

**CAPITAL ALLOWANCES AND GROWTH OF LISTED MANUFACTURING FIRMS
IN KENYA**

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2019

DECLARATION

I declare that this is my original work and has not been submitted to any other university.

28th May 2020

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Date.....

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HDB336-C016-1591/2017

This research project has been submitted for examination with my approval as the university supervisor



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Dr. Kalundu Kimanzi

28th May 2020

Date

DEDICATION

I dedicate this research project to my family, friends and colleagues for their ever growing support in my life especially during the process of my studies at Kenya School of Revenue Administration.

ACKNOWLEDGEMENT

Special thanks to the following persons for their devoted time to make this research project a success; I acknowledge my husband, Jackson Kiarie for both financial and moral support during my studies at Kenya School of Revenue studies. I acknowledge my supervisor, Dr Kalundu Kimanzi for the guidance and availability all through, God bless you.

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LIST OF ACRONYMS AND ABBREVIATIONS

CIT	Corporate Income Tax
EAC	East African Community
EPZ	Export Processing Zones
FDI	Foreign Direct Investment
FYAs	First-year Depreciation Allowances
GDP	Gross Domestic Product
KAM	Kenya Association of Manufacturers
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MNE	Multinational Enterprise
OECD	Organization for Economic Co-operation and Development
SPSS	Statistical Package of Social Sciences
VAT	Value Added Tax

DEFINITION OF TERMS

Capital allowances incentives	Refer to sums of money a business can deduct from the overall corporate or income tax on its profits.
Manufacturing	Refers processing of raw materials into finished goods Through the use of tools and processes. Manufacturing is a value-add process
Performance	Refers to the actual output or results of an organization as measured against its intended outputs (goals/objectives). In this case it refers to a measure of profitability of the company.
Tax Holidays	Refers to temporary exemption of a new firm or investment from certain specified taxes.
Tax Incentive	Refers to deductions, exclusion, or exemptions from a tax liability, offered as an enticement to engage in a specified activity (such as investment in capital goods) for a certain period.

ABSTRACT

Manufacturing in Kenya has been on the decline for a considerable period with its contribution to Gross Domestic Product stagnating at 10 % from the 1960's. According to the Government of Kenya, the manufacturing sector has high, yet untapped potential to contribute to employment and Gross Domestic Product growth. Generally, the manufacturing sectors' average growth percentage has continued to stagnate at three to four per cent over the years. The performance of the manufacturing sector is affected by several factors one of them been the high cost of doing business. Excessive taxation in the form of high tax rate, double and multiple taxations are some of the challenges facing manufacturing industries. To mitigate this challenge, the government has advanced various tax incentives to the manufacturing sector. However, despite the various tax incentives being made towards these firms, their effect on their performance had not been investigated. Hence, this study sought to fill this gap. Therefore, the main aim of this study was to assess tax incentives and their effect on the growth of selected manufacturing firms in Kenya. Specifically, the study sought to; examine the effect of capital allowance on growth of listed manufacturing firms in Kenya. The study employed longitudinal design to determine the effect of capital allowance tax incentive on performance of listed manufacturing firms in Kenya. The target population for the study was 13 manufacturing firms listed at the Nairobi Securities Exchange in Kenya during the years 2012 to 2018. The study adopted a census design since the entire population was considered. The study measured the entire target population and a census was carried out to systematically acquire and record information regarding secondary data on company boards for each of the thirteen listed firms. The study used secondary data sourced from the listed firms' published annual reports and statistics. Secondary data was retrieved from manufacturing firms' websites, Nairobi Securities Exchange websites, Capital Markets Authority Library and Kenyan Investors website. The study utilized both descriptive and inferential statistics using Standard statistical techniques including Pearson correlation coefficient and regression analysis was employed in the analysis. The study estimated a Panel Data Regression Model. All the analysis was done using the statistical package for social sciences (SPSS Version.24). Analysis of variance (ANOVA) will be used to establish if there is a statistical significance between the observed and expected values with the Pearson Chi-square giving the degree significance of the relations hence establishing the research questions. In multivariate analysis, multiple regression analysis models were used to determine the type of relationship that existed between independent and dependent variables. From the findings, the study found that there was a strong positive correlation between the listed manufacturing firms in Kenya and W&T. The study further reveals that there was a negative relationship between ID and IBD and growth of listed manufacturing firms in Kenya. Based on the study findings, the study concluded that, capital allowance incentives affected the growth of selected manufacturing firms in Kenya positively. The study also concluded that various tax incentives needed to be made sustainable in order to ensure consistency in the performance of the firms.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Manufacturing sector is one of the key pillars to economic development. The sector remains a critical force in both advanced and developing economies. Globally, the manufacturing output as measured by gross value added continues to grow by about 2.7 per cent annually in advanced economies and 7.4 percent in large developing economies. (MAPI, 2014). The sector contributes from 10 percent to 33 percent of value added (United Nations Industrial Development Organisation (UNIDO, 2013). Economies such as China, India and Indonesia have risen into the top ranks of global manufacturing and in the world's fifteen largest manufacturing economies (Mckinsey Global Institute MGI, 2012). In fact, China is the largest manufacturing economy in the world, with a 22 percent share of manufacturing activity. The USA is in second place with a 17.4 percent share of manufacturing activity (Manufacturers Alliance for Productivity and Innovation (MAPI, 2014).

In Africa, the manufacturing sector is widely considered to be the ideal industry to drive Africa's development. The Africa Progress Panel (2014) also identifies some degree of manufacturing development as a prerequisite for sustained high economic growth on the continent. The continent produces only 1.5 percent of the world's manufacturing output (World Bank, 2012). Also, manufacturing only accounts for around 25% of exports in Sub-Saharan Africa, lower than any other region except the Mediterranean Africa (World Economic Forums [WEF], 2013a).

In Eastern Africa, the manufacturing sector plays a key role in economic transformation and development. Despite improvements over the past 15 years, the contribution of manufacturing to

GDP in the region has remained relatively low and manufacturing value added (MVA) per capital still is lower than the African average. The sector also contributes a relatively small share of GDP ranging from 3.8 percent to 11 percent, in the region (African Development Bank [AfDB], 2014).

The manufacturing sector in Kenya is relatively strong when compared to countries that are in a similar phase of economic development. The country is one of the top exporters of manufactured goods in the Sub-Saharan Africa region (KPMG, 2014). This is as a result of the ambitious development targets set up by the Kenyan government so as to enhance economic growth in the manufacturing sector. The Kenyan government first developed the vision 2030 on October 2007, which required a 10 percent increase in economic growth rate per annum from the manufacturing sector (Republic of Kenya, 2007). Then the government formed the Second Medium-Term framework, which was concerned with making Kenya a newly industrialized middle-income country by the year 2030 (Kenya Industrial Research and Development Institute [KIRDI], 2011). Later on, the Kenyan government came up with the Millennium Development Goals (MDGs) that sought to enhance the transformation of Kenya into a rapidly industrializing, middle income nation by the year 2030 (Purhonen & Mburu, 2010).

