EFFECT OF TAX INCENTIVES ON PERFORMANCE OF MANUFACTURING FIRMS IN KENYA: A CASE OF NAIROBI COUNTY

GILBERT KYALO MUSAU

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

2018

DECLARATION

This project is my original work and has not been presented for a post graduate diploma in any other academic institution or non-institution for any award.

……. ……

Signature **Date**

GILBERT MUSAU

HDBB-C016-2310/2016

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

…… …….

Signature **Date**

MRS. PAULINE MWANGI

DEDICATION

I sincerely dedicate this work to my family, friends and academic staff for all the support they gave me during my studies. I am very grateful for your encouragement.

ACKNOWLEDGEMENT

I appreciate the assistance I received from my supervisor Mrs. Pauline Mwangi whose steadfast guidance made it possible for me to complete this work on time. Thank you very much. I am also grateful to Jomo Kenyatta University of Agriculture and Technology for giving me the opportunity to excel in my studies. My gratitude also goes to my lecturers, work colleagues and everyone who played a role in making my research a success.

TABLE OF CONTENTS

DECLARATION ..... **ii**
DEDICATION ..... **iii**
ACKNOWLEDGEMENT ..... **iv**
TABLE OF CONTENTS ..... **v**
LIST OF FIGURES ..... **vii**
LIST OF TABLES ..... **viii**
LIST OF ABBREVIATIONS AND ACRONYMS ..... **ix**
OPERATIONAL DEFINITION OF TERMS ..... **x**
ABSTRACT ..... **xi**
CHAPTER ONE: INTRODUCTION **1**
1.1 Background of the Study 1
1.2 Tax Incentives and Manufacturing Firms in Kenya 3
1.2.1 Tax Holidays 4
1.2.2 Tax Exemptions, Zero-rating and Remissions 5
1.2.3 Industrial Building Deductions 6
1.2.4 Investment Deductions 6
1.3 Statement of the Problem 7
1.4 Main Objective of the Study 8
1.5 Specific Objectives of the Study 8
1.6 Research Questions 8
1.7 Justification of the Study 9
1.8 Scope of the Study 9
1.9 Limitations of the Study 10
CHAPTER TWO: LITERATURE REVIEW **11**
2.1 Introduction 11
2.2 Theoretical Perspectives 11
2.2.1 New Growth Theory 11
2.2.2 Tax Discrimination Theory 12
2.2.3 Theory of Investment Behaviour 13
2.3 Empirical Literature Review 14

2.3.1 Taxpayers' Knowledge of Tax Incentives 15
2.3.2 Impact of Tax Incentives on Organizational After-tax Profits 16
2.3.3 Relationship between Tax Incentives and Organizational Performance 17
2.4 Conceptual Framework 18
2.5 Knowledge Gap 19
CHAPTER THREE: RESEARCH METHODOLOGY 21
3.1 Introduction 21
3.2 Research Design 21
3.3 Target Population 21
3.4 Sampling Procedure and Sample Size 22
3.5 Data Collection Instruments 23
3.6 Data Collection Procedures 23
3.7 Pilot Testing 24
3.7.1 Validity of Research Instruments 24
3.7.2 Reliabity of Research Instruments 24
3.8 Data Analysis and Presentation 25
CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION 26
4.1 Introduction 26
4.2 Research Findings 26
4.2.1 Respondents' Gender Distribution 27
4.2.2 Respondents' Age Distribution 27
4.2.3 Level of Education for the Respondents 28
4.2.4 Respondents' Level of Service 29
4.2.5 Respondents' Length of Service in Company 30
4.2.6 Company's Period of Existance 30
4.2.7 Company's Annual Turnover 31
4.3 Investment Deductions and Company Performance 33
4.4 Wear and Tear Allowances and Company Performance 35
4.5 Industrial Building Deductions and Company Performance 37
4.6 Tax Exemptions and Remissions and Company Performance 38
4.7 Tax Holidays and Company Performance 40

4.8 Diagnostic Tests 42
4.8.1 Multicollinearity Testss 42
4.8.2 Normality Testss 42
4.9 Effect of Tax Incentives on Performance of Manufacturing Firms 43
4.9.1 Model Summary 43
4.9.2 Analysis of Variance (ANOVA) 44
4.9.3 Regression Coefficients 45
4.10 Discussion 46
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS 48
5.1 Introduction 48
5.2 Summary 48
5.2.1 Objective 1: Investment Deductions and Manufacturing Companies 49
5.2.2 Objective 2: Wear and Tear Allowance and Manufacturing Companies 49
5.2.3 Objective 3: Industrial Building Deductions and Manufacturing Companies 49
5.2.4 Objective 4: Tax Exemptions and Remissions and Manufacturing Companies 49
5.2.5 Objective 5: Tax Holidays and Manufacturing Companies 49
5.3 Conclusions 50
5.4 Recommendations 51
5.5 Suggestions for Further Studies 51
REFERENCES 52
APPENDICES 57
Appendix I: Questionnaire 57
Appendix II: Introduction Letter 62
Appendix III: KREJEE & MORGAN TABLE 1970 63

LIST OF FIGURES

Figure 2.1 Conceptual Framework 19
Figure 4.1 Respondents' Gender Distribution 27
Figure 4.2 Respondents' Age Distribution 28
Figure 4.3 Respondents' Highest Level of Education 29
Figure 4.4 Respondents' Current Designation 29
Figure 4.5 Respondents' Length of Service with Employer 30
Figure 4.6 Companies' Period of Existence 31
Figure 4.7 Companies' Annual Turnover 31
Figure 4.8 Companies' Tax Incentive 32
Figure 4.9 Effects of Investment Deductions on Company Performance 34
Figure 4.10 Effects of Wear and Tear on Company Performance 35
Figure 4.11 Effects of Industrial Building Deductions on Company Performance 37
Figure 4.12 Effects of Tax Exemptions and Remissions on Company Performance 39
Figure 4.13 Effects of Tax Holidays on Company Performance 40
Figure 4.14 Normality Test 43

LIST OF TABLES

Table 3.1 Sample Size 22
Table 4.1 Response Rate 27
Table 4.2 Types of Incentives by Companies 32
Table 4.3 Companies' Awareness of Tax Incentives 33
Table 4.4 Extent of Effect of Investment Deductions on Company Performance 34
Table 4.5 Rating Effect of Investment Deductions on Company Performance 35
Table 4.6 Extent of Effect of Wear and Tear Tax Allowance on Company Performance 36
Table 4.7 Rating Effect of Wear and Tear Allowance on Company Performance 37
Table 4.8 Extent of Effect of Industrial Building Deductions on Company Performance 38
Table 4.9 Rating Effect of Industrial Building Deductions on Company Performance 38
Table 4.10 Extent of Effect of Tax Exemptions and Remissions on Company Performance 39
Table 4.11 Rating Effect of Tax Exemptions and Remissions on Company Performance 40
Table 4.12 Extent of Effect of Tax Holidays on Company Performance 41
Table 4.13 Rating Effect of Tax Holidays on Company Performance 41
Table 4.14 Multicollinearity Test 42
Table 4.15 Model Summary 44
Table 4.16 ANOVA 44
Table 4.17 Regression Coefficients 45

LIST OF ABBREVIATIONS AND ACRONYMS

CBS	Central Bureau of Statistics
ECJ	European Court of Justice
ECM	European Common market
EPI	Export Promotion Incentives
EPZ	Export Processing Zones
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
IEA	Institute of Economic Affairs
IPI	Investment Promotion Incentives
KAM	Kenya Association of Manufacturers
KRA	Kenya Revenue Authority
MUB	Manufacture Under Bond
PAYE	Pay As You Earn
PIN	Personal Identification Number
SPSS	Statistical Package for Social Sciences
TREO	Tax Remissions and Exemption Office
UCC	User cost of Capital
UK	United Kingdom
USA	United States of America
VAT	Value added Tax
WBICAS	World Bank Investment Climate Advisory Services

OPERATIONAL DEFINITION OF TERMS

Income Tax a tax charged on income earned by a person whether resident or non-resident as defined by the Income Tax Act, Chapter 470 Laws of Kenya (UNCTAD, 2014).

PAYE (pay as you earn): a tax payment method in which an employer is required law to deduct income tax from an employee's taxable wages or salary (UNCTAD, 2014).

Revenues gross proceeds received from taxes, fees, and other levies (OECD, 2008).

Tax audit is an examination of an individual or a corporation's tax return to verify its accuracy (OECD, 2008).

Tax avoidance is the legal use of tax regime to one's own advantage, to reduce the amount of tax that is payable by means that are within the law (OECD, 2008).

Tax Compliance Generally, this is taxpayers' willingness to fully abide by the law requiring them to pay taxes liable to them to tax authorities (OECD, 2008).

Tax evasion entails taxpayers illegally and misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability (OECD, 2008).

Tax Incentives special exclusions, exemptions or deductions, from income tax liability, offered to taxpayers by the government as an inducement or support to engage in particular activities (Chukwumerije & Akinyomi, 2011).

Tax reform tax reform is enacted measures to achieve larger goals of an accountable and transparent government through improved revenue collection and tax policies (IMF, 2002).

Tax is a financial charge or levy imposed on an individual or a legal entity by a state (Yadav & Goyal, 2015).

Taxpayer all income earning entities which include individuals and non-individuals required by law to pay taxes (Lymer & Oats, 2009).

Value Added tax levied on designated local supply of goods and services and on imports in accordance with VAT regulations (UNCTAD, 2014).

ABSTRACT

Tax incentive is a global phenomenon for governments for attracting more investments by companies operating in different economic sectors. The main objective of this study was to examine the effect of tax incentives on performance of manufacturing firms in Kenya, taking Nairobi County as a case study. The study was guided by the following specific objectives: to identify how investment deductions affect performance of manufacturing companies in Nairobi County, to examine the impact of wear and tear allowance on performance of manufacturing companies in Nairobi County, to investigate the influence of industrial building deductions on performance of manufacturing companies in Nairobi County, to examine the effect of tax exemptions and remissions on performance of manufacturing companies in Nairobi County, and to establish how tax holidays influence performance of manufacturing companies in Nairobi County. The study adopted New Growth Theory, Tax Discrimination Theory, and Theory of Investment Behaviour. Employing descriptive research design, the study's target population was manufacturing companies in Nairobi County. There are approximately 343 manufacturing companies in the county spreading across different sectors (KAM). This study focused on three domains namely consumer goods, industrial goods, and healthcare goods companies. A sample of 137 respondents comprising of top managers, mid-level managers and junior managers was used in the study. Stratified and simple random sampling techniques were used to pick participants. Through a structured questionnaire, the study mainly used quantitative data collected through both face-to-face and self-administered interviews. Quantitative data was analyzed using Statistical Package for Social Sciences (SPSS) and Excel Worksheets. Qualitative data was organized using NVivo software and a thematic critical discourse and content analysis was done. Data was then presented through frequency tables and graphs as well as through narrative reports. The study adhered to ethical considerations, observing the principles of confidentiality and beneficence. The study established that tax incentives had a significant effect on company performance. However, it also emerged that not all manufacturing companies were aware of tax incentives and their effect on company performance. Besides, not all tax incentives had similar impact on company performance. It is anticipated that the study findings will help the government and tax agencies to address taxation in companies dealing in all sectors. The findings will also add to the existing literature in the area of tax incentives and company performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Taxation is every country's backbone when it comes to funding of national budgets. The concept of taxation has been defined variedly by different scholars. However, the common definition of taxation centers on its obligatory nature. For instance, Lymer & Oats (2009) and Yadav & Goyal (2015) define this concept as a compulsory levy administered by government agencies on the income, consumption and investments of its citizens. The main rationale for taxation is to provide the government with resources for its expenditure and general running of its affairs. Like in all countries, taxation in Kenya is the main source of revenue for the country, accounting for at least 66% of the national budget (Mutua, 2012). Tax compliance therefore becomes imperative for general economic growth of the country.

