EFFECTS OF TAX INCENTIVES ON THE FINANCIAL PERFORMANCE OF THE MANUFACTURING SECTOR IN NAIVASHA, NAKURU COUNTY, KENYA

JACKLINE KATHURE GITARI

A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF POST GRADUATE DIPLOMA IN TAX ADMINISTRATION AT JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

2019
DECLARATION

This research project is my own authentic work and has not been presented for a post graduate diploma in any other University.

Signed ………………………………        Date…………………………...

Jackline Kathure

Admission No. 7326/2016

This research project has been submitted for examination with my approval as University Supervisor.

Signed……………………………….   Date………………………………

Dr. David Muraga
DEDICATION

I dedicate this research study to my family and supervisor for their unendless support love and encouragement.
ACKNOWLEDGEMENT

It has been energizing to learn at the Kenya School of Revenue Administration. I am profoundly obliged to my supervisor Dr. David Muraga for his help and unending help without which, this investigation would have not been a triumph. Much obliged to my family and companions for their steadfast help and inspiration during this investigation. It will be difficult to make reference to every one of those that in one manner or the other, assumed a job in acknowledgment of this investigation. Give me a chance to thank all of you.
ABSTRACT

Tax assessment is the key wellspring of salary that the governing body of Kenya uses to give open items and undertakings to its masses. It is thusly noteworthy for the lawmaking body to raise adequate pay through duty appraisal to meet its progression inspiration. The cutting edge worldwide viewpoint is depicted with competition for the inspiration driving attracting overall associations and this has made fiscal impulses to transform into an overall miracle. Destitution stricken African countries are needy on assessment events and selling items and administrations obligation while the Common riches countries license adventure rewards or animated crumbling. It is subsequently that the general objective of this examination was wanted to develop the effect of the tax incentives on the progressive display of manufacturing firms in Naivasha, Kenya. The assessment got a hypnotizing investigation structure. The assessment used a purposive testing approach in light of the way that the amount of the gathering firms in Naivasha are only few. The supreme amounts of firms to be used in the assessment are enlisted under Kenya Association of Manufacturers. The examination will get an insights audit plan. Secondary data from the enlisted firms was accumulated on Return on Assets and advantage will be the main elements to be used in estimation of the free factors when assessing the operating organizations in Naivasha, Kenya, Nakuru County. The population to be measured comprised of all the 35 manufacturing firms in all characterizations (gigantic, medium and little) under the Kenya Association of Manufacturers list in Naivasha, Nakuru county. The examination used a sample of 8 organizations. The investigation uncovered that there is 61.1% variety in authoritative execution of the assembling firms in Naivasha, Nakuru area because of changes in Corporate incentives, Zero-rated Vat incentives and Capital allowance incentives. This unmistakable measurement infers that tax incentives positively affect hierarchical execution of assembling firms in Naivasha, Nakuru County. This study prescribes that treasury and KRA to make simple for such firms to that connected duty motivations to can be appreciated.
TABLE OF CONTENTS

DECLARATION i
DEDICATION iii
ACKNOWLEDGEMENT iv
ABSTRACT v
LIST OF TABLES viii
ABBREVIATIONS AND ACRONYM ix

CHAPTER ONE 10
INTRODUCTION 10
  1.1 Background of the Study 10
    1.1.1 Tax incentives 11
    1.1.2 Financial Performance 14
    1.1.3 Tax incentives and financial performance 14
    1.1.4 Manufacturing Sector in Kenya 15
  1.2 Statement of the problem 15
  1.3 Research Objectives 17
    1.3.1 General Objective 17
    1.3.2 Specific Objectives 17
  1.4 Research Questions 17
  1.5 Justification of the Study 18
  1.6 Scope of the study 18
  1.7 Limitation of the study 19

CHAPTER TWO 20
LITERATURE REVIEW 20
  2.1 Introduction 20
  2.2 Theoretical Framework 20
    2.2.1 Optimum Tax Theory 20
    2.2.2 Normative Theory 21
    2.2.3 Neo-conventional Theory 23
  2.3 Conceptual Framework 24
  2.4 Empirical Framework 26
  2.5 Critique of the existing literature 30
  2.6 Summary of the literature Review 30
  2.7 Research Gaps 30
LIST OF TABLES

Table 4.1 Descriptive Statistics 31
Table 4.2 Correlation Analysis 32
Table 4.3 Regression Analysis 33
Table 4.4 Analysis of Variance 34
Table 4.5 Regression Analysis Coefficients 36
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>IEA</td>
<td>International Energy Agency</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>KRA</td>
<td>Kenya Revenue Authority</td>
</tr>
<tr>
<td>ITA</td>
<td>Industry Training Authority</td>
</tr>
<tr>
<td>ID</td>
<td>Investment Deductions</td>
</tr>
<tr>
<td>IBD</td>
<td>Industrial Building Deductions</td>
</tr>
<tr>
<td>TREO</td>
<td>Tax Remission Exemption Office</td>
</tr>
<tr>
<td>KAM</td>
<td>Kenya Association of Manufacturers</td>
</tr>
<tr>
<td>UCC</td>
<td>User Cost of Capital</td>
</tr>
<tr>
<td>SME</td>
<td>Small Medium Enterprise</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>NSE</td>
<td>Nairobi Stock Exchange</td>
</tr>
</tbody>
</table>
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Tax in global perception for the governments is well structured by the citizens as mandatory commitment of assets from the private to the open segment raised on a premise or foreordained standard and without inclination to a particular increase obtained. Regularly, a tax charge is the significant wellspring of government income which it relies upon to give items and administrations that the private division does not offer to the residents. Lion's share of government in the world use exchange projects or arrangements to improve present day trade of merchandise and ventures crosswise over fringes, to do as such they set up modern domains by fencing such a zone to encourage the assembling of products implied for fare by selective firms to increase special economic zone firms. (World Bank, 1992)

As indicated by Barnett and Grown (2004), a tax arrangement in most African nations is at the core of the political discussion on the degree of open administrations that ought to be given and who should pay to them in light of the fact that assessments are the chief wellspring of repeating income under government control. Additionally, taxes are utilized to aid the redistribution of riches and pay and to control financial exercises. To this end, charge strategy choices impactly affect various people, organizations and the economy on the loose. Governments in African nations need to create charge approaches and duty frameworks that are guided by specific fundamentals.

East Africa Region is giving a wide-ranging scope of tax motivations to organizations to draw in more prominent degrees of FDI into the nation. Studies demonstrate that such duty motivating forces are prompting extremely huge income misfortunes for governments, advancing unsafe assessment rivalry in the locale, and are not expected to pull in FDI. Altogether East African countries are losing up to US$2.8 billion each year from duty
motivators and exceptions. A few, for example, VAT decreases, can help diminish destitution. Yet, a significant part of the income misfortune is clarified by duty motivating forces gave superfluously to draw in remote venture. These income misfortunes are denying nations of basic assets required for lessening destitution. (Activity help 2012).

