya. This is because the

probability value (p-value = 0.002) was less than the conventionally value of 0.05. Therefore, the study concludes that capital allowance incentive has a positive relationship with the performance of EPZ firms in Kenya.

4.4.4.3 Effects of Capital Allowance Incentive on foreign exchange

The results presented in table below present the fitness of model used of the regression model in explaining the study phenomena. Capital allowance incentives explained 14% of foreign exchange.

Table 4. 36 Model Fitness

Indicator	Coefficient
R	0.380
R Square	0.144
Adjusted R Square	0.01263
Std. Error of the Estimate	4.21545

The study conducted a linear regression to ascertain the influence of capital allowance incentive on the EPZ firm's performance. The performance of firms was measured by foreign exchange.

Table 4. 37 Effects of Capital Allowance Incentive on foreign exchange

Parameter	B	Std. Error	Beta	T	Sig.
Constant	-0.304	0.534	-0.569	0.570	
Log capital allowance incentive	0.154	0.038	0.241	4.021	0.000

H0: There is no significant relationship between Capital allowance incentive and performance of EPZ firms in Kenya.

$$Y = -0.304 + 0.154X$$

$$Y = \text{Ln}(\text{foreign exchange (EPZ Performance)})$$

$$X = \text{Ln}(\text{Capital allowance Incentive})$$

From the findings, the study rejected the null hypothesis that capital allowance incentive has no significant relationship with performance of EPZ firms in Kenya. Since the probability value (p-value = 0.000) was less than the conventionally value of 0.05. The study concluded that capital allowance incentive has a positive relationship with the performance of EPZ firms as measured using the foreign exchange earnings.

4.5 Summary of Data Analysis

4.5.1 General Information

Those who successfully filled and completed the questionnaires to the required satisfaction of the research were 45 which comprised of 65% of the total respondents while 24 respondents representing 35% did not participate effectively. 15 respondents with a Degree level of education representing 33%, 10 respondents reached college representing 22%, 8 respondents reached secondary level representing 18% while the other 7 respondents reached post graduate level representing 16% and respondents who reached doctorate level were 5 representing 11%. The respondents who had working experience of less than 2 year represented 22%, 20 respondents had worked between 3-5 years representing 45%, 15 respondents had worked above 5 years representing 33% while the other At EPZ Athi River, 2 of the respondents interviewed were from top management level representing 4%, 5 respondents were from the middle level management representing 12% and 38 respondents were from the support staff representing 84% of the responses.

4.5.2 Corporate Income Tax Incentive

89% of the respondents indicated that corporate income tax has an effect on performance of EPZ Firms in Kenya.while the remaining 11% of the respondents indicated that corporate income tax has no effect on performance of EPZ Firms in Kenya. The finding implies that the ROA of EPZ firms would increase if the corporate income tax incentive was increased. This further implies that if the corporate income tax incentive was withdrawn, the ROA of EPZ firms in Kenya would reduce.

4.5.3 Withholding Tax Incentive

84% of the total respondents indicated that withholding tax has an effect on performance of EPZ Firms in Kenya. While 16% of the respondents stated that withholding tax has no effect on performance of EPZ Firms in Kenya. The findings also revealed that VAT incentive was not related to the number of jobs by EPZ firms in Kenya. Therefore, these findings imply that providing VAT incentive has no economic value since it neither increase EPZ firms'

profitability nor increase the number of jobs by these firms. These findings further imply that the country only loses revenue by providing withholding tax incentive to EPZ firms.

4.5.4 Duty Exemption

A majority respondent representing 78% indicated that duty exemption has an effect on performance of EPZ Firms in Kenya. While the remaining 22% of the respondents indicated that duty exemption has no effect on performance of EPZ Firms in Kenya. This finding implies that providing custom duty incentive has an effect on the ROA of the EPZ firms in Kenya. The amount on contributions in terms of jobs created is very small compared to revenue lost in custom duty incentive. Therefore, providing custom duty incentive to attract EPZ firms in Kenya is a benefit to both the economy and the firms.