Tax pundits argue that for any country to experience meaningful economic expansion, important initiatives must be put in place, including robust tax incentives for the taxpayer both at the individual and organizational levels (Bird, 2012). In Kenya for example, Kenya Revenue Authority (KRA) continues to institute important strategies to boost tax compliance hence increase the country's revenue base. Some of the approaches used by KRA to monitor tax compliance include introduction of electronic monitoring and audit systems, compliance checks, imposition of heavy fines on tax defaulters and evaders, and suspending operations of tax non-compliant businesses. There are also whistle blowers-rewards systems for those who volunteer information on tax evaders leading to prevention of more tax losses (KRA, 2013).

Chukwumerije and Akinyomi (2011) define tax incentive as an exemption or relief granted to an individual or organization to lessen the effect of taxation hence encouraging taxpayers' savings and investments. The incentives are granted to companies or individuals with intent to boost their business morale. This may be in form of personal relief, tax holidays, or capital allowance among others. The incentives must however be issued based on relevant existing policy guidelines. Based on effective legislations, these incentives can enhance economic growth and development of individuals, small business entities, or corporate taxpayers (Fletcher, 2003). Fletcher (2003) further posits that tax incentives are special exemptions meant to provide preferential tax rates or

deferment of tax liabilities. Tax incentives are most effective when issued after a cost-effective analysis is done. According to Mainelli and Giffords (2010), as opposed to laying infrastructural facilities or correcting deficiencies in the tax systems, tax incentives are easier to provide since they do not require additional funds in terms of operational costs for the government to implement. According to Tanzi and Zee (2001), tax incentives were a common feature for promoting investments worldwide, especially in developing countries. Essentially, tax incentives provide a chance for organizations to enhance their savings and investments.

Given the importance of manufacturing industry in wealth creation and provision of job opportunities in the country, it becomes imperative for the country to shift focus to how to help manufacturing firms to improve their investments and maximize their profits. Yet, doing this through introduction of tax incentives is not always a win-win situation for the firms and the government. Tanzi and Zee (2001) argue that tax incentives are sometimes abused by some firms which may disguise themselves as start-ups yet they are undergoing reorganization. Furthermore, foreign investors, which are mostly the target of tax incentives, sometimes tend to prioritize other issues other than tax incentives. These factors may include skilled labour, infrastructure, and political environment among others. Another complexity in this scenario is the fact that in case of foreign companies, tax incentives are likely to be more beneficial to their home countries than to individual firms (Githaiga, 2013).

Statistics by the Kenya Association of Manufacturers (KAM) indicate that there are approximately 1,072 manufacturing companies in the country, making a very significant contribution in provision of employment and the economy of the country. Out of this number, 343 manufacturing companies are located in Nairobi. Doubling up as the country's capital city and the region's business hub, Nairobi County is very critical as the focus of this study. The manufacturing sector is very important in the Kenyan economy. Furthermore, in the recent past the sector has been considered as one of the Government's big 4 agenda. Other areas include universal health coverage, expanded food production and building of affordable housing. Currently the manufacturing sector contributes to about 9% of the national GDP and is anticipated to improve to 15% in 5 years' period (KIPPRA, 2018).

Among other initiatives, tax incentives therefore become imperative in order to encourage growth of the manufacturing industries. This move will in turn make it possible to reduce the amount of

imported goods hence boosting business opportunities even for local suppliers. Provision of tax incentives to the taxpayer is also intended to ease the burden of running the business thus minimizing unnecessary interruptions.

Despite efforts to give tax incentives to the manufacturing companies in Kenya, a number of ailing industries makes these efforts unviable. According to Fowowe (2013), some of the manufacturing firms are faced with such challenges as difficult and unfavourable operating environment occasioned by infrastructural deficiencies and high costs of operations. This makes it almost impossible to finance capital projects including expansion. Excessive taxation in form of high tax rates is another major impediment to the manufacturing companies. Similarly, it sometimes becomes difficult to separate provisions viewed as part of the general tax structure from those issued under special circumstances. Furthermore, some economies may lack the capacity to adopt targeted tax incentives. According to Bolnick (2004), tax-related costs can be categorized as forgone revenues, resource allocation otherwise known as neutrality costs, and enforcement and compliance costs.

Forgone revenues are losses in tax revenue from tax incentives which basically emanate from three sources; the forgone revenue that would otherwise have been collected from the activities undertaken; the forgone revenue from projects that would have been undertaken if the investor did not receive any tax incentives; and lost revenue from investors and activities that improperly claim incentives or shift income from related taxable firms to those firms qualifying for favorable tax treatments. Resource allocation or neutrality costs originate when tax incentives create distortions on investment choices among sectors or activities instead of correcting market failures. Enforcement and compliance costs on the other hand constitute costs that increase with the complexity of the tax system and the system of fiscal incentives in terms of qualifying and reporting requirements (Bolnick, 2004).

1.2 Tax Incentives and Manufacturing Firms in Kenya

There are numerous arguments in favour of tax incentives as catalysts for corporate investments. According to Bruce (2004), tax incentives increase returns on investments hence generally enhancing economic development and effectiveness in service delivery by the government. Morisset and Neda (2001) postulate that tax incentives are a common feature in many developing

countries when it comes to encouraging investments, including foreign direct investments in their jurisdictions.

According to UNCTAD (2000), there are various types of tax incentives in Kenya anchored on the Income Tax Act CAP 470. Being fiscal incentive, this inducement is mainly offered to encourage some favored economic activities by increasing the after-tax rate of return on the organizational investments (ITA, 2016). There are a number of tax incentives in Kenya that are meant to encourage investments in different sectors of the economy. However, generally these incentives can be categorized into either as investment promotion incentives (IPI) or export promotion incentives (EPI). Investment promotion incentives include Investment Deduction Allowance, Industrial Building Allowance, Mining Deduction, Wear and Tear allowance, and Farm Works Deduction. Investment deduction allowance was introduced in 1991 to encourage investment in physical capital such as industrial buildings, machinery and equipment. Industrial Building Allowances was launched in 1974 with the objective of encouraging investment in buildings used for industrial purposes like hotels and manufacturing plants. Mining Deductions Allowance came into being as means to persuade investors to venture into the mining, which is a very capital-intensive industry. Introduced in 1985 to boost investment in the agricultural sector, Farm Works Deductions incentive has played a significant role to corporate firms inclined to farming.

On the other hand, Export promotion incentives program has three main schemes. These include the Export Processing Zones (EPZs), Manufacture under Bond (MUB) and the Tax Remissions and Exemption Office (TREO). The objective of EPZ is to generate and encourage economic activity and foreign direct investments while MUB and TREO regimes were meant to encourage investors to manufacture for export within the country. Nevertheless, commonly tax incentives in Kenya are offered based on the following sub-categories.

1.2.1 Tax Holidays

Export Processing Zones (EPZs) are designated areas in a country that are treated under special economic regulations, different from other zones within the same borders. The unique guidelines are meant to promote and protect foreign direct investments in the country, including through tax incentives and lower tariffs by specific firms. Companies operating in Kenya under EPZ are given a 10-year tax holiday for the first ten years and a reduced corporate tax rate of 25% for the next 10

years. In in the case of a company newly listed on any securities exchange approved under the Capital Markets Authority Act with at least twenty percent of its issued share capital listed, the company is charged tax at twenty seven percent (27%) for the period of three years commencing immediately after the year of income following the date of such listing. Further, in the case of a company newly listed on any securities exchange approved under the Capital Markets Act with at least thirty percent of its issued share capital listed, it is charged tax at a rate of twenty five percent (25%) for the period of five years commencing immediately after the year of income following the date of such listing. In addition, in the case of a company newly listed on any securities exchange approved under the Capital Markets Act which has at least forty percent of its issued share capital listed, tax is charged at a rate of twenty percent (20%) for the period of five years commencing immediately after the year of income following the date of such listing.

Despite tax holidays being beneficial to both the companies and the government, if not designed and controlled properly, they have their downsides. According to Blackwell (2009), tax holidays attract short-range ventures and once the period for tax holiday is over businesses often fold up and relocate to invest elsewhere. Tax holidays also encourage tax avoidance by allowing businesses to move from high tax regions to low tax regions. Tax avoidance is not necessarily illegal, but relocating a business is certainly unjustifiable since administration costs to ensure compliance with all laws may be high (Philips, 2010).

1.2.2 Tax Exemptions and Remissions

Tax exemption refers to a situation whereby a good or service is not subjected to tax under the existing law. Zero-rating on the other hand refers to a case where the tax rate applicable for the good or service is zero. There are various exemption and zero-rating regimes in Kenya which have been listed in the First Schedule of the Income Tax Act, First and Second Schedules of the VAT Act 2013 and the Second schedule of the Excise Duty Act 2015. Under the VAT Act, certain goods and services are exempted from tax or are zero-rated. Based on special circumstances, an individual or organization can also apply to the National Treasury for tax exemption or tax remission on specific conditions. Companies that import raw materials and manufacture goods for export can also get tax remission status for the exports under the Tax Remission Exemption Office (TREO) arrangement. These companies already have a tax

advantage since the materials imported usually do not attract any customs duty or value added tax.

1.2.3 Industrial Building Deductions

According to the Income Tax Act, this is an allowance on a building in use for Mill, Factory, Transport, dock, bridge, tunnel, inland navigation, water, electricity, hydraulic, power undertaking, Manufacture of goods or materials, storage of goods or materials to be used in manufacture of goods not yet delivered to any purchaser. In addition, prescribed dwelling houses for employees of a business, hotels as certified by the Commissioner of Income Tax and thereafter including staff quarters, kitchens entertainment and sporting facilities, buildings used for the welfare of workers, hostel and certified educational building, approved rental residential buildings, building used for filming and commercial buildings are also classified as industrial buildings.