Despite the efforts of the Kenyan government to set up policies that seek to improve the manufacturing sector, the sector which is the backbone of vision 2030 has stagnated (World Bank, 2014). Further, the sector's contribution to GDP declined from 9.6 percent in 2011 to 9.2 percent in 2012, while the growth rate deteriorated from 3.4 percent in 2011 to 3.1 percent in 2012 (Kenya National Bureau of Statistics [KNBS], 2013a). Therefore, to speed up growth in Kenya's manufacturing sector, substantial investment is required (Bigsten, Peter & Mans, 2010).

1.1.1 Industrial Building Deduction

Industrial building deduction is an allowance granted to an investor who incurs capital expenditure on an industrial building. The ITA (2010) provides for IBD claims at a rate of 2.5 10% on cost of buildings used for manufacturing purposes and 10% for hotel premises. The Act permits costs incurred on the construction of an industrial building used for business and any civil works or structures if they relate or contribute to the use of the building which include: roads and parking areas; railway lines and related structures; water, industrial effluent and sewage works; communications and electrical posts and pylons and other electricity and security walls and fencing.

1.1.2 Investment Deduction

Investment deduction is an allowance to an investor who incurs capital expenditure on industrial building and machinery used for manufacturing. Here the investor can claim as much as 100% capital allowance. For capital expenditures intended for manufacturing purposes exceeding sh.200 million set up outside Nairobi, Kisumu or Mombasa, the investor can claim 150% allowance. It is granted to companies that incur capital expenditure on the construction of a building and on the purchase of and installation of new machinery and the owner of that machinery being also the owner or lessee of that building uses it for manufacturing or for the following ancillary purposes: generation, transformation and distribution of electricity; clean-up and disposal of effluents and other waste products; reduction of environmental damage; water supply or disposal and workshop machinery for the maintenance of the machinery. The expenditures that qualify include: construction of a building used for purposes of manufacture; purchase and installation of machinery used for purposes of manufacture and construction of a hotel building certified by the commissioner.

Companies are currently claiming ID at 100% while those that invest outside the 3 cities for expenditures of Kshs200 million and over claim at 150%. (ITA, 2010)

1.1.3 Wear and Tear Allowance

The wear and tear allowances are charged on capital expenditure on machinery and equipment where they are classified into five classes all of which are offered the allowances at different rates. Class 1 –includes heavy earth moving equipment and self-propelling vehicles e.g. lorries above 3 tones, forklifts, trucks. The rate is 37.5 % p.a. Class 2 e.g. computers, photocopiers, scanners. The rate is 30%. Class 3- includes light self-propelling vehicles and other machines such as aircrafts, motorbikes, Lorries under 3 tones. The rate is 25%. Class 4- examples are telephone sets, bicycles. The rate is 12.5%.

1.1.4 Listed Manufacturing Firms in Kenya

Manufacturing sector remains a significant contributor to financial performance of both advanced and developing economies. Manufacturing represents 16 percent of global GDP and manufacturing value added grew from 5.7 trillion dollars to 7.5 trillion dollars between 2000 and 2010 (MGI, 2012). Generally, manufacturing accounts for only 13 percent of GDP in Africa. This is a smaller share compared to other regions except the Middle East and North Africa (World Bank, 2012). However, the continent has also experienced a significant increase in manufactured exports and import-substituting production over the past decade and is poised to continue this strong performance (KPMG, 2014).

Manufacturing in Eastern Africa is limited. The contribution of manufacturing to GDP and employment is small in the region. The sector contributes a relatively small share of GDP ranging from 3.8 per cent to 11 per cent (AfDB, 2014). In Eastern Africa; Kenya is relatively

strong when compared to other countries. The Kenyan manufacturing value added per capita in constant 2005 US dollars, was 61.8 US dollars in 2012, up 2.6 percent in real terms from 2005 (United Nations Industrial Development Organisation [UNIDO], 2013). This is merely a fraction of South Africa's 2012 level of 910.9 dollars, but is much higher than that of regional peers Tanzania, Uganda and Rwanda which have 41.4, 30.5 and 25.1 US dollars respectively (UNIDO, 2013).

In addition, Kenya's manufacturing constitutes 70 percent of the industrial sector contribution to GDP (KIRDI, 2011). However, the formal manufacturing sector is small and trends are not promising. It contributed just 11 percent of Kenya's GDP in 2013 and employed only 280,000 people which are equivalent to 12 percent of the 2.3 million people in Kenya's labour force (KNBS, 2013b). Besides, the sectors' contribution to wage employment is on a declining trend. The total wage employment gradually worsened from 13.9 percent in 2008 to 12.9 percent in 2012 (World Bank, 2014).

According to the World Development Indicators (2013), the production of Kenya's manufacturing exports has been slowly declining. Kenya's manufacturing exports represented about 0.02 percent of global manufacturing exports in 2013, down from 0.06 percent in 1994 and 0.18 percent in 1980s. In 2013, South Africa which is the regional champion in manufacturing exports produced 0.03 percent of global manufacturing exports, fifteen times more than Kenya. On the other hand, the share of manufactured goods imported by the East African Community from Kenya declined from 9 percent to 7 percent in 2013 (World Bank, 2014). Nevertheless, there is still a lot of room for expansion in Kenya's manufacturing sector (KPMG, 2014). For this to happen, manufacturing firms should comply with the corporate governance codes on Board composition for an effective, efficient and stable corporation (CMSC, 2014). The

corporate governance guidelines require listed firms to professionalize their corporate boards in terms of size, diversity and independence (CMSC, 2014). A responsible, creative and innovative Board leads to a credible, stable and sustainable corporation that facilitates the creation and production of wealth, generation of adequate employment opportunities and investment opportunities which in turn promote increased financial performance, economic growth, employment and taxation(Capital Markets Authority [CMA], 2015).

1.2 Statement of the Problem

The manufacturing sector in Kenya plays a significant role in the economic development. The sector is key to the achievement of the Kenya vision 2030. Over the years the manufacturing sector has declined. Manufacturing sector activity, as measured by the Federal Board's industrial production index, grew by just 2.3 percent in 2018, down from 3.9 percent in 2017 (MAPI, 2014). In Kenya, Real growth in the manufacturing sector averaged 4.1 percent per annum during 2013 to 2018, lower than the average annual growth in overall real GDP of 4.6 percent (KNBS, 2018). As a result, the manufacturing sector's share in output, declined in recent years. The financial performance of manufacturing firms in Kenya over the past seven years depreciated, with manufacturing growth of 4.1 percent significantly lagging overall economic growth of 5.0 percent (World Bank, 2014).The sector's contribution to GDP declined from 9.9 percent in 201 to 9.8 percent in 2010. Subsequently, the GDP worsened from 9.6 percent in 2011 to 9.2 percent in 2012, while the growth rate deteriorated from 4.5 percent in 2010 to 3.4 percent in 2011 and thereafter to 3.2 percent in 2012 (KNBS, 2018).