4.5.5 Capital Allowance Tax Incentive

A large number of respondents representing 89% of the total respondents indicated that capital allowance tax has an effect on performance of EPZ Firms in Kenya. While 11% of the respondents stated that capital allowance tax has no effect on performance of EPZ Firms in Kenya. The finding implies that the ROA of EPZ firms would increase if the capital allowance tax incentive was increased. This further implies that if the capital allowance tax incentive was withdrawn, the ROA of EPZ firms in Kenya would reduce.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMENDATION

5.1 Introduction

The chapter presents the discussion of the findings already presented in previous chapter. Under the discussion, the findings are compared with that of other studies. From the clarifications, suggestions and associations, the conclusions and the recommendations are gathered. The presentation of this section is per the four study objectives. This section makes room for areas of other studies purely based on the limitations as well as the results of this study.

5.2 Summary of Findings

This general objective of the study was to investigate the effect of tax incentives on the performance of EPZ firms in Kenya. The specific objectives were to investigate the effect that corporate income tax incentive, withholding tax, duty exemption tax, and capital allowance tax has on performance of EPZ firms. Below is the summary of the findings of the study.

5.2.1 Corporate income tax incentives

The first objective was to assess the effect of corporate tax income incentive on performance of EPZ firms in Kenya. The correlation results revealed that corporate income tax incentive had a positive and significant effect on performance of EPZ firms in Kenya as supported by a p value of 0.001. Further regression results revealed that corporate income tax incentive had a positive and significant effect on performance of EPZ firms in Kenya as measured by ROA. The findings also revealed that corporate income tax incentive had a positive and significant relationship with the performance of EPZ firms as measured using the number of jobs in Kenya. This implies that increase in corporate income tax incentive by a unit would result to increased performance of EPZ firms by 2.345 units, 0.656 and 0.339 units as measured by ROA, total number of jobs and Length of Stay respectively.

Corporate income tax holiday incentive has a positive relationship with foreign direct investments as it spurs both local and foreign investment which positive impacts the performance of an EPZ firms. In order to good performance in EPZ firm's corporate income tax should be put into consideration. The findings indicated the extent to which capital allowance tax affects performance of EPZ Firms in Kenya as, 22% of the respondents said the extent is very high, 33% of the respondents indicated to a high extent, 20% of the

respondents indicated on a moderate extent, 13% of the respondent indicated low extent while the remaining 12% of the respondents said there was no effect.

The results of the study indicated that of the 30 corporations that were examined, 22 of them paid the highest tax rates that was in the excess of 30% created but they still ended up creating about 200, 000 jobs for the period 2013-2014 on their reported corporate profits. On the other hand, the remaining 8 out of the 30 firms that were paying no tax or little tax less than the 30% rate, there was a loss of 51, 289 jobs hence concluding that corporate tax incentives does not necessarily lead to an improvement in the number of jobs created.

Locally, the findings of the study are not consistent with the findings of a study by Njeru and Ndimitu (2015) who assessed the effect of tax incentives on performance among Export Processing Firms (EPZs) in Kenya and revealed that the influence of tax incentives on investments in EPZ was insignificant. The study highlighted some negative impacts of tax incentives to other operators in the manufacturing sector in Kenya ranging from the argument that the administration is legally complicated and conflictive; unhealthy competitions in the manufacturing sector caused by the tax incentives to the EPZ.

5.2.2 Withholding Tax Incentive

The correlation results revealed that withholding tax had a positive and significant effect on the performance of EPZ firms in Kenya as supported by a p value 0.000. Further the bivariate regression results revealed that withholding tax incentive had a positive and significant effect on performance of EPZ firms Kenya as measured by ROA and total number of jobs. This was supported by a beta coefficient of 3.91(p=0.000), 0.212(p=0.000) and 0.078 (p=0.007). This implies that variation of withholding tax incentive by a unit would result to variation of performance of EPZ firms in Kenya by 3.91 units, 0.212 units and 0.078 units as measured by ROA, number of jobs and length of stay respectively. The results imply that improved value added taxes lead to an improvement in performance of firms operating in the export processing zones.