Expense changes in Kenya are intended to guarantee that the three most significant destinations of a decent tax framework are met and these targets incorporate raising assessment income for subsidizing government tasks without unreasonable government getting, guaranteeing to fair dispersion of pay in a country and empowering or debilitating explicit exercises however actualizing expense changes to meet these objectives of a perfect assessment framework have remained a test. It is the thought of the last that has seen the legislature of Kenya, as different nations, execute charge motivating forces on the presumption that tax assessment is a proper approach instrument in drawing in speculations (IEA, 2012).

Since tax assessment influences wages and costs of products and ventures, people and organizations respond contrastingly in light of changes in salary, and in relative costs, exuding from tax assessment. In this manner, investigation of the impacts of expense strategy is basic for government chiefs and people in general to settle on educated arrangement choices. (Activity Aid 2013)Subsequently, tax assessment is a money related arrangement that the administration applies to energize or demoralize certain monetary choices by making guideline utilization and business designs. This makes a few exchanges in the economy pretty much appealing relying upon the motivation behind the approach (Nwankwo, 2006)

1.1.1. Tax incentives

Globally governments use charge inspirations on the overhaul of the fiscal undertakings and adventures by most organizations, in any way shape or form (Kaplan, 2001). A tax driving force is any lift that lessens the tax assessment rate of any social event in order to encourage
them to place assets into explicit errands or parts of the economy. To pull in overall associations, the world in the progressing years is portrayed by unbelievable test among governments and thusly, charge inspirations are an overall issue.

Nations in the Europe give experience stipends while those poor making ones give examination occasions comparatively as responsibility unique cases (Morisset, 2003). In the nonstop time frame, an augmentation has consistently existed. This is very much shown on progression by relationship, for example, Toyota to Northern France comparatively as Mercedes-Benz to the Alabana state in the USA. There are all things considered solicitation on whether governments have outperformed in these musings of inspirations. This has over the long haul raised countless dialogs on the fittingness of commitment motivations (Harris, 1993).

Going by the Kenya Revenue Authority's (KRA) which means of assessment motivator, it is a game plan that gives any individual or development perfect conditions that create complexity from the normal courses of action of the cost institution. In Kenya, obligations can be orchestrated into two: hypothesis progression and passage headway. Evaluation persuading powers may be an unequivocal mechanical assembly concentrating on simply the new business and flexible endeavors that are exceedingly tricky to force competition without causing pay mishap from existing capital and stationary activities (tolerating pay spillages instigated by obligation sparks remain confined). This is a reasonable stress for plan makers standing up to monetary globalization and cost contention (Klemm, 2009).

The administration typically offers different assessment incentives in the accompanying ways talked about. Venture Promotion Incentives incorporate Investment Deduction which is a Capital recompense that was acquainted in Kenya in 1991 with advance interests in development of structures, manufacturing plants and businesses or on securing and
establishment of new hardware particularly on the environs of the three noteworthy urban areas in Kenya specifically: Nairobi, Kisumu and Mombasa, for the support of the hardware. For those inside the three noteworthy urban communities they guarantee 100% ID while people on the edges guarantee 150% ID. Annual Tax Act (ITA, 2010)

Venture advancement additionally incorporates Industrial Building Deduction which is a capital allowance endorsed on an individual on development or buy of a modern structure to be utilized by him or tenant for reason for business. It is asserted on straight line premise and can be apportioned restrictive on the time the structure is developed or rented. For assembling structures and inns they can guarantee up to 10% per annum of the cost; inns and instructive structures guarantee half per annum of the passing expense and for qualifying business structures, for example, retail shops, workplaces and showrooms at 25% per annum of the passing expense (ITA, 2010))

Diminished expense rate is a kind of fare advancement technique where duty rate applies underneath the ordinary corporate assessment rate normally under 30% per annum on the benefits of the year for inhabitants and 37.5% for non-occupants. For instance privately owned businesses recorded with the Capital Markets Authority with an issued capital of 20%, 30% and 40% are burdened at 26% for the initial three years, 24% for the initial five years and 20% for the initial five years separately (Kandie, 2011).

Another kind of fare advancement strategy is found in organizations that import crude materials and production merchandise for fare can likewise get charge reduction status for the fares under the Tax Remission Exemption Office (TREO) plan. They are typically used to advance fares. Zero rates are whereby charge pertinent on the products and enterprises is 0% basing on the VAT Act. (ITA, 2010)
1.1.2 Financial Performance

Lumpkin and Dess (2009), describe financial performance as the show that is generally overviewed with budgetary pointers, for instance, level of gainfulness or advantage per share. This constraint of criteria for evaluating legitimate reasonability is in truth a marvel of range repression having brings about travel boss make work and supervise people in affiliations. In this paper, it is battled that the more significant the range among the presentation criteria, the more important the estimation of the work association. Drawing from an observational examination, four parts of various leveled execution are delineated nearby their potential impact on the significance of work. A couple of streets for managing legitimate execution helpfully are proposed.

Liargovas (2008) showed financial performance as the execution that runs for a predefined period. This is conveyed similarly as a rule advantages and disasters. An in-depth insight into the budgetary display of an income generating pipeline grants the boss power to condemn the outcomes of business systems in money related affairs. The unique extent of how appropriately a firm shall use wealth from its fundamental technique for trade and make livelihoods.

1.1.3 Tax incentives and financial performance

Dess (2009), describe financial performance as the show that is generally overviewed with budgetary pointers, for instance, level of gainfulness or advantage per share. This constraint of criteria for evaluating legitimate reasonability is in truth a marvel of range repression having brought about easier modes to make work easier and supervise people in affiliations. In this paper, it is battled that the more significant the range among the presentation criteria, the more important the estimation of the work association. Drawing from an observational examination, four parts of various leveled execution are delineated nearby their potential
impact on the significance of work. A couple of streets for managing legitimate execution helpfully are proposed.

1.1.4 Manufacturing Sector in Kenya
Manufacturing is the foundation of Kenya's mechanical area. This segment isn't just observed as the economy's motor of development yet additionally as methods for expanding it. Nonetheless, following three decades it is presently folding with a great deal of issues some of which were acquired structure the pre-freedom period. The assembling division contributes 11.3 percent of Kenya's GDP. The segment contains around 3,700 manufacturing units and is partitioned into a few wide sub-areas. (Service of Devolution and Planning, 2015)

The yield from the assembling segment was esteemed at Kshs. 1,097,082 million out of 2014 up from Kshs 1,042,181 million out of 2013 in the Kenya National Bureau of Statistics Economic Survey. This division has profited Kenya in different ways that has seen the nation's economy develop. Githaiga (2013) reviewed that the effect of assessment motivating forces on economic development of assembling organizations recorded in KAM. The examination majored on the issues of Tax occasions; Capital Allowance Deductions and abatement of zero rates, towards the hierarchical exhibition of the assembling organization in Naivasha.

1.2 Statement of the problem
Manufacturing firms locally assumes a significant job being developed of the national economy. They establish an extraordinary wellspring of administration and joining forces with other bigger enterprises. At any rate bits of knowledge from the International Bankportray the country to be reaping huge profits all through the past six years in light of a wild working condition. It is assessed that enormous assembling organizations have lost 70
percent of their piece of the overall industry in East Africa to a great extent licensed to high operational expenses.