Further, the following civil works and structures are deemed to be part of an industrial building: roads and parking areas, railway lines and related structures, water works, industrial affluent and sewage works, communications and electrical posts and pylons and other electricity supply works, security walls and fencing. The allowance is offered in different rates and in accordance with the use of the industrial building as follows; Industrial building rate is 10%, hotel rate is 10% , hostel and an educational building in use for training certified by the Commissioner rate is 50%, hostel and educational building used for training of film producers, actors or crew rate is 100%, rental residential building in a planned development area approved by the Minister of Housing; with effect from 1st Jan 2008 (5%), while stipulated infrastructure provided by the developer rate is 25%. Finally, commercial building with stipulated infrastructure provided by the developer is given an incentive at a rate of 25%.

1.2.4 Investment Deductions

This is a once-for-all claim granted in the year an asset is first used based on cost of building and machinery installed therein as an incentive mainly in the manufacturing sector to encourage investments, development of industries in normal manufacture, tourism and shipping, exportation and development of industries outside the main urban centres of Kisumu, Nairobi and Mombasa. The claim is granted at a rate of one hundred percent (100%) with an exemption of businesses operating outside Nairobi, Mombasa and Kisumu cities where it is granted at a rate of

one hundred and fifty percent (150%) for investments in excess of Ksh. 200 million. However, the applicable rates are dictated by the various finance acts.

1.3 Statement of the Problem

The performance of manufacturing firms has over decades been considered a vital contributor to economic growth. According to economic surveys, most manufacturing firms' performance had started declining over years. This was majorly attributed to the high operational costs and heavy taxation by the government. In an effort to improve performance of the manufacturing firms, the government did introduce tax incentives to be enjoyed by these firms. Similarly, the tax incentives would also help in improving the performance of the firms by reducing their tax liabilities. Limited research has been conducted on the effect of the specific tax incentives that have led to improvement of the performance of firms in the sector.

Further, the aim for giving tax relief and incentives to manufacturing companies is to provide them with a chance to enhance their growth and development hence contributing to the general economic development of the country. Yet, this objective may not be achieved in circumstances where the potential beneficiaries are even ignorant of the existence of such incentives. Furthermore, the few who are aware of these incentives may be less bothered to apply for them given poor taxpayer education or inefficient tax administration system.

While tax incentives have been used to spur companies' growth and development, some studies have indicated that there was no direct relationship between provision of tax incentives and organizational economic performance. For example, Musyoka (2012) examined the relationship between tax incentives and foreign direct investment in Kenya and established that there was no significance improvement in investment as a result of implementing tax incentives. On the other hand, Kimeu (2013) explored the effect of tax reforms on financial performance of real estate firms in Kenya and found that there was a positive relationship between the two variables. Furthermore, a study done by World Bank Investment Climate Advisory Services (WBICAS) in 2009 established that tax incentives in developing countries did not successfully compensate unappealing investment climate conditions such as poor infrastructure, macroeconomic instability, insecurity, weak governance structures, and limited markets. According to economic survey publications, the government of Kenya has focused on the provision and extension of tax incentives majorly related to the manufacturing sector which commands the third position in

economic development. A lot of research has been done on the effects of tax incentives on economic growth in general whereas very limited research has been carried out on the effects of the specific tax incentives based on sectoral performance and it is not clear as to which tax incentives leads to test performance of manufacturing firms. It is against the aforementioned that this study aimed to examine the effect of tax incentives on performance of manufacturing firms in Kenya, with specific reference to Nairobi County.

1.4 Main Objective of the Study

The main objective of this study was to examine the effect of tax incentives on the performance of manufacturing firms in Kenya: a case of Nairobi County.

1.5 Specific Objectives of the Study

The study was guided by the following specific objectives:

(i) To identify how investment deductions, affect performance of manufacturing companies in Nairobi County.

(ii) To examine the effect of wear and tear allowance on performance of manufacturing companies in Nairobi County.

(iii) To determine the influence of industrial building deductions on performance of manufacturing companies in Nairobi County.

(iv) To examine the effect of tax exemptions and remissions on performance of manufacturing companies in Nairobi County.

(v) To establish how tax holidays influence performance of manufacturing companies in Nairobi County.

1.6 Research Questions

This study was guided by the following research questions:

(i) How do investment deductions affect performance of manufacturing companies in Nairobi County?

(ii) How does wear and tear allowance affect the performance of manufacturing companies in Nairobi County?

(iii) How do industrial building deductions influence performance of manufacturing companies in Nairobi County?

(iv) What is the effect of tax exemptions and remissions on performance of manufacturing companies in Nairobi County?

(v) In what ways do tax holidays influence performance of manufacturing companies in Nairobi County?

1.7 Justification of the Study

Proper tax collection is imperative for a country's effective management of its financial obligations. The concept of tax incentive is thus very critical in enhancing economic expansion of a country. The findings will be helpful to both policy makers and tax implementers. The study will be useful in helping the government to expand its tax base by bringing on board more taxpayers due to anticipated awareness and incentives awarded. The increase in the tax revenue will in turn help in the economic growth of the country in general. Furthermore, the study will provide information to the government and other stakeholders to help formulate sound policies aimed at creating more relevant tax incentives for manufacturing companies hence raise the tax collected by the government. In addition, the research will enrich the theories related to tax incentives and serve as a reference point for future studies on taxation and tax management. Overall, the study will contribute to the existing literature on the functions of tax incentives, associated benefits and how this contributes to improved financial performance of firms in all sectors.

1.8 Scope of the Study

This study focuses on manufacturing companies in Nairobi County, examining the effects of tax incentives on their financial performance. There are approximately 343 manufacturing companies in the county, which formed the sampling frame. Reference on these companies in the study area was based on their accessibility and representative capacity hence able to help in answering the research questions in an objective manner. The ideal company to be involved in the study should have been operational for at least five years before the date of the interview. This was informed by the fact that five years of existence would ideally have given the firms enough time to be involved in filing of taxes hence possible tax incentive provisions. All manufacturing companies were involved in the study regardless of their area of specialization.

1.9 Limitation of the Study

With tax evasion and non-compliance being associated with many business entities in the country, some respondents may be unwilling to engage in conversation related to tax for fear that they are being investigated and possibly be reprimand by the government agencies. In order to address the limitation, the researcher undertook to explain well the main objective of the study and guaranteed the respondents that the principle of anonymity would be adhered to. This was to ensure that their actual names were not revealed anywhere in the information they shared. They were also encouraged to answer only the questions they were comfortable answering, without feeling coerced in any way. This was to earn their confidence to freely participate in the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines relevant literature related to tax incentives and their effect on performance of manufacturing companies, especially in the Kenyan context. The chapter also highlights theoretical perspectives used in the study and presents a conceptual framework.

2.2 Theoretical Perspectives

Theories in research enable the scholar to put the topic of study into perspective and help the readers to clearly understand how the research questions are being addressed. Tax incentives are usually given to the beneficiaries by the government in an effort to boost business growth and investments. The New Growth theory, Tax Discrimination theory, and Theory of Investment Behaviour are adopted in the study.

2.2.1 New Growth Theory

The New Growth theory by Edward Elgar projects institutions as critical players in advancement of the society. The theory further posits that sub-Saharan countries lack proficient organizations thus calling for governments to be in the forefront in supporting emerging institutions towards industrialization. In this sense, governments need to have in place working policies for industrial development and low-cost business models founded on effective infrastructural facilities and tax incentives. According to Romer (1990), such a strategy is important especially in supporting export businesses, more so from developing countries. The theory also emphasizes the need for other external factors such as human resource development and mentorship, transferable skills and technology as accelerators for industrialization and business growth. Greater emphasis is laid on the progressive gaining and buildup of knowledge as a prerequisite for expanding outcomes connected with new knowledge and innovation. The end result is economic growth backed up by new inventions.

According to Oliver (1991), the adoption of new technology by companies guarantees bigger profit margins. The move enables the organizations to diversify in investments, including investing in more feasible projects with added value to the firms. The impact of technology and knowledge allows the firm to make rational investments that are cost-effective. Business experts

argue that technology and innovation are the hallmark of successful profit-making companies. According to Edvinsson and Malone (1997) for example, both basic and human capital are essential in business ventures, helping the company to gain competitive advantage over the rest. Where there is interplay between the intellectual human capital and basic capital, there is always likelihood to have astute operational processes, reliable databases, brands and committed clientele as essential elements in establishing sustainable competitive lead. Under such business environment, it becomes easier to realize the effect of tax incentives on the overall business operations whenever an opportunity arises for that to be issued. Coupled with tax incentives, capital utilized productivity, human capital proficiency and basic capital effectiveness promotes high financial performance of the firm.

This study explores the effect of tax incentives on the performances of manufacturing firms. In relation to this theory, this means that the focus by all stakeholders in any business should not only be on the tax inducements but also on other elements of production. For instance, informed labour force and well-organized infrastructural facilities are also important foundations upon which successful businesses are grounded. According to Samatar (2012), scale of change in terms of educating the taxpayer on taxation matters will make a whole difference when it comes to organizational performance.

2.2.2 Tax Discrimination Theory

Advanced by Glaeser (2001), tax discrimination theory posits that the government should impose tax rates based on regions and investments. In this sense tax rate is determined by demands for organizations to operate from a given location. The theory further holds that governments should apply the principle of tax discrimination in order to encourage development in less developed localities such in rural areas. According to Mason (2006), regardless of their same operational jurisdictions, resident and non-resident business entities should be subjected to different tax regimes. On the same note, tax incentives such as tax holidays and general low tax rates should be given to business patrons to move their businesses to less developed areas, such as relocating from major cities to smaller towns. This spreads business opportunities hence enabling more people to be economically empowered.

The rationale for tax discrimination is based on the fact that the resident taxpayer is usually taxable on all his/her global income while non-resident is taxable on income derived in the host

state. This, according to Mason (2006), promotes economic efficiency and integration in a globally competitive market. These sentiments echo the ideals of European Court of Justice (ECJ) position on tax discrimination, arguing that this practice advances economic effectiveness and integration of the European Common Market (ECM). Based on this theory, it makes economic sense to uplift certain firms through tax incentives for the common good where they are encouraged to invest so that as many people as possible can get employment. Decentralization of the company's services to less developed areas also acts as a wealth distribution strategy to create equity in a country or region. However, the theory falls short of prescribing how exactly to determine the extent to which tax incentives can persuade a company to relocate its business base given that there are other critical factors involved in running a business. For instance, infrastructural facilities, customer base, and overall business running costs among others are critical elements any firm should consider before relocating.