Poor business environment could not be compensated by either withholding tax incentives or other forms of tax subsidies from the government. Giving tax incentives with a poor infrastructural development, erosion of tax base was most likely and thus, not many investments would be drawn to the economy. The analysis indicated that the majority of the respondents rated the effect of withholding tax holiday on tax incentives on performance of EPZ Firms in Kenya as; 27% of the respondents indicated to a very high, 38% of the

respondents said the extent is high, 20% of the respondents indicated on a moderate extent, 11% of the respondent indicated low extent while the remaining 4% of the respondents said there was no effect.

5.2.3 Duty Exemption

The descriptive results revealed that duty exemption do affect performance of EPZ firms where majority of the respondents were in agreement with statements on duty exemption incentives and performance of EPZ firms. The correlation results revealed that how Excise duty had a positive and significant association with performance of EPZ firms in Kenya as supported by a p value 0.001. Further regression results revealed that duty exemption incentive had a positive and significant relationship with performance of EPZ firms in Kenya as measured by ROA, number of jobs and length of stay. This was supported by a beta coefficient of 4.931(p=0.000), 0.701(p=0.000) and 0.304(p=0.000). Therefore, these findings implied that providing excise duty incentive had economic value since it increased EPZ firms' ROA, the number of jobs by these firms and Length of stay.

Duty exemptions affect performance of EPZ firms as per the study findings where majority of the respondents were in agreement with statements on duty exemption and performance of EPZ firms. The correlation results revealed that duty exemption had a positive and significant association with performance of EPZ. From the findings, the extent at which duty exemption affects performance of EPZ Firms in Kenya as indicated by the respondents were; 27% of the respondents rated the effects as very high, 31% of the respondents rated the effect as high, 18% of the respondents rated it as moderate, 13% of the respondents rated as low extent while the rest of the respondents 12 % rated as no effects.

5.2.4 Capital Allowance Tax

The other objective of the study was to determine how capital allowance incentive affects performance of EPZ firms in Kenya. The correlation results revealed that capital allowance had a positive and significant effect on the performance of EPZ firms in Kenya as supported by a p value 0.001. Further regression results revealed that capital allowance had a positive and significant effect on performance of EPZ firms in Kenya as measured by ROA, total number of jobs and Length of Stay. This was supported by a beta coefficient of 5.893 (p=0.002), 0.208 (p=0.000) and 0.154 (p=0.000) respectively

Results revealed that capital allowance had a positive and significant effect on the performance of EPZ firms in Kenya. These results indicate that an improvement in capital allowance incentive leads to an improvement in the performance of the firms operating in the export processing zone as measured by performance, length of stay and total number of jobs created. Deliberate efforts should therefore be made by companies and investors operating in EPZs to focus on taking advantage of this tax incentive. Analysis showed that 22% of the respondents indicated the effects of capital allowance tax as very high, 33% of the respondents rated the effect as high, 20% of the respondents rated it as moderate, 13% of the respondent as low extent while 12 % of the respondents rated that there was no effect.

The findings of this study are consistent with the findings of a study by Gumo (2013) who sort to establish the effect of tax incentives on performance of manufacturing firms in Kenya and established that tax incentives such as the capital allowance played a significant role in improving performance of firms in Kenya. The findings of this study 163 are also consistent with the findings of a study by Githaiga (2013) who sought to explore the influence of tax incentives on performance of firms listed at the NSE by focusing on the influence of wear and tear allowances on attracting inflows of FDI into the firms listed at NSE, the impact of investment deductions on attraction of FDI to the firms as well as industrial building deductions directed at attracting FDI inflows into all those firms listed at the NSE during the study period and revealed a strong relationship between wear and tear allowances and FDI inflows.

5.3 Conclusions

This study's objective was to assess the effect of tax incentives on performance of EPZ firms in Kenya. The correlation results revealed that tax incentives had a positive and significant effect on performance of EPZ firms in. These findings imply that tax incentives have a significant effect on performance of firms operating in the export processing zones in Kenya. An improvement in the studied tax incentives leads to an improvement in both the profits of the firms, the number of people employed as well as the length of stay of these firms. This therefore suggests a need to review these incentives by the government and add more focus on it. The findings of this study have been compared by the findings of previous studies on the same theme both globally, regionally and locally.