Generally, investment incentives are recommended when the business is in the nature of a public good, such as with projects for encouraging green technologies, primary health care and disease

prevention, upgrading skills of workers, and research and development (Morisset, 2003). Such tax incentives would only be important if the manufacturing firms remained sustainable in terms of performance which includes creation of jobs if the tax incentives are lifted. Despite the efforts of the Kenyan government to set up policies that seek to improve the manufacturing sector, the sector which is the backbone of vision 2030 has stagnated (World Bank, 2014). Further, the sector's contribution to GDP declined from 9.6 percent in 2011 to 9.2 percent in 2012, while the growth rate deteriorated from 3.4 percent in 2011 to 3.1 percent in 2012 (Kenya National Bureau of Statistics [KNBS], 2013a). Therefore, to speed up growth in Kenya's manufacturing sector, substantial investment is required (Bigsten, Peter & Mans, 2010). This study therefore aims to find out if capital allowances tax incentive provided to manufacturing firms is worthwhile by considering the value such firms add to the economy. The study will address the gap between cost incurred by the government in form of tax incentives and the value the firms receiving tax incentives add to the economy.

1.2 Objectives of the Study

The general objective of this study was to establish the relationship between capital allowances tax incentive and growth of listed manufacturing firms in Kenya.

1.3.1 Specific Objectives

The specific objectives of this study were:

1. To investigate the effect of Industrial Building Deduction on growth of listed manufacturing firms in Kenya.
2. To find out the effect of Investment Deduction on growth of listed manufacturing firms in Kenya.

3. To determine the effect of Wear and Tear Allowance on growth of listed manufacturing firms in Kenya.

1.4 Research Questions

1. What is the effect of Industrial Building Deduction on growth of listed manufacturing firms in Kenya?
2. What is the effect of Investment Deduction on growth of listed manufacturing firms in Kenya?
3. What is the effect of Wear and Tear Allowance on growth of listed manufacturing firms in Kenya?

1.5 Significance of the Study

1.5.1 Kenyan Government

The study findings will be of great value to government through various agencies by acting as basis for assessing the effectiveness of various tax incentives provided by the government in promoting the performance of firms especially in the manufacturing sector and hence provide a framework and basis for reviewing the various tax policies based on the cost- benefit analysis provided which will enable the government to choose which incentives to give a priority or eliminate.

1.5.2 Manufacturing Firms

The study findings will also inform investors on manufacturing on how they can benefit from the existing capital allowance tax incentives and provide a guideline for informed decisions on which tax incentives are more beneficial to exploit.

1.5.3 Policy Makers

The policy makers in the Kenyan government could use the findings of the study in developing additional corporate governance policies, guidelines and regulations to govern manufacturing firms. The economic policy changes made could play a vital role in underpinning the integrity and efficiency of financial markets through increasing investors' confidence and thereby securing access to capital through the stock market. This could provide avenues for opening investment opportunities in the capital market for both local and foreign investors resulting to significant improvements in economic growth.

1.5.4 The future researcher

The study findings will contribute to the growing body of research in this area and help clarify the effect of tax incentives on growth of manufacturing firms. The study will act as a reference point for other scholars who wish to pursue further research in this area.

1.6 Scope of the Study

The scope of the study was limited to only the manufacturing firms which are listed at the Nairobi Securities Exchange. The period concerned for the study was 2012 to 2018. This period is considered important because it is the period reflecting the declining trend in the financial performance of manufacturing firms in Kenya (World Bank, 2018).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents reviewed literature relating to capital allowance tax incentive and financial performance. Also, presented are theoretical literature, empirical literature and the knowledge gap.

2.2 Theoretical Framework

This section discusses and articulates the relevant theories and concepts on how tax incentives affect growth of manufacturing firms in Kenya. The theories help build a case to justify the study. These theories include Normative Theory, Neo-classical Theory and Optimal Tax Theory.

2.2.1 Normative theory

The theory describes how the development of the institutional structure of government creates a set of incentives as well as constraints within which governments and other actors operate (Cochran, 1999). These incentives shape the path of development, and different governments may evolve in different ways, not all of which are efficient. Tax policy-making and tax administrative reform therefore evolve simultaneously and symbiotically. The institutional theory developed here provides a generalized framework that can be used to better understand the development of tax policy and administration across time and cultures. It offers an attractive model for description, explanation and prediction.

Chua (1995) posit that according to this theory every incentive has advantages and disadvantages, and it is therefore extremely difficult to determine one set of incentives which

work for very different economies with different challenges and circumstances. Much of determining what works depends on the circumstance of the economy, the competence of the tax Administration, the type of investment being courted and the budgetary constraints of the government stimulates investment in the desired sector or location, with minimal revenue leakage, and provides minimal opportunities for tax planning.

Boadway and Shah (1995) argue that any benefit such as an incentive allocated by public servants or politicians is potentially open to abuse and corruption. There is therefore a strong argument that incentives should be automatically available to all investors who meet a set of open and transparent criteria. However, an alternative argument is that firms should receive just enough incentive to induce them to invest, and no more. Each potential investment therefore needs to receive an incentive specific to its particular situation. Clearly, which of these two alternatives the government chooses depends on the strength of governance within the appropriate institutions. If public servants and politicians retain decision-making power over the allocation of incentives, then the processes and outcomes need to be as transparent as possible.

This theory will be relevant in explaining the factors that affect the effectiveness of tax incentives in influencing the performance of firms within the economy as well as the costs and benefits of tax incentives to the country.

2.2.2 Neo-classical Theory

Neo-classical theory argues that providing tax incentives to one group of investors rather than another violates one of the principal tenets of a good tax system, that of horizontal equity. This inequality distorts the price signals faced by potential investors and leads to an inefficient allocation of capital (Boadway & Shah, 1995). The justification most often given for special

incentives is that there are market failures surrounding the decision to invest in certain sectors and locations, which justify government intervention. Market failures result in either too much or too little investment in certain sectors or locations. The key market failures most often cited; Positive externalities not internalized in the project's rate of return are higher in certain sectors than in others. An example is research and development where investment yields a higher social than private rate of return because not all the technological knowledge can be effectively patented and as such there exists a justification for subsidizing research and development investment (Kaplan & Norton, 2001).

Barbour (2005) points out that there are other purported benefits of tax incentives, such as symbolic signalling effects and the need to compensate for inadequacies in the investment regime elsewhere. Provision of investment incentives is in the form of either tax relief or cash grants. International experience shows that such incentives play only a minor role in investment decisions. Firms make investment decisions based on many factors including projections of future demand, certainty about future government policy, prevailing interest rates and moves by competitors. In general, they see incentives as 'nice to have' but not deal breaking. Yet incentives remain a popular policy for both developed and developing countries.

This theory forms the basis of the study objectives of assessing the effectiveness of each tax incentive granted in influencing the performance of manufacturing firms. It forms the basis for clarifying whether tax incentives on their own could achieve the intended purpose of reviving and stabilizing the performance of the firms under study.