According to Government of Kenya report (2013), execution of the manufacturing firms in Kenya has been on the decay for a broad time allotment with its responsibility to GDP stagnating at 10% from 1960’s (GOK, 2013). All things considered, the collecting territories' typical improvement rate has continued stagnating at three to four percent throughout the years. The analysts who propose charge inspirations for manufacturing firms contend that it prompts higher rates of profit for both value and resources in the part and that opens up some income to be reinvested in the business consequently boosting the whole hierarchical exhibition (Uwaume and Ordu, 2014).

Studies have been done thoroughly and locally: Otumba (1995) drove an assessment in the relationship between the VAT motivations and execution on the headway of the storing up district of SME's in Ghana, Accra. The examination pondered investigating of 145 SME's in Accra. The evaluation utilized both key and assistant information. Dealt with overviews were utilized to collect fundamental measurements from the merchants of SME's. Information was assessed utilizing illustrative estimations. The assessment set up that assessment driving forces measures were utilized to strengthen SME's show.

International Bank Research and Development (IBRD) (1997) completed an examination on the impact of commitment main impetuses on the introduction of the economy. The assessment utilized a conscious testing examination structure. The review focused on 75 respondents from various nations. Both major and partner sources were utilized.

Tembur (2016) reviewed effect of appraisal spurring powers on cash related execution of admission getting ready zone firms in Kenya. The monetary presentation of fare handling zone firms in Kenya. The investigation depicts a calculated hole as it concentrated on the fare
handling zone firms while the present examination concentrated on the assembling firms. The
survey additionally demonstrated that a large portion of the investigations have been on
extract and custom obligation charge incentives with less spotlight on VAT, Capital
incentives and Corporate allowance incentives despite the fact that they had been found to
impact the exhibition of corporate. Subsequently, this investigation current examination tried
to fill these holes by evaluating charge motivations and their impact on execution
manufacturing firms in Naivasha, Nakuru County Kenya.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the research is to establish the effect of tax incentives on the
financial performance of the manufacturing sector in Nakuru County, Kenya.

1.3.2 Specific Objectives

The specific objectives for this study are:

1. To find out the influence of the Corporate Income tax incentives on the performance of
   the organizations in the manufacturing sector in Naivasha, Nakuru County, Kenya.
2. To determine the effect of Capital Allowance incentives on the performance of the
   organizations in the manufacturing sector in Naivasha, Nakuru County, Kenya.
3. To establish the effect of zero rated VAT incentives on the performance of the
   organizations in the manufacturing sector in Naivasha, Nakuru County, Kenya.

1.4 Research Questions

1. Do Corporate Income tax incentives have an effect on the performance of the
   organizations in the manufacturing sector in Naivasha, Nakuru County, Kenya?
2. What effect do Capital Allowance incentives have on performance of the organizations in
   the manufacturing sector in Naivasha, Nakuru County, Kenya?
3. What effect does zero rated VAT incentives have the performance of the organizations in the manufacturing sector in Naivasha, Nakuru County, Kenya?

1.5 Justification of the Study

This examination will help manufacturing organizations and different divisions to know about the various segments of assessment motivators, execute the ones that appear to be profitable to them over the long haul contingent upon the result of the investigation.

This investigation will help the administrations and its organs to survey the expense arranging framework and define arrangements that will contribute in yielding greatest income while as yet offering duty motivators. Along these lines they will gauge choices on where best to offer duty motivators and the multiplier impact this should the economy.

This investigation will be helpful to both the momentum and planned financial specialists who will profit by this exploration in that they will comprehend tasks in the economy and the duty impetuses they can apply in order to procure most extreme comes back from their speculations. Also, this exploration will give them mindfulness on the effect they are probably going to cause on the economy along these lines set their objectives towards accomplishment of the equivalent.

The examination will give the academicians learning on the expense motivators and their impact on the economy that will enable them to build their insight on the quickening agent and multiplier impact charge impetuses have. This can likewise shape a spine of their future inquires about also.

1.6 Scope of the study

The focal point of this investigation was to edify the manufacturing firms in Nakuru County, Kenya on the diverse assessment motivations subsidiary to their organizations and how they
will influence their presentation. The period for the examination was carried out between the years 2009 to 2016. Naivasha was chosen as the contextual analysis region because of its favorable condition for a decent industry to flourish. It has every one of the fixings required for an enormous scale industry; land, water and power. Likewise, Naivasha is less packed than the city where a great deal of worker hours are squandered on traffic while the Nairobi-Nakuru interstate gives the ideal conductor to completed products.

1.7 Limitation of the study

The examination did not abandon confronting a few difficulties during accumulation of information from certain organizations where the general population on the ground were inflexible in arrangement of point by point data. Out of the 15 inspected assembling organizations in Naivasha, Nakuru region, 10 of them were private restricted organizations which made the entrance to auxiliary data records more earnestly to get to. The examination was completed from the year 2009 to 2016 and the vast majority of the manufacturing organizations under investigation were set up over ten years back before the investigation henceforth making it hard to set up exact capital stipend reasoning and the real speculations that meet all requirements for the IBD.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter condenses the data from different specialists who have done their examination in a similar field of study. The particular territories secured here are theoretical direction, empirical survey and the conceptual framework. This chapter will gaze into preceding studies done by other researchers on impacts of tax incentives on economic growth. This will help discover knowledge known prior to this research.

2.2 Theoretical Framework

The hypothetical way to deal with the tax incentives in terms of the benefits and costs related to it is to carry out in-depth background studies on the different authors who wrote about it and carried out various tests to ascertain the same. Corporate endeavor practices not simply create closeout conveyed stock, but also make coming about in view of scattering data, or the refreshing of work aptitudes.

2.2.1 Optimum Tax Theory

Allen thought of the ideal duty hypothesis as a manual for decide the assessment arrangements since approach producers presently couldn't seem to figure out how to actualize an expense framework. As indicated by Allen and Morisset (2001), ideal expense investigates the structure that limits contortion, activities leading to wastefulness of incomes through on assessment. So also the above hypothesis is appropriate in the above point since assembling firms will in general embrace charge motivators that are limit on their bends and boost on their benefits.

An unbiased cost is a theoretical commitment which avoids bending and different things that are proportionate ,on an extremely essential level irrelevant cash related endeavors (state
undertakings) that face the tantamount pre-charge shot and returns, the one with the lower blame or for an evaluation diminishing would be picked by the reasonable on-screen character. benefit for the grounds that not all the mechanical information can be viably approved.

Ramsey (1927) propelled an idea for flawless thing courses of action charges. The crossing point on diving inclining requesting bend and upward slanting supply turns suggests that there is maker surplus and purchaser bounty. Any business examination reduces yield and powers a deadweight mishap (DWL). In the event that we recognize non differing requesting and supply adaptability, by then a solitary uniform rate of commitment on all items would appear to confine the all out zone of all such DWL triangles. Ramsey recommended that we expect providers were all impeccably versatile in their reactions to regard changes from assessment and after that mulled over that blames on results for logically inelastic purchaser request reaction would have littler DWL bends.