2.2.3 Theory of Investment Behaviour

Propagated by Jorgenson (1963), theory of Investment Behaviour postulates that the most preferred stock of capital for any firm is proportional to the target level of output. Therefore, net investment should be proportional to the expected change in output. It therefore follows that the ratio of net investment to GDP depends on the expected rate of GDP growth. Called the 'accelerator' model, this implies that investment rises when output growth accelerates, and the reverse is also true (Jorgenson and Hall, 1971). Furthermore, according to this theory, an economy on a rapid growth trajectory attracts a high rate of investment. On the other hand, a dormant or dwindling economy offers no reason for any incentives.

Hence, there may be an interactive system that can create either a virtuous circle of high growth and high investment, or a vicious circle of low growth and low investment. As a more realistic version however, the 'flexible accelerator' model recognizes that the desired capital stock depends not only on output, but also on the user cost of capital (UCC). In this model investment takes place as long as the value of the added output from an investment exceeds the UCC; in other words when the benefits exceed the cost. From this basic condition one can readily incorporate tax considerations into the analysis. In particular, tax elements heavily influence the UCC, which is the cost per year of deploying capital in an investment project.

A higher user cost of capital reduces the set of viable investment projects. It also provides an incentive for companies to pursue more labor-intensive projects. Conversely, a lower UCC expands the set of viable investment projects, and favors capital-intensive projects (Jorgenson and Hall, 1971). This theory supports the objective of the study, prescribing under what circumstances it would be most reasonable to recommend tax incentives for a firm.

2.3 Empirical Review

In many sub-Saharan countries, company income tax incentives are offered so as to attract new investments. For example, empirical evidence shows that there is a correlation between tax incentives and foreign direct investments (FDI) (Fakile and Adegbile, 2011). A study by Babatunde and Adepeju (2012) that examined the impact of tax incentives on FDI in the Oil and Gas Sector in Nigeria revealed that there was noteworthy impact of tax incentives on this business sector. In a study done in over 40 Latin American, Caribbean and African countries by Klemm and Parys (2013) meant to address the question of how effective tax incentives are in attracting investments, it emerged that lower corporate income tax rates and longer tax holidays are effective in attracting FDI. Ahmed (2004) talked about Corporate Income Taxes model, which pointed out to the importance of exploitation of tax statutes and tax policy provisions by organizations for their business growth. Becker (2006) analyzed the investment distribution for both money-making and non-profitable organizations and noted that tax incentives had an economically considerable effect on the investment outcomes.

Generally, several studies have reported that tax incentives have a significant impact on investment flows. Fakile and Adegbile (2011) posit that low corporate tax rate is common in developing economies as a strategy to attract more investments, including from foreign investors. According to Ekpung and Wilfred (2014), high corporate tax was unhealthy for economic expansion and discouraged foreign direct investments. In a study done by Okoi and Edame (2013) in Nigeria, high corporate tax emerged as having devastating effects on the foreign direct investments (FDI) and the country's gross domestic products (GDP). Tax incentives therefore gave an opportunity for the country to encourage FDI. Similarly, a study conducted by Bond and Xing (2013) revealed that high statutory corporate tax rate and depreciation allowances had a significant negative effect on investment in equipment assets. However, in a study by the European Commission (2013) it emerged that low corporate taxation or tax incentives did not

have a common impact on investor decisions across different capital asset domains, including transportation, information and communication technology, equipment, and other machinery. Similarly, in a study by Obida and Nurudeen (2010) examining the association between foreign direct investments and their possible determinants, it emerged that the major determinant of FDI included such factors as the market size of the host country, deregulation, exchange rate depreciation, and political instability. The issue of taxation did not emerge as one of the factors affecting foreign direct investment. Nonetheless, Tessema (2008), pointed out that multinationals conducting businesses in the African region were denying revenue to their host countries especially by hiding under tax incentive administration. The study further noted that the failure to establish necessary legal and institutional systems for curtailing tax administration malpractices by these corporations made a mockery of issuance of tax incentive as a strategy to encourage company growth. For instance, according to Ayanwale (2007), Nigeria lost billions of nairas to tax incentives yearly hence ironically denying the country the opportunity to actually attract foreign investments through tax incentives.

In their survey where they sampled 85 countries across the globe to establish the effect of corporate taxes and tax incentives on investment and business growth, Djankov, Ganser and Ramalho (2009) found that large tax rates had a significant negative effect on corporate investments and private enterprise. Effective corporate income tax was also associated with lower investment in manufacturing, a larger unofficial economy and greater reliance on debt as opposed to equity finance. Likewise, in their study to investigate the effect of tax incentives on business expansion, Karabegovic et al (2014) established that marginal tax rates reduced people's motivation to work up their potential, to take business risks, and to expand their businesses. The study concluded that rising marginal taxes had severely pessimistic outcomes on economic growth and development, labour supply, and wealth creation.

2.3.1 Taxpayer's Knowledge of Tax Incentives

Taxpayer's understanding of taxation and tax incentives is very critical in determining how promptly potential taxpayers will pay. Experts argue that the wealth of a nation lies in the skills of its population; and this includes knowledge on taxation for the sake of economic development (Beardshaw et al, 2001).

The Kenya Revenue Authority (KRA) defines tax incentive as a provision that grants any organization or individual favourable conditions that deviate from the normal provisions of the tax legislation. There are different types of tax incentives, applicable to different organizations and offered under specific circumstances. Furthermore, there are both advantages and disadvantages associated with tax incentives. According to the Institute of Economic Affairs (IEA) (2011), tax incentive acts as a policy tool to attract increased foreign direct investment through lower tax burdens and serves to encourage private sector participation in economic and social programs where government plays a key role. Providing tax incentives to the taxpayer is generally intended to ease the tax burden for taxpayers thereby aggravating the company's operations. On the flipside, tax incentives make the tax system less transparent, less predictable. In this sense, prospective investors are likely to perceive taxation as less steady hence lose faith in tax regimes.

Despite the importance of tax incentives in investment and general economic development, studies show that not all potential beneficiaries may be aware of the existence of particular incentives and how to apply for them (Fakile and Owuigbe, 2013). Taxpayer knowledge is generally imperative to create and boost awareness among potential tax incentive beneficiaries on how to perform their tax obligations better.

2.3.2 Impact of Tax Incentives on Organizational After-tax Profits

Taxation is the major source of revenue for the government, helping it finance all its projects. Hence, the government often attempts to maximize collection of taxes, including through provision of incentives to the taxpayers. This is because if taxes are too high for the investors to pay, the next option may be for the firms to collapse their operations. Essentially, the level of taxes and the overall tax regimes in a country play a critical role in determining the successes of companies.

The introduction of tax incentives in Kenya was mainly intended to promote investment, Foreign Direct Investment, and employment creation (KRA, 2004, Simiyu, 2013). Although higher tax rates guarantee enough revenues for the government thereby helping to avoid budget deficits, this may be counterproductive in the sense that it can scare investors away (Fakile and Uwuigbe, 2013). Heavy taxation, especially direct taxes, stifles private investment and erodes profit margins for the companies since taxes have negative implications on the cost of production hence

impacting profitability (Ohaka and Agundu, 2012). According to Oriakhi and Osemwengie (2013), high income taxes reduce the disposable income for companies hence affecting the profit ploughed back into the business. In this case, it behooves tax authorities to determine an optimum level of income tax rate that maximizes tax revenue and ensures maximum private investment. Indirect taxes on imports can be used to protect local young industries from unhealthy competition posed by cheap imports (Akinyomi and Tasie, 2011). This encourages private investment in the industries that produce import substitutes. However, according to Akinyomi and Tasie (2011), if indirect taxes are imposed on inputs and capital used by local producers, it will increase cost of production, which discourages private investment. Poor private investment implies reduced tax collection, ultimately this eating into the country's revenue base.

Furthermore, high marginal tax rates diminished people's willingness to maximize their investment potentials and take up entrepreneurial risks so as to create and develop new businesses (Karabegovic et al, 2004). According to Vergara (2004), high and increasing marginal taxes have serious negative consequences on economic growth, labour supply and capital formation. In a study to investigate the relationship between the corporate income tax reform and the performance of private investment, Vergara (2004) found that when corporate income tax was reduced from 50 percent to as low as 17 percent, private investment showed an impressive performance, climbing from 12 percent of GDP to about 22.5 percent of GDP within a span of two years. According to Fowowe (2013), tax incentives can be used in promoting investment in certain economic zones initially not very popular to investors. This may be witnessed where the government extends tax holidays, tax remissions and other related tax incentives to investors in specified sectors of the economy or zones. In Kenya, unique economic zones popularly known as Export Processing Zones (EPZs) are examples of how tax incentives can be used to promote private investment (Karingi, Kimenyi & Ndung'u, 2001).

2.3.3 Relationship between Tax Incentives and Organizational Performance

Tax incentives give immeasurable advantages to manufacturing firms, majorly in form of capital allowances which are deducted from overall annual corporate tax liability. Tax incentives therefore open doors for manufacturing firms to report higher after-tax profits after recovering capital expenditures by the firms (Kaplan, 2001). Tax incentives are geared towards encouraging and stimulating economic activities of business enterprises. They are embedded on government

fiscal policies designed to revitalize and stabilize corporate and even individual business entities. According to Philips (2010), tax incentives are also utilized by the government to help create more employment especially for those self-employed. These sentiments are echoed by Ojochogwu and Ojeka (2012) who noted that corporate tax incentives can significantly enhance economic growth and registering of high profits for firms. Although profitability may not be instant, after a period of at least three to five years, positive changes would start being noticed.

Philips (2010) further observed that tax incentives were used by governments worldwide to attract private investments in prioritized industries. Incentives are often granted to offset actual or perceived differences in the cost of doing business in different political jurisdictions whether the cost differences arise from tax differences or from differences in transportation, labor, or other costs. This acts as a catalyst for improved performance (Philips, 2010). Bronos and McDonald (2008) have further argued that incentives raise the return to capital thus making investment in a location more attractive and in turn increase profitability of the firm. Tax incentives may be in varied forms, including government provision of below-market interest loans, tax relief through the use of credits, deductions, or abatements, direct grants of land and facilities, and taxpayer financed work force training for targeted firms and industries (Bronos and Mc Donald, 2008).

2.4 Conceptual Framework

Cooper and Schindler (2011) postulate that research revolves around independent and dependent variables, with the researcher attempting to establish the relationship between the two. According to Mugenda and Mugenda (2008) and Smith (2004), a conceptual framework is viewed as a hypothesized model which tries to link the dependent and independent variables under study. In this sense, an independent variable is viewed as a factor that affects the dependent variable, an outcome in the study.

The purpose of this study is to examine the effect of tax incentives on the performance of manufacturing firms in Kenya, taking Nairobi County as a case study. Figure 2.1 therefore depicts a diagrammatical relationship between tax incentives and performance of manufacturing firms. Company tax incentives, company's knowledge of tax incentives, size of after-tax profits, and company's expansion ability are independent variables that may point to the level of organizational performance, the dependent variable also viewed as the outcome.