2.3 Conceptual Framework

This conceptual framework shows the relationship between the dependent variables and the independent variables. The independent variables are Industrial Building Deduction, Investment Deduction and Wear and Tear Allowance. The dependent variable is growth of manufacturing firms as illustrated in the conceptual framework presented in figure 2.1

Independent Variables

Dependent Variable

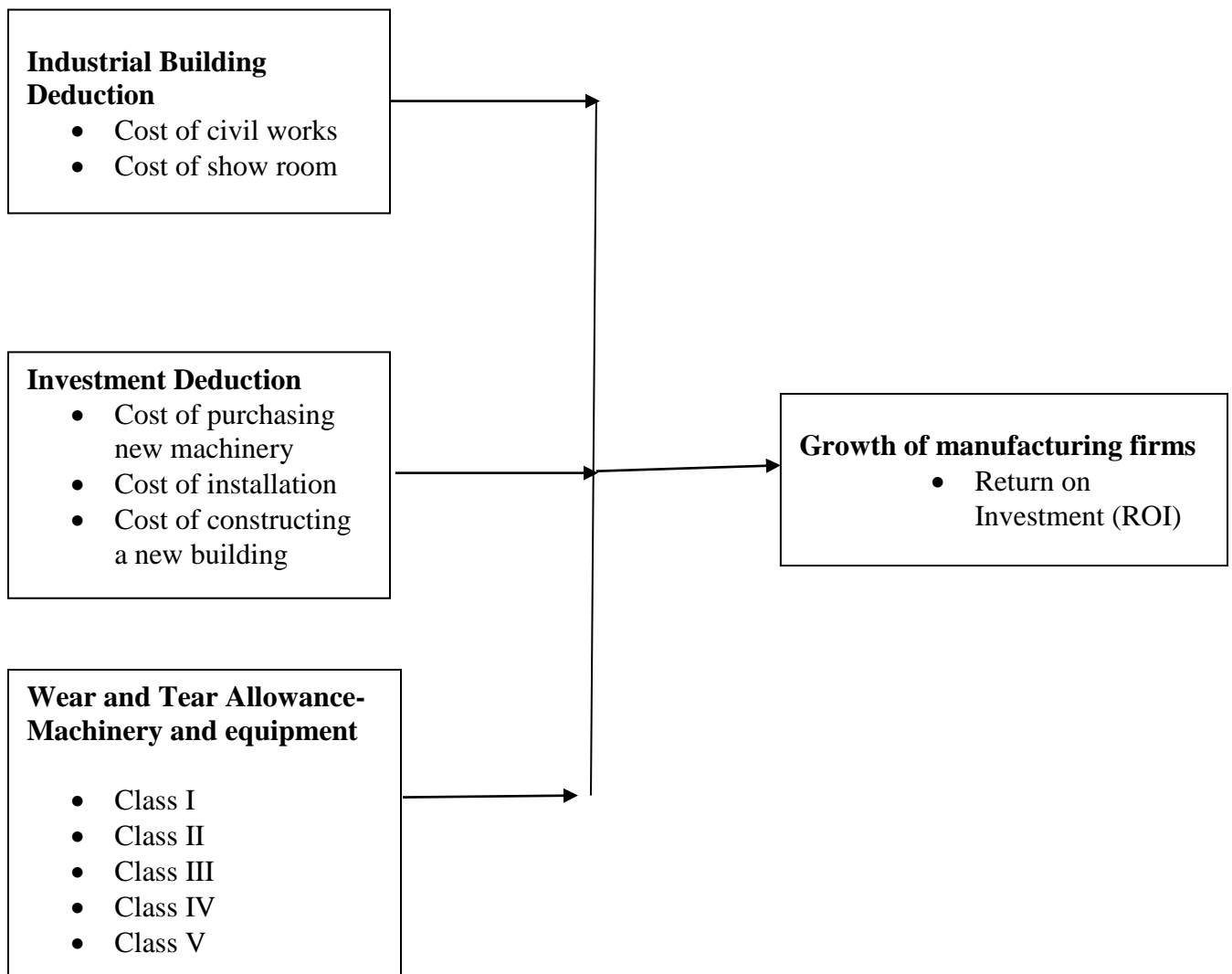


Figure 2.1 Conceptual Framework

2.4 Empirical Literature

2.4.1 Global Studies

Alhulail (2014) examined the effects of tax incentives on sales of eco-friendly vehicles in Japan. The study used a sample of 10 vehicles in Japan that fall under eco-friendly cars for the period April 2006 to March 2013. The study obtained secondary data and analysed using regression analysis. The study finds that the tax incentives have a significant positive effect on sales of eco-friendly vehicles. This study however fails to indicate the population of the study; it only mentions the sample size.

Uwaume and Ordu (2014) carried out a study to establish the impact of tax incentives on economic development in Nigeria from years 2004 to 2014. The population of the study involved 51 respondents from management, tax payers and staff of selected manufacturing firms in the South-South political zones of Nigeria. The study found that sufficient tax incentives enhanced industrial growth and economic development and recommended the government waive certain taxes on corporate bodies to help them mature especially at their early stage, the government should not focus on the revenue that is lost at this point because the benefits will surpass in the long-run what is lost at the initial times.

In 2012, Kohleer, Lareda and Rammer studied the impact and effectiveness of fiscal incentives on research and development (R&D). It was found out that tax incentives have a positive effect on business R&D expenditure. The study reviewed the findings of more than 20 econometric studies on effectiveness of R&D tax incentives covering programs in 12 countries from 1970's to 2000's. It had an implication that subsidies and tax incentives can encourage spending on R&D by companies.

A study by Olabisi (2009) sought to establish the catalyst effect of tax incentives on economic development in Nigeria. The sample of the study involved 12 companies in Lagos selected using purposive sampling method. Formulated hypotheses were tested using chi-square method where it was found that if tax incentives are extended and focused extensively to all deserving companies in Nigeria, it would enhance economic growth.

Through their IMF working paper number WP/09/139, Alexander, and Stefan (2009) sought to answer which incentives are used as tools for tax competition and how effective tax incentives are in attracting investments. They prepared a new data set of tax incentives in over 40 Latin America, Caribbean and African countries. Special econometrics techniques were used to answer the first question which found a strategic interaction in tax holidays, in addition to well know competition over corporate income tax rate. Dynamic panel data econometrics was used to answer the second question where the findings concluded that lower corporate income tax rates and longer tax holidays are effective in attracting FDI.

In its research on tax incentives for investments in MENA and Non-MENA countries, the OECD (2007) established that generous tax incentives cannot compensate for poor business environment. Where in particular, there is a lack of good infrastructure such as transport, unreliable and expensive electricity supply and poor education, economic growth is bound to be very slow and most tax incentives offered will mainly erode the tax base, resulting in low tax revenues rather than increase the flow of investments to a country. Mauritius, Costa Rica, Ireland and Malaysia were examples of nations which were able to attract investments without giving tax breaks and instead focused on ensuring stable financial and political conditions, an accomplished work constrain, great framework, open exchange for exporters, tried and true govern of law, and powerful investments advancement frameworks to draw in speculators. This also has been

supported strongly by policy reviews done in countries which have been able to change their investment strategies and spur economic growth, a good example being Botswana.

Mayende (2013) analysed the effects of tax incentives on the performance of Ugandan manufacturing firms in terms of gross sales and value added employing panel data estimation techniques. The study findings show that firms with tax incentives perform better in terms of gross sales and value added than their counterparts. The results indicated the importance to government to strengthen the provision of tax incentives to firms in an effort to promote development in the manufacturing sector. This required that provision of tax incentives to be transparent, non-discriminatory of ownership of firms and a criterion of accessibility is clear. Comprehensive information on procedures and criteria for obtaining tax incentives under each existing programs needed to be frequently availed to the public. This would lead to increased output of different firms and ensure accountability and guard against miss-use of the incentives. The study period was 3 years which could be a limitation.