Poor business environment could not be compensated by either withholding tax incentives or other forms of tax subsidies from the government. Giving tax incentives with a poor infrastructural development, erosion of tax base was most likely and thus, not many investments would be drawn to the economy.

The descriptive results show that duty exemptions do influence performance of EPZ firms where larger part of the respondents were in concurrence with explanations on excise tax incentive and performance of EPZ firms. However, the correlation results showed that tax Exception had a positive and significant relationship with performance of EPZ.

The other objective was to investigate was to decide how capital allowance assessment influences performance of EPZ firms in Kenya. The correlation results found that capital allowance had a positive and huge impact on the presentation of EPZ firms in Kenya these outcomes show that an improvement in capital stipend impetus prompts an improvement in the exhibition of the organizations working in the fare preparing zone as estimated by execution, length of remain and all out number of occupations made. Conscious endeavors ought to thusly be made by organizations and financial specialists working in EPZs to concentrate on exploiting this expense motivating force. The discoveries of the examination have been looked at.

5.4 Recommendations

5.4.1 Corporate Income Tax

This study recommends that stakeholders in tax policy should reconsider the economic value of corporate tax incentive. These incentives had the capacity to increase the profitability of EPZ firms as well as the number of jobs. Therefore, the government should offer more CIT holidays and reduced tax rates in order to increase the level of foreign investments and employment in the country. Companies located in an approved EPZ, principally to export goods, are taxed at a 0% CIT rate for ten years from its commencement and at a rate of 25% for the next ten years. A further reduction would benefit EPZ firms who had so far benefitted from tax holidays and reduced tax rates which acted as drivers for growth, productivity and increased investments by the firms. Such a measure increased investment through a decrease in the user cost of capital. This explained the positive productivity effects of reduced corporate income tax rates through new capital goods embodied technological change

5.4.2 Withholding Tax

Based on the study findings, the study recommended that the government should offer increased Withholding Tax incentives in order to cut down on imports and in that way promoting the growth of demand for domestic products in the country. The government could pursue this strategy in order to curb smuggling and also to promote the growth of the tourism industry. The study further recommends that policy makers should adopt strategic incentive plans or targeted incentive scheme that targets specific industry or a strategic tax incentive that add value or contribute positively to the economy and are in line with the country's vision 2030. The design, implementation and administration of these strategic incentive plans will help avoid revenue loss.

5.4.3 Duty Exemption

Based on the study findings, it was recommended that the government should reconsider its Duty Exemption by encouraging more Duty Exemption rebates to firms in order to boost their productivity and increase the volume of exports. Adjustments to the Duty Exemption rebates have positive and significant repercussions on the exported volume. A good example is the case of China where a one percent increase in tax refunds led to a seven percent increase in the exports of the Chinese products. This made the Chinese exports to be resilient amid the harsh recession conditions. The export tax refund which is an incentive to improve exports in China led to a significant improvement in the exports of the Chinese products. The study recommends that the government should introduce a strong monitoring unit to oversee the administration of tax incentives. Government should equally pay attention to the issue of security and infrastructure which are basic in order to maximize the benefits of tax incentives. Tax incentives don't necessarily play a huge role if the other factors that support performance of companies are not taken care of.

5.4.4 Capital Allowance Tax

Based on the findings, the study recommended that the government should consider the economic value of capital allowance incentives. The study recommended that the country could increase the level of capital inflow in to the country as well as the level of investment and growth in order to increase the level of employment and the level of industrialization in the country. For instance wear and tear allowances to firms listed at the NSE led to increased FDI inflows. Investment allowances and accelerated depreciation were generally favored by industrialized countries. These had advantages in that they were targeted at the desired

activity and benefits were only gained if capital investments were made. They also caused less revenue leakage than tax holidays. When the country has numerous incentive codes and offers, reducing the number and converting some to guarantees can attract more investment at lower cost

5.5 Suggestion for Further Research

The study recommends that future studies should aim to broaden the causes of low performance of EPZ firms in Kenya as it's not identified in this study. The study also suggests that a study on the remedies to the low performance of EPZ firms be conducted. This would assist in improving EPZ firms in Kenya and to encourage more investors. This study used firm size as a moderating variable on the relationship between tax incentives and the performance of EPZ firms in Kenya. It is probable that exchange rate may have an influence on performance of EPZ firms, therefore, for further studies, the study recommend the use of exchange rate as a moderating variable on the relationship between tax incentives and EPZ performance.