With that knowledge, financial experts contend that for the most part assessments contort conduct. For instance, since just monetary entertainers who take part in market action of "entering the work showcase" get an annual expense risk on their wages, individuals who can devour recreation or take part in family unit generation outside the market by state giving housewife benefits in lieu of contracting a servant are not burdened or are saddled delicately. This hypothesis is pertinent in the above subject since the assembling organizations embrace a duty motivating force that is good to their productivity levels and furthermore that prompts their ideal development. (Fletcher, 2003)

2.2.2 Normative Theory

Chua (1995) place that as shown by this hypothesis each prodding force has tendencies and harms, and it is along these lines incredibly hard to pick one package of partners which work for all around different economies with various inconveniences and conditions. This
hypothesis is huge in that exceptional assessment partners work diversely in various social
casion firms. Much of understanding what handles what gathering firm relies on the state
of the economy, the limit of the commitment affiliation, the sort of speculation being
searched for and the budgetary goals of the chamber.

Boadway and Shah (1995) fight that any favored position, for example, a driving force
appointed by system workers or administrators is potentially open to abuse and defilement.
There is as necessities be a solid clash that motivations ought to be typically accessible to
each cash related expert who meet a lot of open and clear criteria. In any case, an elective
clash is that affiliations ought to get basically enough moving capacity to initiate them to
contribute, and no more.

Zafar Iqbal, (2005) thought of this hypothesis as a positive branch with a point of looking
coordinating reason of obligation assessment in the western custom. The theory is moreover
detached from the reasonable contemplations of commitment affiliation. In spite of these
inadequacies, this prescriptive hypothesis is indicated uncritically in course books and is
regularly the reason of heading offered to approach creators. The hypothesis made here
portrays how the headway of the institutional structure of govern-ment makes a great deal of
rousing powers similarly as constraints inside which governments and distinctive on-screen
characters work.

The above hypothesis is colossal since moderate commitment main thrusts are locked in to
new energy for hardware, apparatus and innovative work, give early motivations, which will
without a doubt be financially sharp in strengthening required speculation. These can have
profound hailing impacts without essential loss of pay. Speculation cost credits and stipends
give express and focused on method devices to accomplish this. Decreasing corporate
commitment to a level in every way that really matters undefined with different nations in the
district is a sensible evaluation main impetus. All things considered, lessens past the level found in capital passing on nations state, underneath 20-30% a great part of the time recognize more detectable pay difficulties than enlargements in principle (Fletcher, 2003).

These motivations shape the strategy for advancement, and various governments may advance in various ways, not which are in general competent. Assessment game-plan making and commitment managerial change subsequently make all the while and pleasantly. The institutional hypothesis made here gives a general structure that we recognize can be utilized to comprehend the improvement of cost philosophy and relationship crosswise over after some time and social orders.

2.2.3 Neo-conventional Theory

Neo-customary speculation battles that giving duty inspirations to one party of investigators rather than another harms one of the basic principles of a not too horrendous cost structure, that of level worth. This uniqueness twists the worth sign looked by potential investigators and prompts an inefficient errand of capital (Boadway and Shah, 1995). The help commonly given for stand-out inspirations is that there are hotshot frustrations including the decision to place assets into unequivocal divisions and zones, which legitimize government mediation. Market foiled desires recognize either to a silly or too little energy for express spaces or zones. The key market disappointments as every now and again as possible refered to; Positive externalities not shrouded in the undertaking's rate of return are higher in unequivocal areas than in others. A model is imaginative work where experience yields a higher social than private rate of advantage for the grounds that not all the mechanical learning can be reasonably ensured and in that capacity there exists a distraction for financing creative work hypothesis (Kaplan &Norton, 2001).
Barbour (2005) out that there are other demonstrated central purposes of responsibility driving forces, for instance, significant hailing impacts and the need to compensate for inadequacies in the endeavor structure elsewhere. Game-plan of undertaking main impetuses is as either charge help or cash grants. All around experience shows that such inspirations recognize only a minor work on a basic level decisions. Firms pick hypothesis decisions subject to various fragments including projections of future intrigue, sureness about future government approach, winning advancement expenses and moves by contenders. As a last resort, they believe instigating powers to be 'extraordinary to have' at any rate not methodology breaking. Regardless energizing powers remain a striking methodology for both made and making countries.

This hypothesis shaped the reason of the assessment goals of inspecting the adequacy of each assessment prodding force allowed in impacting the presentation of get-together firms. It formed the reason behind explaining whether cost main impetuses in isolation could accomplish the proposed motivation driving restoring and settling the presentation of the relationship under investigation

2.3 Conceptual Framework

This is the conceptualization of the relationship just as the associations among the factors educating the investigation so as to accomplish the exploration goals. There are different meanings of autonomous factors however as indicated by Kothari (2004), who likewise alludes to them as informative factors, they are the foreordained reasons for variety of the reliant variable. Then again, a needy variable is one that the examination will try to clarify. In view of the exploration destinations, the needy variable is authoritative execution of assembling firms in Naivasha, Kenya while the autonomous factors are spoken to by the Corporate Tax incentives, Capital Allowance incentives and VAT incentives.
Measurement indicator for financial performance was proxied by Return on Assets (ROA). The analyst conceptualized that Corporate income tax incentives was estimated as the sum because of the duty specialist from the firm exercises that outcome into a benefit with the motivating force being the sum due that was deferred. Corporate income tax incentives was estimated as a level of the material benefits.

Further, the analyst believed capital allowance incentives to be proportion of the entirety of cash a business can deduce from the general corporate or annual assessment on its benefits. Capital recompense will be estimated utilizing the capital remittances got in (KES) for ID, IBD and WTA.

Finally, the authority trusted VAT inspirations to be an exemption from an obligation hazard offered as an allurement to partake in a foreordained development for a particular period.
Tank inspiring power will be assessed using the extent between VAT spark and net advantage.

2.4 Empirical Framework

This segment takes a gander at what different scientists and individuals have said about the effect of expense motivating forces on financial development around the world.

Olaleye, Riro, and Memba (2016) inspected the impact of organization annual assessment motivators on execution of recorded Nigerian assembling organizations. Unmistakable research configuration was received in this specific investigation. The objective populace in the investigation was the one hundred and seventy four recorded assembling organizations. The quantity of workers in these organizations was observed to be more than 56000. The examination utilized essential information that was gathered utilizing self-directed polls. The surveys were directed via prepared research colleagues. The discoveries demonstrated solid positive straight connections between decreased organization annual expense motivating forces and remote direct speculation. The positive and factually noteworthy connection between decreased organization annual duty impetuses and outside direct venture suggested that remote speculators could expand their speculation by taking preferences of the accessible assessment motivators permitted by the administration to make an empowering speculation condition.

Klemm and Parys (2009), in an examination on the effect of evaluation inspirations on the introduction of amassing firms in India saw that adventure end on Foreign Direct Investment (FDI) does not so much impact the hard and fast hypothesis or the show of a collecting association.
They presumed that the main piece of Investment Deduction that influences the exhibition of assembling firms is that of exchange of possession as opposed to that of green field venture. Kenya likewise tries to improve the GNP of the nation through boosting speculation.