Agundu and Ohaka (2013) examined the extent to which capital allowance served as veritable captivating investment incentive to stakeholders in the Nigerian manufacturing sector. The corporate financial performance attractions considered were profit after tax (PAT), return on total assets (ROA), and return on shareholders' equity (ROE). Financial data accessed for analysis related to 58 manufacturing firms quoted on the Nigerian Stock Exchange (NSE). Statistical results such as coefficients of correlation and determination emerging from the process justified the potency of capital allowance as it was significantly associated with PAT, ROA and ROE. In the light of the analytical revelations, it was imperative for accounting and finance executives in Nigerian manufacturing firms to professionally enumerate and profile their investments in qualifying industrial assets in accordance with extant tax guides in order to

benefit from capital allowance grants. The attractiveness of financial economies of capital allowance notwithstanding, manufacturing sector investors should exercise restraint and avoid indiscriminate industrial asset requisition and expansion.

2.4.2 Local Studies

Onyango (2015) sought to establish the effect of tax incentives on financial performance of Five-Star hotels in Nairobi County. The study adopted the use of quantitative descriptive design. For the purpose of the research, the population constituted all the seven Five-Star hotels in Nairobi County. A census was conducted for all the seven Five-Star hotels using a questionnaire. The response rate attained was 100%. The data collected was provided by Management Accountants of the Five -Star Hotels. It was found out from the regression and correlation analysis that there was a negative relationship between investment deduction and industrial building deductions and financial performance of five star hotels in Nairobi County. The study also concluded that Wear and tear allowances positively influenced the financial performance of five star hotels in Nairobi County. Tax incentives are to be enjoyed by all tax payers as per the taxation cannon of equality (Musgrave, 2005) but in this study, the researcher considered only seven star hotels which is a small proportion of the hospitality players in Nairobi County.

Githaiga (2013) carried out a research to establish the impact of tax incentives on FDI inflows of firms listed at the NSE. His focus was on the impact of ID, IBD, and wear and tear towards attracting FDI inflows. The population included 60 firms listed at NSE while the sample included 10 firms selected using simple random method. The study adopted secondary data where data relating to FDI and incentives were collected from annual reports and audited financial statements covering a period of 2008-2011. For data analysis, Microsoft excel sheets was used to analyse quantitative data while SPSS was used to analyse qualitative data with an aid

of a conceptual model. Correlation analysis carried out on FDI and tax incentives variables showed that tax incentives impacted on FDI inflows of firms listed at NSE. Wear and tear had a strong relationship with FDI.

Gumo (2013) carried out a study on the effect of tax incentives on FDI in Kenya with an aim of determining the effect of tax incentives on investments in Kenya. He adopted a descriptive research design where secondary data was collected from relevant authorities; EPZA, KRA and KNBS. For data analysis, descriptive statistic, correlation and multiple linear regression models were used. The study established that investment deductions and mining operation deductions incentives policy had a positive effect of FDI while industrial allowance had a negative influence. Gumo concluded with a recommendation to the Kenyan government to evaluate tax incentive policy among other things, introduce evidence base tax incentives that minimize tax evasion and encourage positive FDI.

Murage (2012) conducted a research on the effect of tax incentives on investment of EPZ firms in Kenya. The study sought to establish various types of tax incentives offered to EPZ firms on their business investments as well as their effects on investments. The population of the study included 104 EPZ firms in Kenya. A sample of 65 firms were selected purposively those situated in the Nairobi Metropolitan. Primary and secondary data was collected using questionnaires. Pearson's product moment correlation co-efficient was used. Descriptive statistical techniques were utilized in data analysis while inferential analysis was used to reach conclusions. The findings were that investments by EPZ firms increase with increase in sales, profit as well as tax incentives. However, the influence of tax incentives on investments by EPZ firms is insignificant. The study recommended the Kenyan government to consider other incentives other than tax that will enhance sales.

A study by Wachira (2011) sought to establish effectiveness of tax incentives as an avoidance scheme by Kenya Airways and to modify the financial situation and make investments accordingly. A semi – structured questionnaire involving both open and closed ended questionnaires was used to collect primary data from tax manager and officers from tax department of Kenya Airways. For data analysis, Statistical Package or Social Science was used. The study found out that Kenya Airways took advantage of all available tax deductions both business and personal. The study found the tax incentives to be effective and recommended that tax holidays and investments allowances and tax credits to be provided to employees as a motivational initiative.

2.5 Critique of the Study

The literature review showed that a number of studies had been conducted to show the relationship between various tax incentives and performance for instance; Chukwumerije and Akinyomi (2011), Gatsi, Gadzo and Kportorgbi (2013), Onyango (2015) and Agundu and Ohaka (2013). The review showed that much concentration had been on corporate tax incentives, excise and custom duty incentives with less focus on capital allowance incentives even though they had been found to influence the performance of corporates. The review showed that the direct link of tax incentives to performance of firms had not been conducted in depth and only general discussions of tax had been given. The review also showed that the link between tax incentives and performance of firms majorly in the manufacturing sector had not been studied in depth in Kenya and much had been done in other countries such as Nigeria and Ghana.

2.6 Summary of literature reviewed and Research Gap

Empirical studies conducted both locally and internationally have showed that tax incentives have different effects on different dependent variables; investment, FDI, performance, R&D expenditure, economic development, sales and performance of firms in different industries. The theories discussed depict a positive correlation between tax incentives and financial performance of firms. Several studies have been done both locally and internationally to determine the effects of tax incentives on various dependant variables. From the empirical review above, international scholars include Alhulail (2014), Mayende (2013) and Kholer (2012) among other scholars. Locally, researchers include Onyango (2015), Githaiga (2013), Gumo (2013) and Njeru (2012) among others but none of them has focused on the effects of capital allowance tax incentives on growth of manufacturing firms in Kenya. This research therefore seeks to fill this research gap by answering the research question: What is the effect of capital allowance tax incentives on growth of manufacturing firms in Kenya?

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter describes the general approach of the study. It describes the research tools employed and the methods used in the data collection process. The chapter focuses on the research design, population target, sample size, data collection method, empirical model, data analysis and ethical considerations employed by the study.

3.2 Research Design

This study was quantitative. The study employed causal research design to determine the relationship between capital allowances tax incentive and growth of listed manufacturing firms in Kenya. The design was suitable for this study as it allows the analysis of the relationship between the independent (capital allowances tax incentive) and the dependent variable (growth of listed manufacturing firms) over seven-year period (Saunders et al., 2007). The design was also justified because it was used to sort out the existence and magnitude of causal effects of one or more independent variables (Industrial Building Deduction, Investment Deduction, and Wear and Tear Allowances) upon a dependent variable of interest (that is, growth of listed manufacturing firms) at a given point in time.