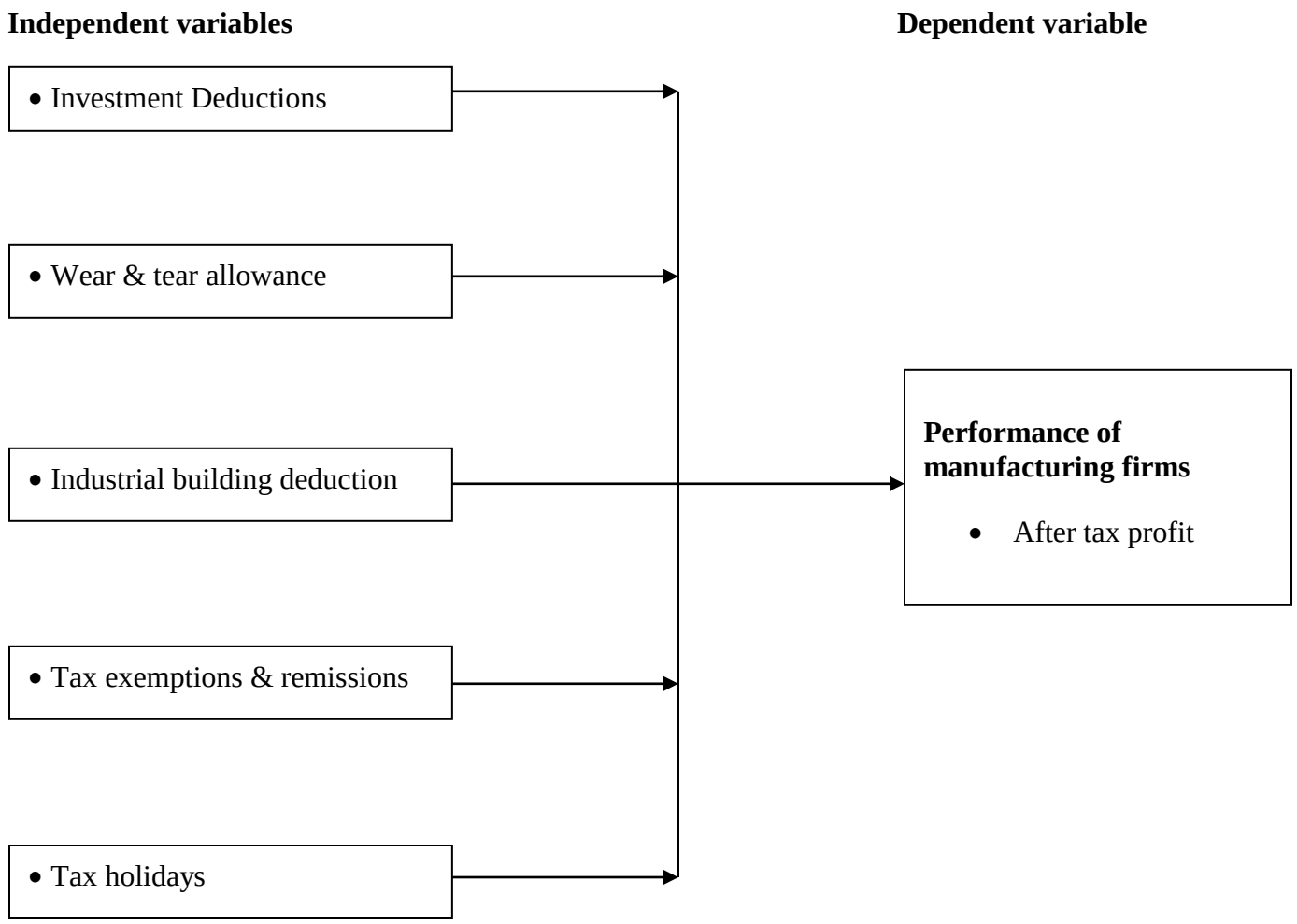


Figure 2.1 Conceptual Framework

2.5 Knowledge Gap

Enhanced taxation is a gain for every government, for it means that essential services can easily be offered to the citizenry. In order to improve tax revenue collection, many governments apply every strategy so as to meet this obligation. One of such strategies is offering tax incentives to attract FDIs which have the capacity to impact the economy in a meaningful way. Yet, tax incentives have both advantages and disadvantages, not forgetting the challenges encountered by the government when offering them to any given firm at any given time. For instance, a study done by the World Bank Investment Advisory Services in 2009 established that in many sub-Saharan countries tax incentives did not effectively correct unattractive investment environment. The study indicated that poor infrastructural facilities, macroeconomic uncertainties, political

stability, and poor markets among other factors also played a significant role in determining performances of companies regardless of whether they were given tax incentives or not. From the past, there has been limited research done on the effects of tax incentives based on the sectoral performance of the economy. It is in light of the above fact and controversy still surrounding tax incentives and performance of companies which receive the incentives that this study seeks to examine the relationship between tax incentives and organizational performance for the manufacturing sector.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the methodology used in the study and gives justification for the same. The chapter focuses on the research design, target population, sampling and sample size, and data collection instruments. Besides, data collection procedures, pilot testing, and data analysis techniques, as well as research ethical considerations are presented.

3.2 Research Design

Research design outlines a plan the researcher will apply in answering the research objectives (Orodho, 2003). According to Saunders et al (2009), this is a blueprint that makes it possible for the researcher to give an accurate description and presentation of the relationship between variables without any manipulation. The study adopted a descriptive research design to address the research objectives. Descriptive research design allowed a detailed description and analysis of the variables under study. Furthermore, descriptive research design was suitable for explaining inferences or causal relationship between independent and dependent variables. This design allowed deductive reasoning in order to allow generalization of the study findings on the effect of tax incentives on organizational performance.

According to Berret (2010), this approach would be appropriate for gathering information about practical problems for more precise investigation. This would help enhance the validity of the research findings.

3.3 Target Population

Orodho (2003) defines a population as the total group of elements from which a researcher intends to make certain deductions or inferences. A population could be a well-defined set of people, objects, services, or events (Ngechu, 2004). Target population consists of all members from which a researcher will pick a sample. Important to note is the fact that all the subjects in a target population must have some common observable characteristics of a particular nature distinct from other populations. This will make it possible to generalize data at the end of the study. The target population for this study were manufacturing companies in Nairobi County.

There are approximately 343 manufacturing companies in Nairobi County, and this formed the sampling frame for the study.

Doubling up as Kenya's capital city and a business hub in the East African region, Nairobi greatly contributes to the country's overall economy hence an ideal study site. The respondents comprised of top, middle and lower level management in the selected companies for virtue of their understanding of operational, financial and tax management of their firms.

3.4 Sampling Technique and Sample Size

Kothari (2014) describes a sample as a collection of units picked from the universe to represent it. According to Orodho (2002), a sample is a subset of the population to which the researcher intends to generalize the results, and it must be arrived at through a suitable sampling method which is in tandem with the study design. Sampling enables the researcher to estimate unknown characteristics of the population and make generalization with overall accuracy.

Sampling was done at two levels; using stratified and simple random sampling techniques. simple random sampling was preferred because it eliminates bias and gives the elements in the population equal chances of being selected (Merriam, 2008). Based on the sectors in which they operate, the companies were first put into non-overlapping strata with shared attributes. At the second level of sampling, simple random sampling technique was applied in order to pick the required representation from specific sectors. Given the approximate number of 343 manufacturing companies in Nairobi, and with the help of Krejee & Morgan Table 1970 at 5% margin of error (degree of confidence) using 95% confidence level, the sample was 137 participants.

Table 3.1 Sample Size

Manufacturing Companies		**Sample Size**	
Location	**Sampling Frame (N)**	**Sample (n)**	**Percentage (%)**
Nairobi CBD	343	137	40
Total	**343**	**137**	**40**

3.5 Data Collection Instruments

The study used both primary and secondary data to answer its research questions. Structured questionnaire was used as the main research instrument for primary data. On the other hand, secondary data was obtained from the Kenya Association of Manufacturers (KAM) and other relevant journals. These provided an overview of the number of manufacturing companies in Nairobi and in the country in general (KAM, 2016). The questionnaire was appropriate for primary data because of its ability to gather large sample sized data hence saving time (Kothari, 2014). Besides, questionnaires make it possible to encourage and sustain the respondents' confidentiality. In addition, the questionnaire is less time-consuming hence the most effective and efficient way of gathering information within a very short time. Furthermore, questionnaires are thought to facilitate easier coding and analysis of the data collected.

The questionnaire for this study was mainly closed-ended. However, a few open-ended questions were added to capture extra information meant to provide clarifications. According to Orodho (2005), a combination of both closed-ended and open-ended questionnaires enhanced richness of data, hence more suitable for generalization of the findings. The questionnaire was designed in such a way that section A contained general or demographic information regarding the respondents while sections B to E asked questions based on the specific research objectives. Sections B to E consisted of questions applying Yes/No options and items applying the Likert Scale, with the responses ranging from 1-5 on the rating scale. Besides, the questionnaire had spaces for qualitative data in form of comments, clarifications or additional information. These sections were as detailed as possible so as to address all the specific research questions.

3.6 Data Collection Procedure

Upon being granted relevant authorizations to commence this study, at least three research assistants were recruited and trained on the questionnaire and the general data collection principles. Pilot-testing was then done in order to allow revision of the questionnaire accordingly. Enough copies of the questionnaire were made before actual data collection began in earnest. The respondents to the questionnaire were drawn from the management where they were categorized as top, mid-level, and junior managers. Data collection was done through self-administered questionnaires/interviews and to some extent involved face-to-face interviews. A letter of introduction was attached to the questionnaires explaining the purpose of the study to the

participants. Throughout data collection exercise, high level of confidentiality was maintained so as to gain the respondents' confidence and increase the response rate.

Post-fieldwork activities entailed assessment and serialization of the completed questionnaires before data entry. Data analysis, presentation, and discussion then followed before conclusions and recommendations were finally made. Fieldwork exercise was conducted within two months, and each questionnaire took 10-20 minutes on average to complete.

3.7 Pilot Testing

Before actual data collection began, a pilot study was conducted to three randomly selected companies from the three targeted domains. The participants involved in the pilot were excluded from the actual study. Pilot testing was to facilitate correction of any vagueness in the research instruments and ensure that the questionnaires were clearly framed so as to be understood better by the respondents.

3.7.1 Validity Test

According to Cherry (2015) and Saunders et al (2013), validity entails the extent to which a research tool is able to measure what it purposed to evaluate. Validity is a measure of relevance and accuracy of a research instrument. It is a signal to the soundness of a data collection tool.

In order to improve the validity of the research tool, pretesting was done to establish how acceptable, answerable and well-understood the questions were. Any vague phrases were revised so that everything was as clear as possible.

3.7.2 Reliability Test

Any research instrument is supposed to be standard, providing a benchmark for generalization of the data. According to Cherry (2015) therefore, reliability is a measure of the degree to which a research tool elicits reliable results or data after repetitive tests. It contributes to consistency of research instruments which subsequently enables the results of a study to be generalizable to the larger population.