Alegana, (2011), coordinated an assessment on the effect of obligation catalysts on the Return on Equity of Manufacturing firms in Nigeria and she itemized that Capital stipends, for instance, Investment Deduction generally impacts factor expenses and resource portion by the amassing division and as time goes on the measure of organizations mentioned from the governing body and its inhabitants anyway not the profitability of the collecting associations. This can be through high cost rates which cause high factor expenses or obligation sponsorship which diminishes factor costs.

Otumba (1995) drove an assessment in the relationship between the VAT partners and execution on the headway of the gathering an area of SME's in Accra, Ghana. The assessment thought breaking down of 145 SME's in Accra. The evaluation utilized both essential and partner information. Dealt with studies were utilized to gather principal information from the proprietors of SME’s. Information was dissected utilizing illustrative estimations. The assessment found that evaluation main thrusts measures were utilized to engage SME’s introduction. This jumped out at improved progression.

Principal information was aggregated utilizing made studies and partner information was got from money related records. Information assessment was finished with the assistance of a fall away from the faith model. The appraisal found that assessment flashes gadgets that should have been tended to included: improvement of the family show off, adjusted territorial movement, and decrease in joblessness, better usage of existing capital, expansion
of yield, parity of bit thought, and re-direction of theory structure. This will therefore reinforce execution of the economy.

As indicated by the appraisal done by Roca (2010), non-charge variables are progressively basic concerning evaluating the aggregate and the possibility of the undertaking than the expense decreases, especially by temperance of making nations. The non-charge factors normally referred to are political quality, authentic security, undistorted macroeconomic authoritative issues, the nature of the workforce and the condition of the structure.

In any case, making countries have not stopped using tax reductions with the true objective of growing theory, particularly remote direct endeavor (FDI). Besides, experiences, for instance, in Uganda and Indonesia, where cost event and explicit obligation spurring powers tasks were finished for an undeniably engaging general evaluation framework, fortify the theory that appraisal helpers are not effective in attracting hypothesis or energizing financial improvement.

As indicated by the evaluation did by Barbour (2005), he surveyed South Africa's undertaking prodding power system on genuine execution with a complement on the gathering division. The evaluation utilized a deliberate testing framework. Both basic and aide information sources were utilized. Fundamental information was aggregated from 45 Tax pros in the picked gathering firms in Johannes Burg. Information was examined utilizing a practical framework and lose the faith evaluation. The outcomes saw that there was a colossal relationship between assessment assistants and real execution.

Akinyomi (2011) investigated the impact of the cost motivations on the general execution of enlisted little scale associations in Rivers State, Nigeria. Twelve, out of the twenty three selected little scale sustenance and refreshments assembling experiences in Rivers State were picked capriciously for the assessment. Reviews were controlled to 250 respondents in
the picked. Rehash dispersal and chi-square were utilized in the appraisal of information and theories testing independently. The disclosures uncovered that there are unmistakable evaluation powers open to little scale associations and the directors in these undertakings are inconceivably acquainted with them. It was besides found that cost flashes do fundamentally affect the efficiency, staff quality and the headway and improvement of little scale endeavors.

There is little proof that perplexing assessment motivating force plans are any more fruitful than straightforward CIT systems that attention on exhausting all types of venture at low, uniform rates. The overall effect of exceptional assessment motivating forces, for example, charge occasions and differential expense rates has not been very much concentrated in enormous cross-segment or board information. In any case, a few nation explicit examinations have inferred that uncommon assessment impetuses have not been financially savvy. For instance, Estache and Gaspar (1995) locate that broad duty motivating forces bring about critical income misfortunes contrasted with the speculation produced. Additionally, Boadway, Chua, and Flatters (1995) find that expense occasions are of little incentive for the associations.

Githaiga (2013) finished an outline on the impact of obligation inspirations on FDI inflows of firms recorded at the NSE. This examination focused on the impacts of Wear and Tear Allowances; Investment and Industrial Building Deductions, towards attracting FDI inflows to firms recorded at the NSE. The examination included collection of a period course of action data on endeavors and obligation inspiring powers from a case of 10 firms recorded at the NSE between years 2008–2011. The data was essentially from assistant sources, most thought being based on yearly reports and assessed financial synopses of the inspected firms. Association assessment was finished on FDI inflows and appraisal propelling powers elements to set up whether there was any relationship. The outcomes of the examination
revealed a strong association among mileage settlements and FDI inflows. Present day Building and Investments Deductions had no gigantic relationship with FDI inflows.

2.5 Critique of the existing literature

By and large, the above existing written works depict most duty motivating forces particularly in the developing nations to be incapable along these lines having least or no effect on the authoritative execution of the assembling segment. In any case, the vast majority of the past scientists still concur that expense motivators still assume a noteworthy job in assembling part if and just if solid strategies are set up. Through the multiplier impact, speculations increment prompting improvement of expectations for everyday comforts of individuals. As indicated by Zolt (2015) most business officials more often than not consider business projections before thinking about where best they will decrease charge obligation in order to contribute

2.6 Summary of the literature Review

From the writing survey, the experimental discoveries have portrayed blended outcomes from the exact investigations led in various areas other than the assembling business; Githiga (2013) and Otumba (1995), the above speculations have demonstrated that there exists a positive connection between duty motivators and budgetary execution of firms. This anyway counts with the speculation of this examination that accept a positive connection between assessment motivating forces and hierarchical execution of assembling firms in Naivasha, Kenya. Anyway different creators, for example, Alegana and Roco have shown something else.

2.7 Research Gaps

A study carried out among vendors of Manufacturing firms in Kenya on the effects of tax incentives on the performance of Manufacturing firms in Naivasha Nakuru County,
established that Tax payers are not satisfied with the current Incentives offered by the Government, There was also the issue of service delivery on the part of The Government in Budgetary allocations, therefore the effects of tax incentives on the performance of Manufacturing Firms need to be well evaluated to help correct this perception.
CHAPTER THREE  
METHODOLOGY

3.0 Introduction

This part investigates the exploration procedures followed in directing the examination. It includes the determination procedure of the objective populace, test size and examining strategies and the techniques to be connected.

3.1 Research Design

This alludes to the accumulation of data and investigation which is separated in order to accomplish the examination purposes through watched information (Chandran, 2008). Cooper and Schindler 90 (2007) portray the examination structure as the examination structure plan of research to give answers for the investigation destinations.

The examination embraced spellbinding study structure. As indicated by Arvind and Vijay (2013), an unmistakable review is related with the portrayal of certainties of an investigation. The plan was viewed as proper for this examination as it would aid an inside and out examination to look at duty motivating forces and their effect on hierarchical execution of assembling firms in Naivasha Kenya. This examination configuration permitted a nitty gritty depiction and investigation of the factors under examination; distinct structure permits the portrayal and introduction of their precise profiles as it exists without impacting it in any capacity and clarifying their relationship without control as upheld by Saunders. (2009).