3.4 Sampling Frame

According to Thompson (2012), a sampling frame comprises of a list of people from which the researcher uses to obtain information about the study. The sampling frame defines a set of elements from which a researcher can select a sample of the target population. Because a researcher rarely has direct access to the entire population of interest in social science research, a

researcher must rely upon a sampling frame to represent all of the elements of the population of interest. A sampling frame includes a numerical identifier for each individual, plus other identifying information about characteristics of the individuals, to aid in analysis and allow for division into further frames for more in-depth analysis. The researcher used a list sampling frame.

3.3 Target Population

Sekaran (2006) defines a population as the total collection of elements about which inferences are made. It refers to all possible cases which are of interest for a study. It is the large collection of all subjects from where the needed sample is drawn. The target population for the study was the 12 manufacturing firms listed at the NSE in Kenya during the years 2012 to 2018. The study used the listed manufacturing firms since information on their company boards' and financial performance is readily available as the listed firms are governed by the Capital Markets' Authority code of corporate governance hence requiring them to publish their annual reports and financial statements.

The table 3.1 shows the twelve listed manufacturing firms in Kenya that were used as the target population for the study. The period concerned for the target population will be 2012 to 2018. This period is considered important because it is the period reflecting the declining trend in the financial performance of manufacturing firms in Kenya (World Bank, 2018).

Table 3.1 Target Population

No.	Listed Manufacturing Firms in Kenya during 2014 to 2018
1	B.O.C Kenya Ltd
2	BAT Ltd
3	Carbacid Investments Ltd
4	East African Breweries Ltd
5	Mumias Sugar Ltd
6	Unga Group Ltd
7	Bamburi Cement
8	Athi River Mining Ltd
9	KenGenLd
10	Crown Paints Kenya Ltd
11	East African Cables Ltd
12	East African Portland Cement

Source: KAM, 2018; NSE, 2018

3.4 Sample and Sampling technique

3.4.1 Sample Size

Kothari (2004) defines a sample as the selected respondent representing the population. A sample is a set of entities drawn from a population with the aim of estimating characteristics of the population (Crammer & Howitt, 2004). The study adopted the Survey Sampling Technique. The survey measured the entire target population of the 12 firms and a census was carried out so as to systematically acquire and record information regarding secondary data on company boards for each of the listed firms from 2012 to 2018.

3.5 Data Collection Instruments

Data collection instruments are tools or methods use to collect data from participants in a study (Cooper & Schindler, 2003). This study employed secondary data since it can be examined over a longer period of time. Secondary data was retrieved from the manufacturing firms' websites, the NSE library and the NSE websites. The study sourced secondary data on financial performance and firm attributes from the published official reports of the listed companies which entails the annual financial reports and statistics. The secondary data was obtained using a secondary data collection template (Appendix II)

3.6 Data Analysis and Presentation

Data analysis can be defined as the process of computing various summaries and values from a collection of data (Berthold & Hand, 2003). Burns and grove (2003) define data analysis as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. The researcher used the descriptive statistics for each of the study variables so as to get their mean, standard deviation, minimum and maximum values. Afterwards, the researcher run the Pearson's correlation analysis in SPSS, so as to get the pairwise correlation matrix which

will help determine the direction and strength of the relationship between the study variables. The researchers thereafter, run the regression models so as to test the fitness of the models by use of the F-statistics. The results for the F-statistics will be used to gauge whether the models are fit for analysis.

The model that was applied in data analysis is given below. Y is the dependent variable while X1 to X3 are the independent variables which are the capital allowance tax incentives.

Panel Regression model:

$$Y_{it} = \beta_0 + \beta_i X_{it} + \epsilon_t$$

Where: Y_{it} is the dependent variable denoting growth of manufacturing firm i at time t ;

t denotes the observation (firm), $i = 1, \dots, 13$,

While t is the time period, $t = 2012, \dots, 2018$;

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.

3.7 Measurement of Variables

Table 3.2 gives a summary of research objectives, variables of study, their indicators and level of measurement,

Table 3.2: Measurement of Variables

Variable	Type	Measurement
Industrial Building Deduction	Independent variable	<ul style="list-style-type: none">• Cost of civil works• Cost of show room
Investment Deduction	Independent variable	<ul style="list-style-type: none">• Cost of purchasing new machinery• Cost of installation• Cost of constructing a new building
Wear and Tear Allowance	Independent variable	<ul style="list-style-type: none">• Class I• Class II• Class III• Class IV• Class V
Growth of Manufacturing firms	Dependent variable	Return on Investment (ROI)

CHAPTER FOUR: RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

This Chapter presents the research findings on the effects of capital allowances tax incentives on the growth of manufacturing firms. The study was conducted over a 5 year period where secondary data for the period 2014 to 2018 was used in the analysis. Regression analysis was used in analysis of the data.

4.2 Descriptive Statistics

This section provides the summary of descriptive statistics of the study variables. Descriptive statistics are a collection of measurements which determine the location and variability of the variables used in a study (Torres, 2009). The study results were on the basis of mean and standard deviation obtained from analysis of the study data. The mean was used to show the central value of the study variable while the standard deviation provided the variability or spread of the study data from the Centre value. The variables for the study were Industrial Building Deduction, Investment Deduction and Wear and Tear Allowance. Results in Table 4.1 present the descriptive statistics on capital allowance incentives and growth of the manufacturing firms as measured by their net profits. The results are averaged for the five-year period 2014 to 2018.

Table 4.1: Descriptive Statistics

	N	Min	Max	Mean	Standard deviation
Growth of manufacturing firms	12	.964	3.033	.74649	.981926
Industrial Building Deduction	12	2.348	7.029	11.9506 5	1.532383
Investment Deduction	12	1.116	1.410	19.2992 4	1.056306
Wear and Tear Allowance	12	3.019	5.736	1.82071	2.394941

The table above presents the mean and standard deviation of the manufacturing firms growth, Industrial Building Deduction, Investment Deduction and Wear and Tear Allowance capital allowances tax incentives under study. The mean of the manufacturing firm's performance was 0.746, Industrial Building Deduction had a mean of 11.951, and Investment Deduction had a mean of 19.30 while Wear and Tear Allowance had a mean of 1.821. Manufacturing firms performance had a standard deviation of 0.746, Industrial Building Deduction had 1.5324, and Investment Deduction had 1.056 while Wear and Tear Allowance had a standard deviation of 2.395.

4.3 Diagnostic Tests

The study conducted diagnostic tests before using an ordinary least square regression model to test the study hypotheses. This was also to ensure that assumptions of classical regressions are not violated. The normality tests as well as multicollinearity test were conducted before running the respective regression models. These tests have been described in the subsection below.

4.3.1 Test for Multicollinearity

Multicollinearity refers to a situation where the predictor variables are highly correlated to each other in a tune of Pearson Correlation values above 0.8 (Field, 2008). It inflates both the standard errors and the coefficients which in turn gives false prediction. The current study relied heavily on modeling to establish nature and strength of relationships between the dependent and independent variables.

The rule of thumb is that a VIF for all the independent and dependent less than 3 ($VIF \leq 3$) indicate no Multi-collinearity while a VIF of more than 10 ($VIF \geq 10$) indicates a problem of Multi-collinearity.