A pilot study was done to understand where the questionnaire needed to be adjusted. The findings from the pilot study were used to determine how to adjust the questionnaire based on Cronbach of 0.7 according to Nunally (1978). Reliability analysis was subsequently done using Cronbach's Alpha, with alpha coefficient ranging in value from 0 to 1 to describe the reliability of factors

extracted from dichotomous and/or multi-point formatted questionnaires or rating scale where 1 = poor and 5 = excellent. The higher the score, the more reliable the generated scale would be.

3.8 Data Analysis and Presentation

Data analysis refers to attempting to understand the collected data with intent to determining consistent patterns and summarizing the relevant details revealed in the investigation (Zikmund, Babin, Carr and Griffin, 2010). Quantitative data was analyzed using descriptive techniques Statistical Package for Social Sciences (SPSS) IBM Version 21 software program and Excel worksheets. Results were summarized and presented using frequency distribution and percentages. Tables and charts were used to present the figures. On the other hand, qualitative data was analyzed using the coding, pattern and content analysis technique. Content analysis procedure would enable making of objective inferences based on available data from the field. A critical appraisal of each descriptive response was done using thematic interpretation on the basis of the main objective of the study and subsequently presented in narrative citations within the report.

In order to investigate the effect of tax incentives on performance of manufacturing firms in Kenya, a case of Nairobi County, this study employed the multiple regression models to explain the variables. This study had one dependent variable namely after-tax profit. The independent variables were investment deductions, wear & tear, industrial building deductions, tax exemptions and remissions and tax holiday.

In line with the multiple regression model adopted by this study, the following model was built:

PMF (After-tax profit) = f (ID, WT, IBD, TER, TH) 3.1

where PMF represents the performance of manufacturing firms; ID represents investment deduction, WT represents wear and tear allowance, IBD represents industrial building deduction, TER represents tax exemption and remissions and TH represents tax holiday and f is a functional relationship. However, the econometric form of equation 3.1 is expressed as follows:

$PMF_t = \beta_0 + \beta_1 ID + \beta_2 WT + \beta_3 IBD + \beta_4 TER + \beta_5 TH + u_t$ 3.2

where β_0 is the estimated value for the intercept in the model; β_1-β_5 are coefficients of each independent or explanatory variable; and u_t is the error term that captures other variables not explicitly included in the model.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the research findings and a discussion of the same. The presentation and discussion are done in line with the specific objectives of the study. Descriptive data is presented using tables, graphs and charts while qualitative data is presented through narratives. The chapter is divided into research introduction, research findings, and discussion.

4.2 Research Findings

The study examined the effect of tax incentives on the performance of manufacturing firms in Kenya, taking Nairobi County as case study. Specific objectives of the study included: to identify how investment deductions affect performance of manufacturing companies, to examine the impact of wear and tear allowance on performance of manufacturing companies, to investigate the influence of industrial building deductions on performance of manufacturing companies, to examine the effect of tax exemptions and remissions on performance of manufacturing companies, and to establish how tax holidays influence performance of manufacturing companies in Nairobi County. The study adopted New Growth Theory, Tax Discrimination Theory, and Theory of Investment Behaviour. Using descriptive research design, the study targeted 343 manufacturing companies in Nairobi County, which formed the sampling frame. The respondents were grouped into three categories: top, mid and junior managers and 137 of them were sampled to participate in the study. Out of the sample size of 137 respondents, 105 managed to complete the interviews. This made a response rate of 77 percent, which was sufficient for analysis. According to Mugenda and Mugenda (2003), a return rate of at least 70 percent is good enough for analysis. A summary of these responses is captured in table 4.1.

Table 4.1 Response Rate

Category of Participants	Sample Size Percentage (%)	Response Rate Percentage (%)
Top-level Managers	26	69
Mid-level Managers	33	78
Junior Managers	42	81
Total	**100**	**77**

4.2.1 Respondents' Gender Distribution

Gender distribution of the respondents was a critical demographic element for reflecting on varied opinions on the study's subject matter. The findings indicated that men were more than women, accounting for 64% and 36% respectively. Of the 105 respondents, 67 (64%) were men while 38 (36%) were women. Figure 4.1 illustrates a summary of the respondents' gender distribution.

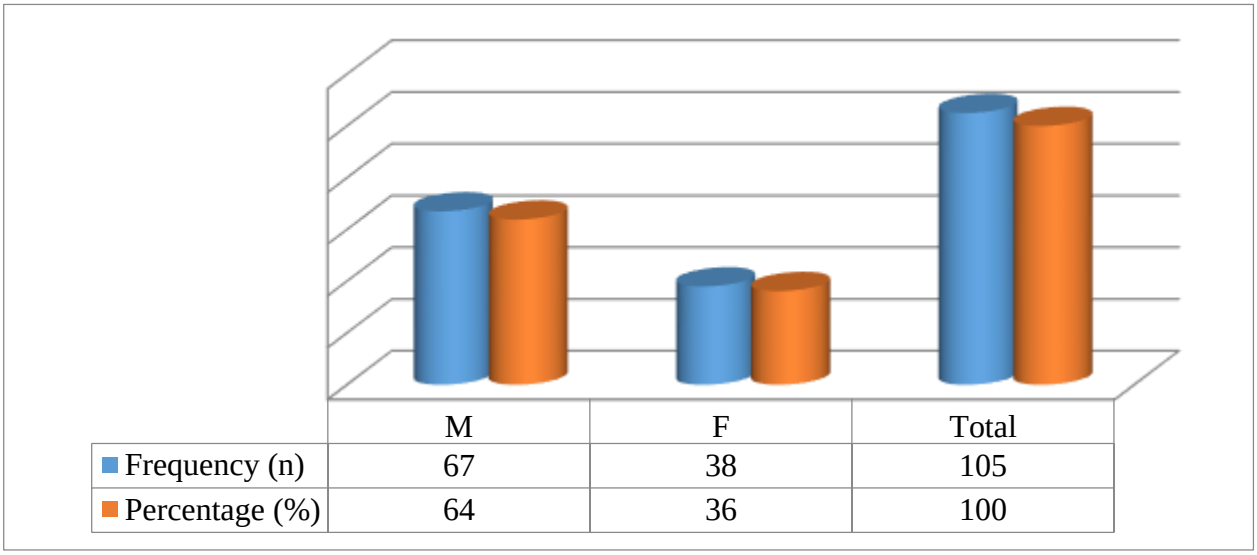
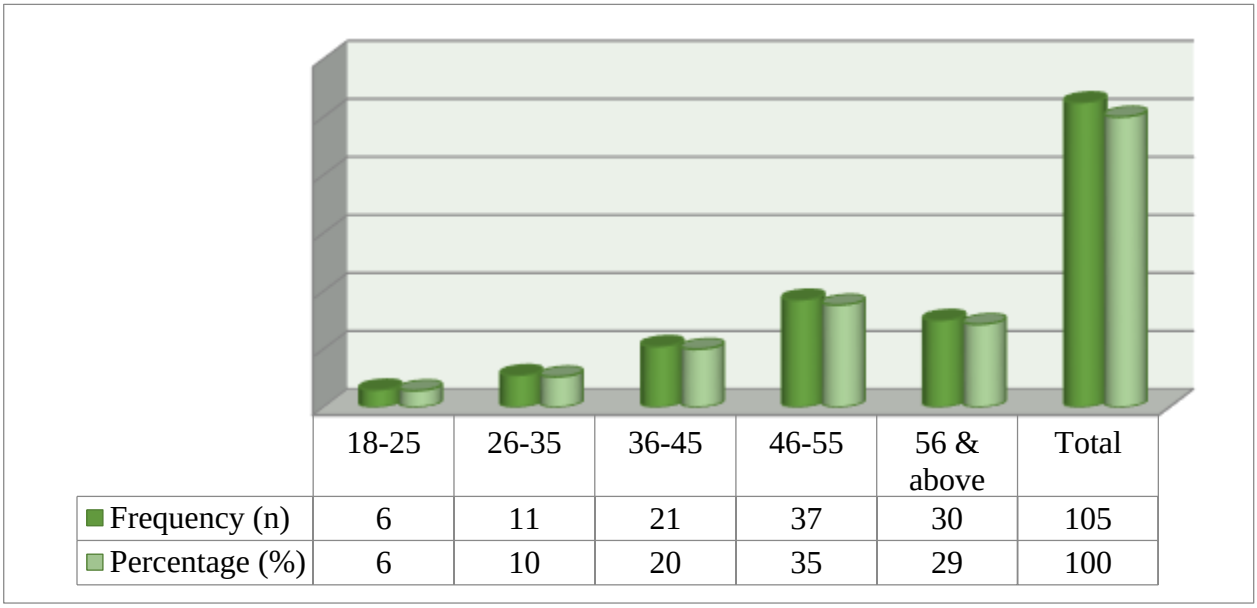


Figure 4.1 Respondents' Gender Distribution

4.2.2 Respondents' Age Distribution

The respondents' age disaggregation was based on a uniform distribution, with 18 years at the minimum and 56 and above years at the maximum level. The minimum was based on the age at which an individual is legally qualified to be formally employed in Kenya while the maximum is

a presumed age at which individuals are contemplating to retire from salaried employment. From the findings, majority of the respondents were aged 46-55, accounting for 35% (n=37). In a descending order, this category was followed was followed by those aged 56 & above years (29%; n=30), 36-45 years (20%; n=21), 26-35 years (10%; n=11), and 18-25 years (6%; n=6). Generally, the trend shows that very few respondents in the age category of 18-25 years were in managerial positions. The age distribution tendency may be reflective of the common practice in many organizations where those holding management portfolios are relatively old, otherwise considered as mature enough to effectively run their respective offices. The age distribution is summarized in figure 4.2.