3.2 Population

Sekaran (2006) portrays a masses as the hard and fast gathering of parts about which derivations are made. The focal point of the assessment included theoretical or real game plan of people, things or events which a master needs to revise the revelations of their examination
anyway reachable people contains individuals who are continuously reasonable to be a bit of the assessment test (Kothari, 2004). Target populace must be expressly described. The geographic and brief qualities of the target populace ought to be delineated, similarly as sorts of units being consolidated. The assessment people was all the 35 assembling firms in all orders (tremendous, medium and little) under the Kenya Association of Manufacturers file as at 2016 (Kenya Association of Manufacturers, 2017) in Nakuru area.

3.3 Sample and testing outline

Kothari (2004) characterizes an example as the chose respondent speaking to the populace. An example is a lot of elements drawn from a populace with the point of assessing qualities of the populace (Howitt, 2004). As indicated by Kothari (2004) who contended that 10% or even more an enormous example is satisfactory for a graphic report.

Subsequently, the examination used a sample of 8 firms. The recognitions were picked using purposive sampling. Fundamental self-assertive testing is the basic investigating technique where a social affair of subjects is picked for concentrate from a people. Each individual is picked totally by some occurrence and each person from the masses has a comparable plausibility of being joined into the model (Kothari, 2004). The models size for this assessment was managed by using the formulae prescribed by Krejecie and Morgan (2008);

\[ S = \frac{X^2NP (- P)}{d^2 (N-1)} + X^2P (1-P). \]

Where;

S=required test size

N=given populace size
\( P = \) Population suggestion that for table development (0.50 is accepted as this greatness yields the most extreme conceivable example size required).

\( d = \) the level of precision as reflected by summing mistake that can be endured in the vacillation of an example extent \( p \) about the populace extent \( p \)-that is the level of exactness communicated as an extent.

\( X_2 = \) table estimation of chi square for one level of opportunity in respect to the ideal degree of certainty, which is 3.841 for the 0.95 certainty level.

The investigation picked certainty level at 95 percent with relating \( z \)-score of 1.96 and with mistake edge of 5 percent. Henceforth the investigation accepted that information gathered utilizing as test size would have a 95% shot of being correct (level of certainty) with a 5 % possibility of being off-base.

### 3.4 Data Collection Instruments

The information was gathered from the, Kenya Revenue Authority Reports, Kenya Bureau of Statistics, past distributed measurements, money related and monetary reports and spending reports. Information gathered was checked for unwavering quality, legitimacy and quantifiably to guarantee that it was achievable to make substantial determinations from the information (Saunders et al, 2009).

### 3.5 Data Collection Procedures

The strategy talks about the methods for gathering crude and untreated information that can be treated into noteworthy information, according to the logical procedures of information demonstrated deductively (Gall, Gall, and Borg, 2007). Crude information was gathered from the source that is assembled by either the association or the people as direct data. The
information gathered was referred to as crude information since it had not been sorted out or cleaned.

Return on Assets and the benefit levels framed the secondary information of the investigation. The investigation utilized board information gathered every year for a time of 8 years (2009 through 2016).

Manufacturing firms in Naivasha, Kenya shaped the structure of this secondary information. Information examination which was completed in utilizing dynamic board information relapse model because of duty motivating forces open on assembling firms execution in Naivasha, Kenya. The perceptions of various marvels achieved over various interim for the indistinguishable associations or people structures board information.

3.6 Data Processing and Analysis

The information gathered was sorted out in tables at that point of analysis in utilizing Statistical Packages for Social Sciences (SPSS) rendition 20.0 or STATA. The illustrative insights were performed on the information in order to indicate the proportions of inclinations: mode, average, mean and inferential measurements, for example, relapse examination was performed on the information in order to determine the connection between expense motivating forces and execution of the associations in the manufacturing area in Nakuru County, Kenya. The investigation utilized secondary information to set up the connection between the factors by running part from the relapse model, the relationship strategy utilizing Pearson technique was likewise used to set up the relationship between the various factors as far as heading.

Regression Model:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \]
Where $Y =$ Organizational Performance.

$X_1 =$ Corporate Income Tax

$X_2 =$ Capital Allowances.

$X_3 =$ VAT Incentives

$\beta_0$ is regression model constant.

$\beta_1$, $\beta_2$ and $\beta_3$ = The $\beta$ coefficients.

$\epsilon =$ The error term
CHAPTER FOUR

DATA ANALYSIS, PRESENTATIONS AND INTERPRETATIONS

4.1 Introduction

This chapter exhibits the investigation and discoveries with respect to the exploration objective for the examination to set up the impacts of tax incentives on the presentation of associations in the manufacturing area in Naivasha, Kenya, Nakuru County. The study was led for the period between 2009 to 2016.

4.2 Data Presentation

4.2.1 Descriptive Statistics

Table 4.1 was used to present descriptive statistics and distribution of variables.

From the findings in the table below, which presents the mean, standard deviations and variance of the financial performance, corporate income tax, capital allowances and Zero-rated VAT incentives? The mean of financial performance was .74649, corporate income tax had a mean of 11.2992, capital allowances had a mean of 19.2992 and Zero-rated VAT incentives had a mean of 1.82071. Financial performance had a standard deviation of .981926, corporate income tax had a standard deviation of 1.53238, capital allowance had a standard deviation of 1.05630 and Zero-rated VAT incentives had a standard deviation of 2.39494. Financial performance had a variance of .964, corporate income tax had a variance of 2.348, capital allowances had a variance of 1.116 and Zero-rated VAT incentives had a variance of 5.736.
Table 4.1 Descriptive statistics

<table>
<thead>
<tr>
<th>Statistic</th>
<th>N</th>
<th>Mean</th>
<th>Std. deviation</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>15</td>
<td>.74649</td>
<td>.981926</td>
<td>.964</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>15</td>
<td>11.2992</td>
<td>1.53238</td>
<td>2.348</td>
</tr>
<tr>
<td>Capital allowances</td>
<td>15</td>
<td>19.2992</td>
<td>1.05630</td>
<td>1.116</td>
</tr>
<tr>
<td>Zero-rated VAT incentives</td>
<td>15</td>
<td>1.82071</td>
<td>2.39494</td>
<td>5.736</td>
</tr>
</tbody>
</table>

4.2.2 Correlation analysis

Table 4.2 presents the correlation analysis.

Correlation analysis determines the relationship between dependent and independent variables of the study. Pearson correlation coefficient denoted by R is used to measure the strength of a linear relationship between the two variables. R can take a range of +1 or -1, where the score is zero implies that there exist no association between the two variables where a score below zero it implies that the relationship between the two variables is negative.

The table below shows a summary of correlation between financial performance and tax incentives. Corporate income tax had a weak positive relationship of .297 with
financial performance; capital allowances had strong relationship of .453 with financial performance while Zero-rated VAT incentives had a very strong relationship of .737 with financial performance. This gave an implication that all the study variables were positively correlated to performance of the finance.