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Appendix I: Questionnaire

This questionnaire has statements regarding the effect that tax incentives have on Export Processing Zones (EPZs) in Kenya. Kindly spare a few minutes to complete the questionnaire according to the guidelines. The responses given will be confidential and handled with the greatest standard of ethics.

Thank you for agreeing to participate in this academic study.

SECTION A: GENERAL /DEMOGRAPHIC DATA

1. Please indicate your highest level of education

- a) Secondary level
- b) College level
- c) Degree level
- d) Post graduate level
- e) Doctorate level
- f) Others (specify)

Explain.....
.....
.....

2. How many years have you worked in the export processing zones (EPZs)?

- a) Less than 2 years
- b) 3 to 5 years
- c) Over 5 years

3. Kindly indicate your position in the company

- a) Finance Manager
- b) Administrative Director
- c) Human Resource Director
- d) Tax Director
- e) Others (specify)

Explain.....
.....
.....

SECTION B: CORPORATE INCOME TAX

4. How do you rate the effect of corporate income tax on tax incentives on the performance of EPZ firms in Kenya?

Yes () No ()

Explain.....
.....
.....

5. How does corporate income tax affects tax incentives on the performance of EPZ firms in Kenya?

No Extent ()
Low Extent ()
Moderate Extent ()
High Extent ()
Very high Extent ()

SECTION C: WITHHOLDING TAX

6. Does withholding tax affect tax incentives on the performance of EPZ firms in Kenya?

Yes () No ()

Explain.....
.....
.....

7. To what extent does withholding tax affect tax incentives on the performance of EPZ firms in Kenya?

No Extent ()
Low Extent ()
Moderate Extent ()
High Extent ()
Very high Extent ()

SECTION D: DUTY EXEMPTION

8. Does duty exemption affect tax incentives on the performance of EPZ firms in Kenya?

Yes () No ()

Explain.....
.....
.....

9. To what extent does duty exemption affect tax incentives on the performance of EPZ firms in Kenya?

No Extent ()
Low Extent ()
Moderate Extent ()
High Extent ()
Very high Extent ()

SECTION E: CAPITAL ALLOWANCE TAX

10. What is the effect of capital allowance tax on tax incentives on the performance of EPZ firms in Kenya?

Yes () No ()

Explain.....
.....
.....

11. How does capital allowance tax on tax incentives on the performance of EPZ firms in Kenya?

No Extent ()
Low Extent ()
Moderate Extent ()
High Extent ()
Very high Extent ()

Appendix II: Secondary Data Collection Sheet

Section A: Performance and Tax Incentives of EPZ Firms in Kenya

Please indicate the performance of the firm as observed in the annual reports and financial information. Also indicate tax incentives the firm received in the table below.

Capital Allowance Tax Incentives

Year (s)	2011	2012	2013	2014	2015	2016	2017
Below 5m							
5m-20m							
21m-40m							
41m-60m							
Over 60m							

Corporate Income Tax Incentives

Year (s)	2011	2012	2013	2014	2015	2016	2017
Below 5m							
5m-20m							
21m-40m							
41m-60m							
Over 60m							

Withholding Tax Holiday Incentive

Year (s)	2011	2012	2013	2014	2015	2016	2017
----------	------	------	------	------	------	------	------

Below 5m

5m-20m

21m-40m

41m-60m

Over 60m

Duty Exemption

Year (s)	2011	2012	2013	2014	2015	2016	2017
----------	------	------	------	------	------	------	------

Below 5m

5m-20m

21m-40m

41m-60m

Over 60m