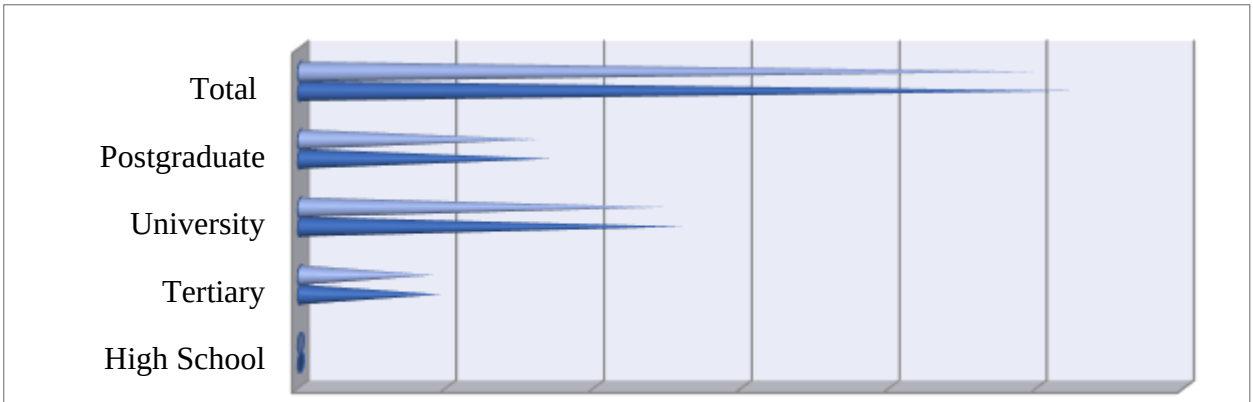


	18-25	26-35	36-45	46-55	56 & above	Total
Frequency (n)	6	11	21	37	30	105
Percentage (%)	6	10	20	35	29	100

Figure 4.2 Respondents' Age Distribution

4.2.3 Level of Education of the Respondent

Education qualification for the respondents was very important for determining competencies of those in management. Based on the findings, majority (50%; n=52) of the respondents had attained university education. This group was followed closely by those who had postgraduate qualifications (34%; n=32), and those with a college certificate (18%; n=19). None (0%) of the respondents had only attained high school certificate. Cumulatively therefore, all the respondents had at least a tertiary level of education. Based on these findings, the personnel tasked with implementing company policies were well qualified. A summary of these responses is presented in figure 4.3.

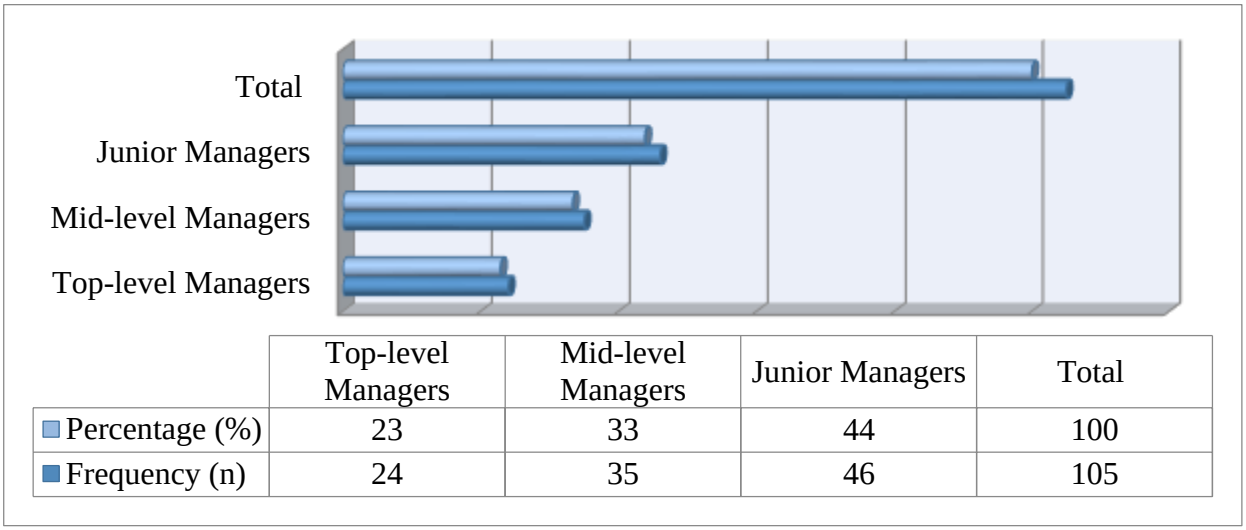


	High School	Tertiary	University	Postgraduate	Total
Percentage (%)	0	18	50	32	100
Fequency (n)	0	19	52	34	105

Figure 4.3 Respondents' Highest Level of Education

4.2.4 Respondents' Level of Service

The study's target population included top managers, mid-level managers and junior manages. The results indicated that majority of the participants were junior managers, followed by mid-level managers, and top=level managers. They accounted for 44% (n=46), 33% (n=35), and 23% (n=24) respectively. A summary of the designation of the respondents is presented in figure 4.4.

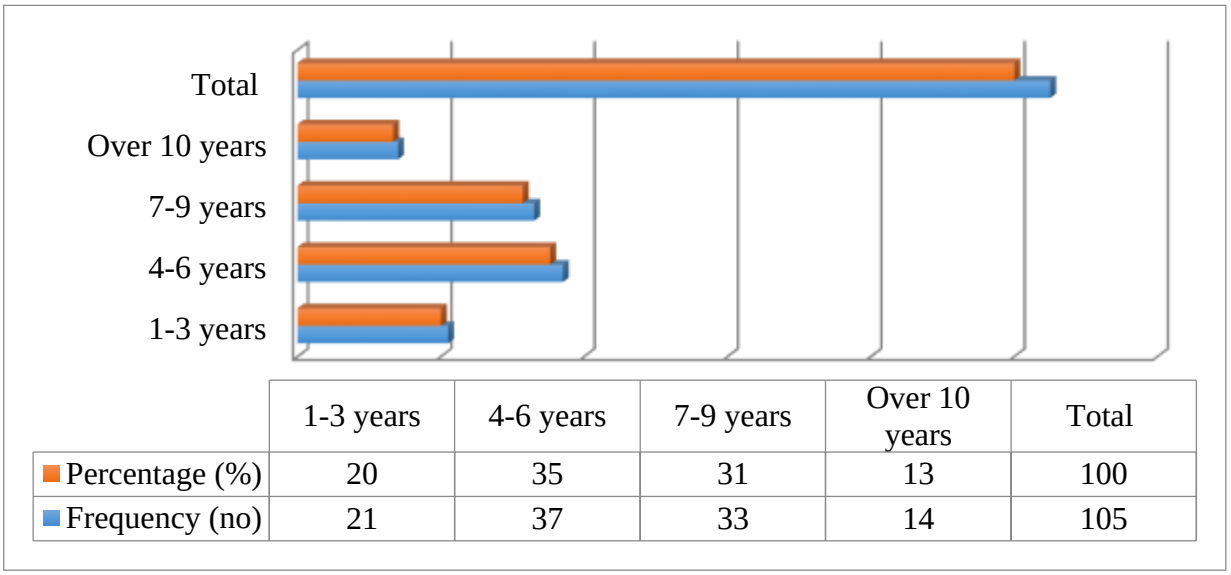


	Top-level Managers	Mid-level Managers	Junior Managers	Total
Percentage (%)	23	33	44	100
Frequency (n)	24	35	46	105

Figure 4.4 Respondents' Current Designation

4.2.5 Respondents' Length of Service in Company

The respondents were also asked about the period they had served in their respective companies. This was meant to understand their familiarity with the operations of the firms they worked for. As illustrated in figure 4.5, majority of the respondents had served their respective companies for 4-6 years while the minority had stayed with the company for over ten years. In a descending order, the employees who had worked for 4-6 years accounted for 35% (n=36), those who had worked for 7-9 years followed, accounting for 31% (n=33), and those who had worked for 1-3 years made 20% (n=21). Lastly, only 13% (n=14) said they had worked for their respective employers for over 10 years.

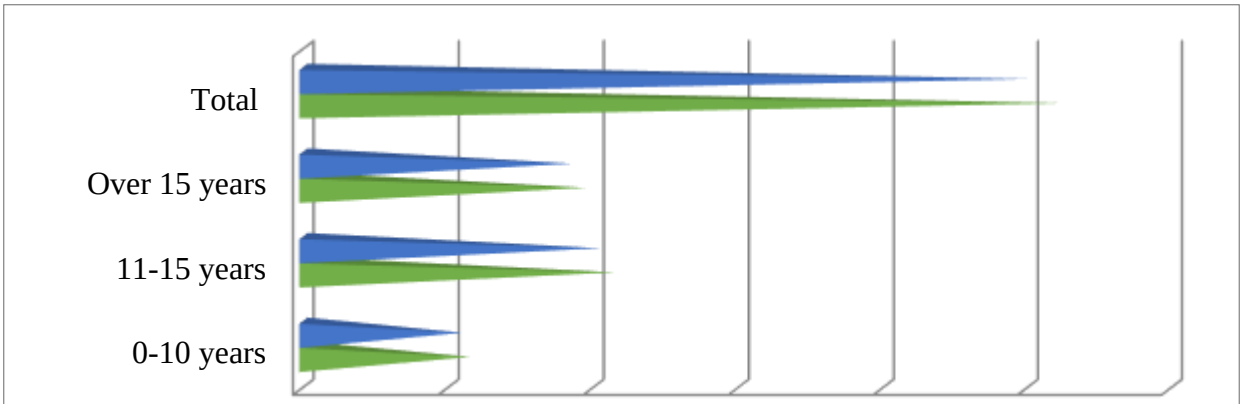


	1-3 years	4-6 years	7-9 years	Over 10 years	Total
Percentage (%)	20	35	31	13	100
Frequency (no)	21	37	33	14	105

Figure 4.5 Respondents' Length of Service with Employers

4.2.6 Companies' Period of Existence

Asked about how long their respective companies had been in existence, majority of them said they had been there for 11-15 years while the minority said their respective employers had been operational for 0-10 years. Specifically, 11-15 years accounted for 41% (n=43), over 15 years made 37% (n=39), and 0-10 years accounted for 22% (n=23). A summary of these statistics is presented in figure 4.6.