Table 4.2 Correlation analysis

<table>
<thead>
<tr>
<th></th>
<th>Financial performance</th>
<th>Corporate income tax</th>
<th>Capital allowances</th>
<th>Zero-rated VAT incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>Pearson Correlation</td>
<td>.297**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital allowance</td>
<td>Pearson Correlation</td>
<td>.453**</td>
<td>.286*</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.001</td>
<td>.021</td>
<td></td>
</tr>
<tr>
<td>Zero-rated VAT incentives</td>
<td>Pearson Correlation</td>
<td>.737**</td>
<td>.297*</td>
<td>.453** 1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.017</td>
<td>.016</td>
<td>.000</td>
</tr>
</tbody>
</table>

4.2.3 Regression Analysis

This study had an objective of establishing the effects of tax incentives on financial performance in the manufacturing sector in Naivasha, Kenya, Nakuru County. To determine this effect, regression analysis was used to establish the effects of tax incentives on the
financial performance and SPSS was used to analyze the data. Coefficient of determination $R^2$ was used as a statistical measure to predict how well the data fit the model $R^2$ was used to explain the degree to which dependent variable change, adjusted $R^2$ was used to measure unbiased estimate of the population. To establish the relationship between variables, simple regression was applied as shown in table 4.3

**4.2.3.1 Corporate Income Tax Incentives and Financial Performance**

Regression of coefficients results in Table 4.3 shows that corporate tax incentives and financial performance of manufacturing firms in Naivasha, Nakuru county were positively and significantly related ($r=0.127, p=0.044$). An increase in the unit change in corporate tax incentives received would lead to an increase in the financial performance of the firms by 0.127 units. The findings support that of Kuria (2016) who assessed the effect of corporate tax incentives on the performance of manufacturing firms in Kenya and found that corporate tax incentives had positive effect on the performance of manufacturing firms in Kenya as measured by gross margins and number of jobs created. The findings are also in line with that of Agundu and Ohaka (2013) who examined the extent to which corporate tax served as veritable captivating investment incentive to stakeholders in the Nigerian manufacturing sector and found that capital allowance were significantly associated with profit after tax, return on total assets and return on shareholders’ equity.

**4.2.3.2 Capital Allowance Tax Incentives and Financial Performance**

Regression of coefficients results in Table 4.3 shows that capital allowance incentives and financial performance of manufacturing firms in Naivasha, Nakuru county were positively and significantly related ($r=0.218, p=0.005$). An increase in the unit change in capital allowance incentives received would lead to an increase in the financial performance of the firms by 0.218 units. The findings are in line with that of Gatsi, Gadzo and Kportorgbi (2013) who found that a significant negative relation between corporate income tax and financial
performance of manufacturing firms in Ghana as well as the findings of Rohaya, Nor’Azem and Bardai (2010) who concluded that corporate income tax positively affected the profitability of corporate institutions. This therefore meant that, any form of corporate income tax incentives would lead to an increase in the performance of firms in terms of productivity, profitability and also returns on investments.

4.2.3. Zero-rated VAT Incentives and Financial Performance

Regression of coefficients results in Table 4.3 shows that capital allowance incentives and financial performance of manufacturing firms in Naivasha, Nakuru county were positively and significantly related (r=0.173, p=0.000). An increase in the unit change in capital allowance incentives received would lead to an increase in the financial performance of the firms by 0.173 units.

From the results in table 4.3, R was 0.793; this means that there was a positive relationship between the dependent and independent variables of the study. R² was found to be 0.611 which means variation of financial performance can be explained by tax incentives while the remaining 38.9% could be explained by other variables not under the study.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R square</th>
<th>Adjusted R square</th>
<th>R</th>
<th>Std. error of the estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.793</td>
<td>0.611</td>
<td>0.595</td>
<td>.128954</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.3 Regression Analysis
4.2.4 Analysis of variance

Table 4.4 presents the ANOVA table

From the analysis of variance table, the sum of squares 66.528, the F statistics was 1.59 and the degrees of freedom 3 were tested at 95% confidence level. The researcher sought to find out the effects of tax incentives on financial performance of manufacturing firms. The study was therefore statistically significant as the significance was 0.01 and therefore was below the significance level of 0.05.

Table 4.4 ANOVA

<table>
<thead>
<tr>
<th></th>
<th>Sum of squares</th>
<th>Df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>21.213</td>
<td>3</td>
<td>22.176</td>
<td>1.59</td>
<td>0.01</td>
</tr>
<tr>
<td>Residual</td>
<td>158.67</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>21.334</td>
<td>14</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.2.5 Coefficient Model

Regression of coefficients results in table 4.5 shows that corporate income tax has a positive and significant influence on financial performance (r=0.127, p=0.044). It was also established that capital allowances has a positive and significant influence on financial performance (r=0.218, p=0.005). Finally, Zero-rated VAT incentives was found to have a positive and significant influence on financial performance (r=0.173, p=0.000). Therefore, the overall regression results imply that there is a positive and significant relationship between tax incentives and financial performance. As such, an improvement in tax incentives would lead
to a corresponding improvement in performance of manufacturing companies in Naivasha, Nakuru County, Kenya.

The optimal model was;

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \]

Financial performance = 1.083 + 0.127X1 + 0.218X2 + 0.173X3

Where;

\[ Y \] = financial performance

\[ \beta_0 \] = constant

\[ X_1 \] = corporate income tax

\[ X_2 \] = capital allowances

\[ X_3 \] = Zero-rated VAT incentives
Table 4.5  Regression Analysis Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.083</td>
<td>0.266</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>0.127</td>
<td>0.062</td>
</tr>
<tr>
<td>Capital allowances</td>
<td>0.218</td>
<td>0.077</td>
</tr>
<tr>
<td>Zero-rated VAT incentives</td>
<td>0.173</td>
<td>0.057</td>
</tr>
</tbody>
</table>

4.3 Discussion of Research Findings

From the analysis, the study found out that corporate income tax incentives had a positive relationship with financial performance; though a weak one of 0.297, this implies that as corporate income tax incentives awarded to these manufacturing firms increases, their performances increase with a weak magnitude. The study also found out that capital allowance tax incentives had a positive relationship with financial performance; though also a weak one of 0.286, this implied that as capital allowance tax incentives awarded to these manufacturing firms increases, their performances increase with a weak magnitude. The study found out that zero-rated VAT incentive had a strong positive relationship with financial performance of 0.453, this implied that as zero-rated VAT incentives awarded to these manufacturing firms increases, their performances increase with a strong magnitude. These findings agree with Onyango (2015) who found a positive relationship between the tax
incentives and financial performance of five-star hotel in Nairobi. The study further found out from the adjusted R2 that there was a positive relationship between the financial performance and the independent variables.

From the correlation analysis the study found out there exist weak and a positive correlation between financial performance and corporate income tax and a strong positive correlation between capital allowances, zero-rated VAT incentives and financial performance. The study a finding concurs with Olaleye, Riro, and Memba (2016) who examined the effect of company income tax incentives on performance of listed Nigerian manufacturing companies. Descriptive research design was adopted in this particular study. The target population in the study was the one hundred and seventy-four listed manufacturing companies. The number of employees in these companies was found to be in excess of 56000. The study made use of primary data that was collected using self-administered questionnaires. The questionnaires were administered by trained research assistants.