Table 4.2: Multicollinearity results using Variance Inflation Factor (VIF)

Variables	VIF	TOLERANCE
Industrial Building Deduction	2.42	0.4132
Investment Deduction	2.05	0.4878
Wear and Tear Allowance	2.04	0.4902
Mean	2.17	0.4608

Source: Researcher (2019)

The results indicate that there was no multi-collinearity between the independent variables and the dependent variable. This was supported by the fact that the VIF for all the variables was less than 3 ($VIF \leq 3$). The VIF for Industrial Building Deduction, Investment Deduction and Wear and Tear Allowance capital allowances was 2.42, 2.05 and 2.04 respectively and all these values were less than 3.

4.3.2 Normality Tests

The data for the study was subjected to normality test. In order for a regression model to be considered adequate, the data collected must be normally distributed. In testing for normality of the error term, Shapiro Wilk test was used. The results are shown in the table 4.3. The null hypothesis in this situation indicates that the error terms is normally distributed whereas the alternative hypothesis indicates that the error term is not normally distributed

Table 4.3 Test for Normality

	Shapiro-Wilk		
	Statistic	df	Sig.
Growth of manufacturing firms	.432	12	.065

Source: Researcher (2019)

The probability value in table 4.3 is significant thus leading to rejection of the alternative hypothesis. This therefore has an implication in that the residuals are normally distributed.

4.4 Inferential Statistics

4.4.1 Correlation Analysis

Having done the descriptive analysis, the study conducted a correlation analysis to determine the strength and significance of the relationship between the study variables. Correlation analysis determines the relationship between dependent variable and independent variables of the study. Pearson correlation coefficient denoted by R is used to measure the strength of a linear relationship between two variables. R can take a range of +1 and -1, where the score is zero it implies that there exists no association between the variables where a score below zero shows that the relationship between the variables is a negative one.

The table above shows a summary of correlation between growth of manufacturing firms which is the dependent variable Industrial Building Deduction, Investment Deduction and Wear and Tear Allowance which represent the independent variables.

Table 4.4: Correlation Matrix

	Growth of manufacturing firms	Industrial Deduction	Building Investment Deduction	Wear and Tear Allowance
Growth of manufacturing firms	1	0.5689	0.6666	0.7674
Industrial Building Deduction	0.5689	1	0.5498	0.3822
Investment Deduction	0.6666	0.5498	1	0.6210
Wear and Tear Allowance	0.7674	0.3822	0.6210	1

Source: Researcher (2019)

The results revealed that capital allowance incentives received and growth of the manufacturing firms were positively and significantly associated. This implies that both capital allowance incentives and growth of the firms changed in the same direction.

4.4.2 Regression Analysis

This study had an objective of establishing the effect of capital allowance tax incentives on growth of listed manufacturing firms in Kenya. To determine this effect, regression analysis was conducted 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 the table 4.5

Table 4.5 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.793	0.611	0.595	.128954

Source: Researcher (2019)

From the findings in the table above, R was 0.793; this means that there was a positive relationship between the dependent variable and the independent variable of the study. R^2 was found to be 0.611 which means 61.1% of variation of growth of manufacturing firms can be explained by capital allowance tax incentives while the remaining 38.9% could be explained by other variables not under this study.

Analysis of Variance

An ANOVA was conducted at 5% level of significance. A comparison of $F_{\text{calculated}}$ and F_{critical} is shown in Table 4.12 below.

Table 4.6 Analysis of Variance and F-Test Results

Model		Sum of squares	df	Mean Square	F	Sig
	Regression	8.306	3	2.769	98.8929	.001 ^b
1	Residual	.877	31	.028		
	Total	9.182	34			

Source: Researcher (2019)

From the ANOVA statistics in table 4.6 above, the processed data, which is the population parameters, had a significance level of 0.1% which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The F calculated at 5% level of significance was 98.892. Since F calculated is greater than the F critical (Value = 2.262), this shows that the overall model was significant. This is an indication that capital allowance tax incentives influence the growth of listed manufacturing firms in Kenya.

4.4.3 Regression Model Coefficients

Table 4.7 Regression Results

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
(Constant)	.103	.078		1.329	0.193
Industrial Building	1.467	.000	.028	-.457	0.051
Investment Deductions	1.286	.000	.084	-1.338	0.091
Wear & Tear Allowance	7.492	.000	.921	15.154	0.000

Source: Researcher (2019)

From the data in table 4.7, the established regression equation was;

$$Y=0.103+1.467X_1 +1.286X_2+ 7.492X_3$$

The study reveals that holding IBD, ID and W&T to a constant zero, the growth of listed manufacturing firms in Kenya. Would be 0.103, a unit increase in IBD would lead to an increase in the growth of listed manufacturing firms in Kenya by 1.467, a unit increase in ID would lead to an increase in the growth of listed manufacturing firms in Kenya by 1.286 while a unit increase in W&T will lead to an increase of the growth of listed manufacturing firms in Kenya.

At 5% level of significance and 95% level of confidence, IBD had 0.051, level of significance; ID had 0.091, level of significance while W&T had the most significant factor at 0.000 level of confidence. Overall, W&T had the greatest effect on the growth of listed manufacturing firms in Kenya.

4.4.4 Discussion of Research Findings

4.4.4.1 Industrial Building Deduction

From the regression analysis, the study found that there was a positive relationship between Industrial Building Deduction and growth of listed manufacturing firms in Kenya. A unit increase in IBD would lead to an increase in the growth of listed manufacturing firms in Kenya by 1.467. At 5% level of significance and 95% level of confidence, IBD had 0.051, level of significance. This finding differs with the findings of Onyango (2015), in his study on the effect of tax incentives on financial performance of five-star Hotels in Nairobi County. He found that there was a negative relationship between investment deduction and industrial building deductions and financial performance of five star hotels in Nairobi County.

4.4.4.2 Investment Deduction

From the regression analysis, the study found that there was a positive relationship between Investment Deduction and growth of listed manufacturing firms in Kenya. a unit increase in Investment Deduction would lead to an increase in the growth of listed manufacturing firms in Kenya by 1.286. At 5% level of significance and 95% level of confidence, Investment Deduction had 0.091, level of significance. This finding agrees with the findings of Gumo(2013). In his study on the effect of tax incentives on the FDI, he found that that investment deductions and a positive effect of FDI. His findings, however, disagrees with this study on the effect of IBD since he found that industrial building allowance had a negative influence.

4.4.4.3 Wear and Tear Allowance

The study further revealed that there was a positive relationship between growth of listed manufacturing firms in Kenya and W&T. A unit increase in W&T will lead to an increase of the growth of

listed manufacturing firms in Kenya. At 5% level of significance, and 95% level of confidence, W&T had the greatest effect on growth of listed manufacturing firms in Kenya. This finding agrees with the finding by Onyango(2015) on the effect of tax incentive on the performance of five-star hotels in Nairobi county, and also the findings by Githaiga (2013) on the impact of tax incentives on FDI inflows of firms listed at the NSE confirms that Wear and tear had a strong relationship with FDI. This finding agrees with the findings of Onyango (2015), in his study on the effect of tax incentives on financial performance of five-star Hotels in Nairobi County. He found that there was a positive effect of W&T allowance on the performance of five star hotels in Nairobi County.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter provides a summary of the findings of the study, conclusions drawn from the findings, limitations of the study and the recommendations for practice areas for further research

5.2 Summary of Finding

The objective of the study was to establish the effects of capital allowance tax incentives on the growth of listed manufacturing firms in Kenya. Secondary data was collected from all the listed manufacturing firms in Kenya and multiple regression analysis was used in the data analysis. From the findings on the Adjusted R squared, the study shows that there was a variation of 61.1% on growth of manufacturing firms can be explained by capital allowance (ID, IBD and W&T). From the findings of the ANOVA, the study found that ID, IBD and W&T influence growth of listed manufacturing firms in Kenya.