The findings showed strong positive linear relationships between reduced company income tax incentives and financial performance. The positive and statistically significant relationship between reduced company income tax incentives and financial performance implied that foreign investors could maximize their investment by taking advantages of the available tax incentives allowed by the government to create an enabling investment environment. The findings demonstrated strong positive straight connections between diminished tax incentives and financial performance. The positive and measurably significant connection between reduced company income tax incentives and foreign direct investment inferred that remote financial specialists could amplify their venture by taking advantage of available tax incentives permitted by the legislature to make an empowering venture condition.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

From the data collected and analyzed, the following summary, conclusion, recommendations for further research was arrived at by the researcher.

5.2 Summary of the findings

The study had an objective of establishing the effect of tax incentives on financial performance. To achieve this objective, correlation analysis, regression model and descriptive statistics were used. Secondary data collected was from KRA and data analyzed using SPSS.

From the descriptive statistics, it was found that the average tax incentives of the firms was 1,195,056, this had an effect of positively affecting the financial performance by 0.297. The study further revealed that organizational performance was influenced 61.1% by independent variables. The study findings concur with Onyango (2015) who found a positive relationship between the tax incentives and financial performance of five-star hotel in Nairobi. The study further found out from the adjusted R2 that there was a positive relationship between the financial performance and Corporate income tax incentives; Capital allowances incentives and Zero-rated VAT incentives.

Correlation analysis study found out there exists a weak and a positive correlation between organizational performance and corporate income tax and a strong positive correlation between capital allowances, Zero-rated VAT incentives and financial performance. The study findings concur with Olaleye, Riro, and Memba (2016) who analyzed the impact of organization personal duty motivating forces on execution of recorded Nigerian assembling organizations. Illustrative research structure was adopted in this particular study. The target
population in the study was one hundred and seventy-four listed manufacturing companies. The number of employees in these companies was found to be in excess of 56000. The study made use of primary data that was collected using self-administered questionnaires. The questionnaires were administered by trained research assistants. The findings showed strong positive linear relationships between reduced company income tax incentives and foreign direct investment. The positive and statistically significant relationship between reduced company income tax incentives and foreign direct investment implied that foreign investors could maximize their investment by taking advantages of the available tax incentives allowed by the government to create an enabling investment environment.

Regression analysis established the model below;

Financial performance = 1.083 + 0.127X1 + 0.218X2 + 0.173X3

This means that the constant of the model is 1.083 meaning that organizational performance at zero score of dependent variables is 1.083 shillings. A unit increase in corporate income tax increase performance by 0.127, unit increase in capital allowances increases performance by 0.218 and finally a unit increase in Zero-rated VAT incentives increases performance by 0.173.

5.3 Conclusions

The researcher had an objective of establishing the effects of tax incentives on financial performance of manufacturing firms in Naivasha. The regression analysis presented in chapter four depicts that corporate income tax, capital allowances and Zero-rated VAT incentives positively affect the financial performance of manufacturing firms. Tax incentives are anyway delighted in by firms by making an application for all consumptions which fits the bill to granted motivators. The manner in which they are going to help their hierarchical
exhibition. This investigation thusly reasons that tax incentives positively affect hierarchical execution of manufacturing firms in Naivasha, Nakuru County. Based on the study findings, it was concluded that tax incentives channeled by the government to the manufacturing firms in Kenya affected the performance of the manufacturing industry and could be used to enable expansion and survival of firms in these sector. The study also concluded that the various tax incentives needed to be made sustainable in order to ensure consistency in the performance of the firms.

5.4 Recommendations

The authorities concerned with tax incentives should make it easier for firms to enjoy tax incentives. In the course of study, the researcher found out that there are a lot of procedures followed by the firms to in order to be granted such incentives, which takes a lot of time from the time they are applied for by firms. This study therefore recommended that treasury and KRA to make easy for such firms to apply tax incentives to be enjoyed in that particular year and for that matter it will have a strong positive effect on organizational performance of manufacturing firms. Based on the study findings, it was recommended that the government needed to expand some of the tax incentives particularly Capital allowances, Corporate tax incentives and Zero-rated VAT incentives whose effect was yet to be fully felt within these firms. The study noted the need for greater diversification in the incentives granted and also greater sustainability. The study recommended the need for reducing the variability in the amount of incentives among the firms so as to ensure the survival of a greater number of firms.

The study also recommended the need for the government to conduct cost benefit analyses in order to ensure that the goals of granting such incentives are achieved, and that the 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 through expansion of various sectors and are in line with the country’s vision
2030. KRA should also have an effective research department, if possible, a unit attached to
these firms so that it can always collect relevant data relating to tax incentives and other
firms. This will minimize limitations of inadequacy of data for decision making by state
relating to incentives.

5.5 Suggestions for further study

The study recommends to other scholars to carry out a research to establish the effect of tax
incentives on other independent variables in the country, for example the researchers may
undertake a research to establish the effect of tax incentives on has on economic growth and
economic development in the Banking sector to evaluate if the financial performance shall be
positively or negatively affected.

The study recommends that a similar study can be replicated to other sectors other than the
manufacturing sector so that the effects of such tax incentives can be compared across
various sectors which might help in determining the best incentives for each industry.
REFERENCES


Wells, L. A. (2001). In M. J, *TAX INCENTIVES TO COMPETE FOR ECONOMIC GROWTH* (pp. 56-67). NEWYORK.

### APPENDICES

#### APPENDIX 1: PROJECT BUDGET

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>BUDGETED COST (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Preparation of Research Proposal</strong></td>
<td></td>
</tr>
<tr>
<td>Printing of chapters 1-3</td>
<td>3,500</td>
</tr>
<tr>
<td>Internet Usage</td>
<td>4,000</td>
</tr>
<tr>
<td>Travelling</td>
<td>5,000</td>
</tr>
<tr>
<td>Food</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15,500</strong></td>
</tr>
<tr>
<td><strong>Data Collection</strong></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>3,500</td>
</tr>
<tr>
<td>Telephone charges</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,000</strong></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>20,500</strong></td>
</tr>
</tbody>
</table>
APPENDIX 11: WORK PLAN AND TIME SCHEDULE

<table>
<thead>
<tr>
<th>Activities</th>
<th>Time Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposal report</td>
<td>8 weeks</td>
</tr>
<tr>
<td>Collection of secondary data</td>
<td>4 weeks</td>
</tr>
<tr>
<td>Coding</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Data analysis</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Discussion</td>
<td>3 weeks</td>
</tr>
<tr>
<td>Final review of Project</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Total</td>
<td>5 months</td>
</tr>
</tbody>
</table>
APPENDIX 111: DATA COLLECTION FORM

<table>
<thead>
<tr>
<th>Year</th>
<th>Return on assets (%)</th>
<th>Corporate Income Tax amount waived (Kes)</th>
<th>Capital Allowances (Kshs.)</th>
<th>Zero-rated VAT Amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX IV: LIST OF MANUFACTURING COMPANIES IN NAIVASHA, NAKURU COUNTY

1. Menengai Oil Refineries
2. Comply Industries
3. KAPI Limited
4. Super Mabati
5. Cocacola Distributor Prasan Enterprises
6. Kekikos Enterprise Limited
7. SpinKit Limited
8. Polypipes Limited

Source Kenya Association Manufacturers {2018}