The study also revealed that the established regression equation was:

$$Y=0.103+1.467X_1+1.286X_2+ 7.492X_3$$

From the regression analysis, the study found that there was a positive relationship between ID and IBD and growth of listed manufacturing firms in Kenya. The study further revealed that there was a positive relationship between growth of listed manufacturing firms in Kenya and W&T. At 5% level of significance, and 95% level of confidence, W&T had the greatest effect on growth of listed manufacturing firms in Kenya.

From the findings on the correlation analysis, the study found that there was a strong positive correlation between growth of listed manufacturing firms in Kenya and W&T. The study further

reveals that there was a positive relationship between ID and IBD and growth of listed manufacturing firms in Kenya. The study reveals that there is a strong association between W&T and growth of listed manufacturing firms in Kenya.

5.2.1 Industrial Building Deduction

From the regression analysis, the study found that there was positive relationship between Industrial Building Deduction and growth of listed manufacturing firms in Kenya. A unit increase in IBD would lead to an increase in the growth of listed manufacturing firms in Kenya by 1.467. At 5% level of significance and 95% level of confidence, IBD had 0.051, level of significance, hence not significant

5.2.2 Investment Deduction

The study found that there was a positive relationship between Investment Deduction and growth of listed manufacturing firms in Kenya. a unit increase in Investment Deduction would lead to an increase in the growth of listed manufacturing firms in Kenya by 1.286. At 5% level of significance and 95% level of confidence, Investment Deduction had 0.091, level of significance. Though there was positive relationship according to the study, the study was not significant

5.2.3 Wear and Tear Allowance

From the findings of the ANOVA, the study found that W&T influence growth of listed manufacturing firms in Kenya. From the regression analysis, the study revealed that there was a positive relationship between growth of listed manufacturing firms in Kenya and W&T. At 5% level of significance, and 95% level of confidence, W&T had the greatest effect on growth of listed manufacturing firms in Kenya. From the findings on the correlation analysis, the study found that there was a strong positive correlation between growth of listed manufacturing firms in Kenya and W&T.

5.3 Conclusion

The trend analysis showed that capital allowance tax incentives granted to these firms had been declining and were inconsistent over the study period which meant that such incentives were unsustainable. The study findings showed that the relationship between capital allowance incentives and the performance of these manufacturing firms was positive and significant. This meant that if the government would increase the incentives given to these firms, their performance would be affected favorably. Deliberate efforts should therefore be made by companies and investors operating in the manufacturing sector to focus on taking advantage of this tax incentive.

Based on the study findings, the study concluded that, capital allowance incentives affected the growth of selected manufacturing firms in Kenya positively. The study also concluded that various tax incentives needed to be made sustainable in order to ensure consistency in the performance of the firms.

5.4 Recommendations for the Study

From the findings and conclusion, the study recommends that there is need for the government to review the provision of ID & IBD as the study revealed that both allowances were not significant. There is also need for the government to encourage provision of W&T which increases return on assets of listed manufacturing firms in Kenya since W&T allowance was the most significant, with a 0.000 level of confidence the study also revealed that there are huge amounts of investments which did not qualify for ID & IBD and hence need for review of

threshold of investments that qualify for ID and IBD. There was a strong positive association between W&T and growth of listed manufacturing firms in Kenya.

Based on the findings, the study recommended that the government should consider the economic value of capital allowances, that is, the cost the government incur by providing the allowance and the economic contribution that the firms receiving the allowance have in terms of increased employment opportunities and return on investment for the firms. The government should encourage manufacturing firms to utilize the capital allowances since they encourage growth, from the findings on the Adjusted R squared, the study shows that there was a variation of 61.1% on growth of manufacturing firms can be explained by capital allowance (ID, IBD and W&T). Without the capital allowances, the study found that the manufacturing firms would only grow by 10.3%. Thus, this study recommends that manufacturing firms utilize the available capital allowances since this will lead to 61.1% growth.

5.5 Limitations of the Study

Firstly, the study was limited to the manufacturing sector and so the study results could not be generalized to all the other sectors in the market. Therefore, further research should focus on other sectors of the market such as the financial sector and the agricultural sector.

Secondly, the study was limited to solely the listed manufacturing firms in Kenya. Hence, the study results could not be generalized to the unlisted manufacturing companies in Kenya. Therefore, future studies should look at the nature of the relationship between capital allowance tax incentives and growth of the unlisted manufacturing firms in Kenya.

Finally, the study adopted secondary data retrieved from the manufacturing firms' websites, the NSE library and the NSE websites. Secondary data involves historical data which may not depict the present research needs of the study. Secondary data may not be accurate especially because it is presented by a firm to third parties with an intension to help them make decisions with respect to the reporting firm. This might negatively affect the findings of the study.

5.5 Suggestions for Further Research

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

The researcher also recommends that research can also be carried out to establish the effect of capital allowances on other dependent variables in the country, such as relationship between capital allowances and economic development.

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APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

Winfred Makaa

P.O BOX 10034

NAIROBI

Dear Sir/ Madam,

RE: DATA COLLECTION

I am a post-graduate student undertaking a post graduate diploma in tax administration at Jomo Kenyatta University in the department of Economics, Accounts and Finance. I am carrying out a research on assessing capital allowance tax incentives and their effect on the growth of selected manufacturing firms in Kenya.

You have been selected to contribute in my study. This is to kindly request you to respond to fill the Template with honesty and to the best of your knowledge. The information provided will be used solely for academic purposes and be treated with utmost confidence.

A copy of the final report may be availed to you upon your request. Your assistance will be highly appreciated.

Yours faithfully,

Winfred Makaa

HDB336-C016-1591/2017

APPENDIX 2: DATA COLLECTION SHEET

Introduction

The following template has been developed to help the researcher gather information necessary to meet the research objectives.

Year/Tax Incentive	Capital Allowances Incentives			Return on Investment
	IBD	ID	WTA	
2012				
2013				
2014				
2015				
2016				
2017				
2018				

APPENDIX 3: LISTED MANUFACTURING FIRMS IN KENYA

- 1 B.O.C Kenya Ltd
- 2 BAT Ltd
- 3 Carbacid Investments Ltd
- 4 East African Breweries Ltd
- 5 Mumias Sugar Ltd
- 6 Unga Group Ltd
- 7 Bamburi Cement
- 8 Athi River Mining Ltd 9
- 9 KenGenLd 10
- 10 Crown Paints Kenya Ltd
- 11 East African Cables Ltd
- 12 East African Portland Cement