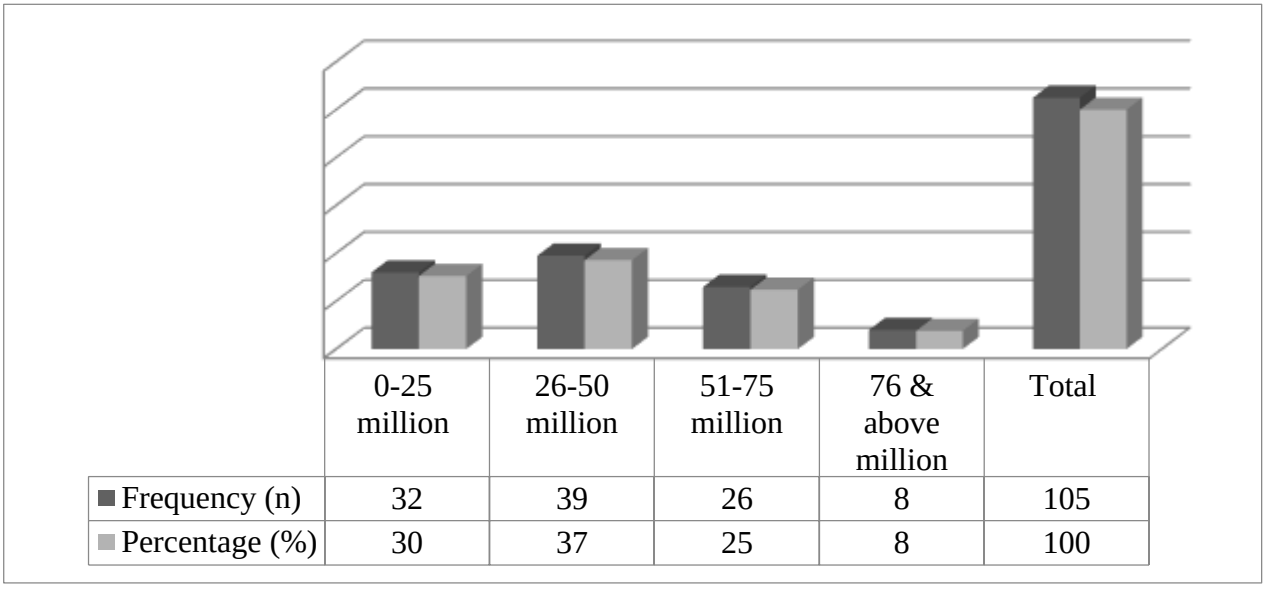


	0-10 years	11-15 years	Over 15 years	Total
Percentage (%)	22	41	37	100
Frequency (n)	23	43	39	105

Figure 4.6 Companies' period of Existence

4.2.7 Companies' Annual Turnover

The respondents were also asked about their companies' annual turnover. Majority of the companies had a turnover of 26-50 million shillings, accounting for 37% (n=39). These were followed by those which received 0-25 million shillings annually, which made 30% (n=32), and those which had a turnover of 51-75 million, at 25% (n=26). The least had 76 and above million, which made 8% (n=8) of the total companies which participated in the study. The statistics are summarized in figure 4.7.



	0-25 million	26-50 million	51-75 million	76 & above million	Total
Frequency (n)	32	39	26	8	105
Percentage (%)	30	37	25	8	100

Figure 4.7 Companies' Annual Turnover

Asked if their companies had ever enjoyed tax incentives, majority (66%) of the respondents said no while 34% answered in the affirmative. These responses are illustrated in figure 4.8.

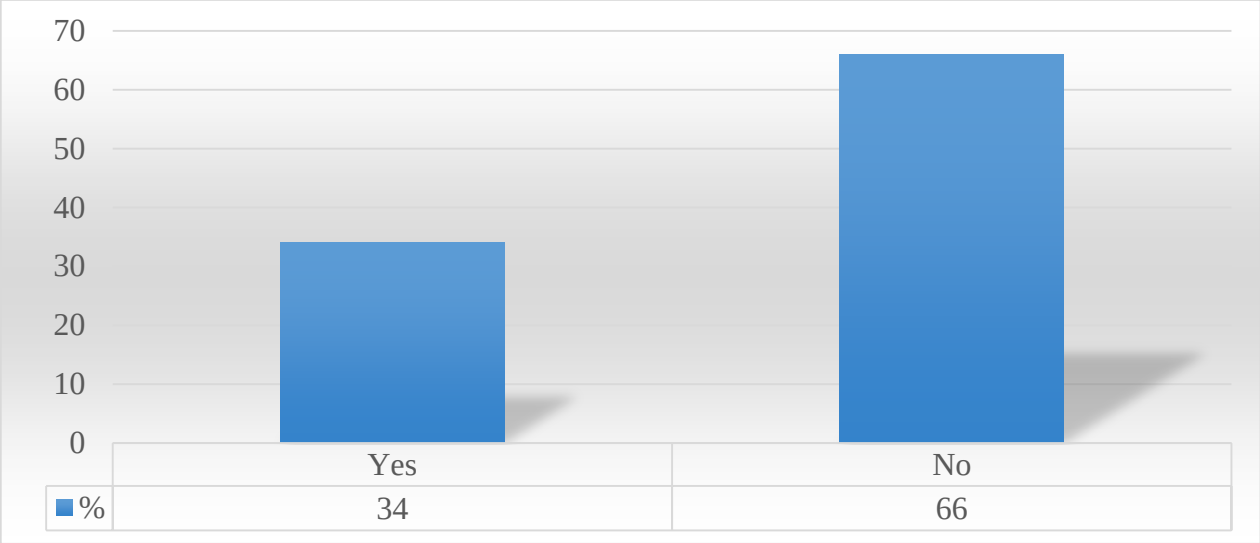


Figure 4.8 Companies' Tax Incentives

On what kind of incentives the companies had received, there were varied responses. A hundred percent (n=105) of them had enjoyed wear and tear allowance while the least (1%; n=1) had ever received tax exemptions and remissions as a tax incentive. Forty one percent (n=43), 26% (n=27), and 3% (n=3) had on the other hand enjoyed investment deductions, industrial building deductions, and tax holidays respectively. Based on these statistics, wear and tear was the most popular incentive while tax exepmtions and remissions was the leas popular. Table 4.2 presents this summary.

Table 4.2 Types of Incentives by Companies

Type of tax Incentive	Frequency (n)	Percentage (%)
Investment Deductions	43	41
Wear and tear	105	100
Industrial Building Deductions	27	26
Tax exemptions and remissions	1	1
Tax Holidays	3	3
(Others (specify	0	0

The respondents were also asked about their awareness of tax incentives and if they thought it was a good idea for companies to be given those incentives. As illustrated in table 4.3, majority

(54%; n=57) of the respondents said that companies were aware of this to a small extent while none of them said that the companies had not heard of them at all. About whether manufacturing companies in Kenya should be granted incentives, majority (52; n=55) of them agreed to a very large extent, with none feeling this was necessary at all. On the other hand, a greater majority did not agree with the fact that manufacturing companies in Kenya were encouraged to invest in tax exempt goods and services.

Table 4.3 Companies' Awareness of Tax Incentives

Awareness of Tax Incentives (n & %)	***1= not at all***		***2= to a small extent***		***3= to some extent***		***4=to a large extent***		***to a very large extent***		**Total**	
	n	***%***	***n***	***%***	***n***	***%***	***n***	***%***	***n***	***%***	**n**	**%**
Manufacturing companies in Kenya are aware of tax incentives	0	0	57	54	42	40	4	4	2	2	105	100
Manufacturing companies in Kenya should be granted tax incentives	0	0	0	0	1	1	49	47	55	52	105	100
Kenyan manufacturing firms are encouraged to invest in tax exempt goods and services	59	56	46	44	0	0	0	0	0	0	105	100

4.3 Investment Deductions and Company Performance

Asked if investment deductions affected performance of manufacturing companies in Kenya, 40 percent of the respondents answered in the affirmative while 60 percent of them said no. Those who agreed with these sentiments said that investment deductions were usually offered as a huge percentage hence reducing the tax liability of a company. These responses are summarized in figure 4.9.

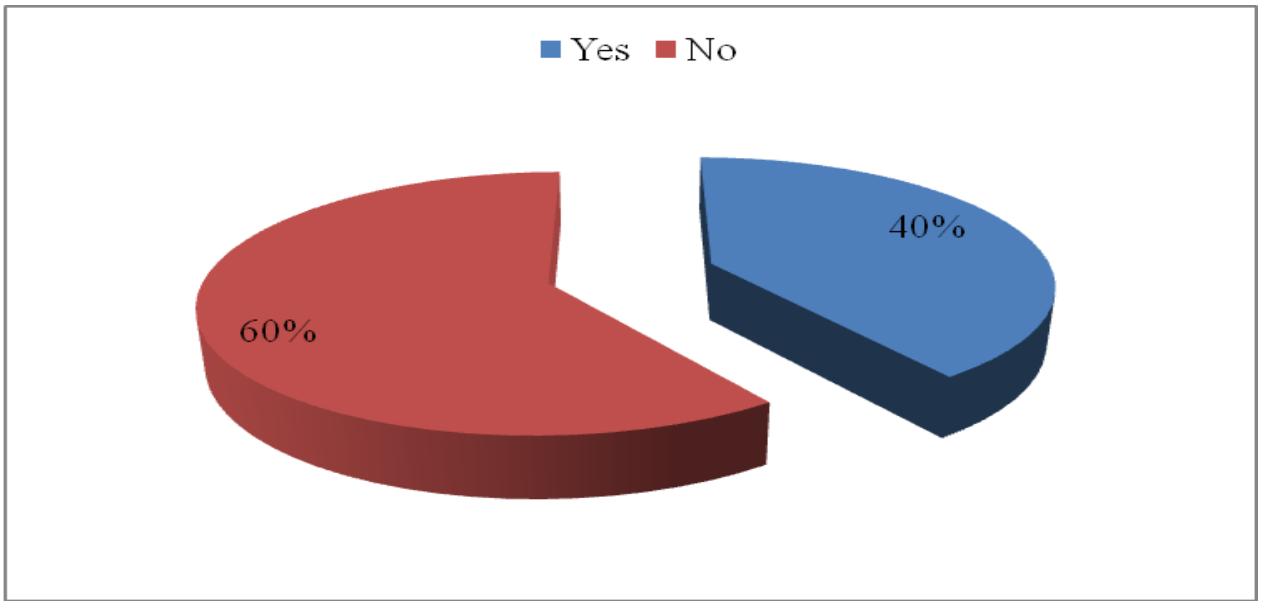


Figure 4.9 Effects of Investment Deductions on Company Performance

The respondents were also asked about the extent investment deductions affected performance of manufacturing companies in Kenya. Majority (54%; n=57) of the respondents said that the effect was to an average extent while only 3% had the views that the effect was to a very great extent. Thirty four percent (n=36) felt that the effect was to a low extent. The respondents explained that since not many companies experienced investment deductions, their effect on performance on those who experienced this kind of incentive was largely between average and low extent. These responses are summarized in table 4.4.

Table 4.4 Extent of Effect of Investment Deductions on Company Performance

Response Items	Frequency (n)	Percentage (%)
Very great extent	3	3
Great extent	9	9
Average extent	57	54
Low extent	36	34
Total	**105**	**100**

On rating the effect of investment deductions on performance of manufacturing companies in Kenya, this was done on three response items which included above average, on average, and below average. As summarized on table 4.5, majority of the respondents said that the effect was

on average, accounting for 70% (n=74). Those who said the effect was above average were 26% (n=27) of the total while only 4% (n=4) had the opinion that the effect was below average. The questions were meant to gauge the respondents' opinions on how much the effect of this particular incentive was. Based on these findings, investment deductions had a significant effect on performance of manufacturing companies in Kenya.

Table 4.5 Rating Effect of Investment Deductions on Company Performance

Response Item	Frequency (n)	Percentage (%)
Above average	27	26
On average	74	70
Below average	4	4
Total	**105**	**100**

4.4 Wear and Tear Allowances and Company Performance

On whether the respondents thought wear and tear allowances had any impact on the performance of manufacturing companies in Kenya, they had a unanimous (100%) affirmative response. They explained that the allowance was related to most assets used by a firm hence offered as a huge amount thus helping reduce tax liability of firm to a large extend. Figure 4.10 illustrates these responses.

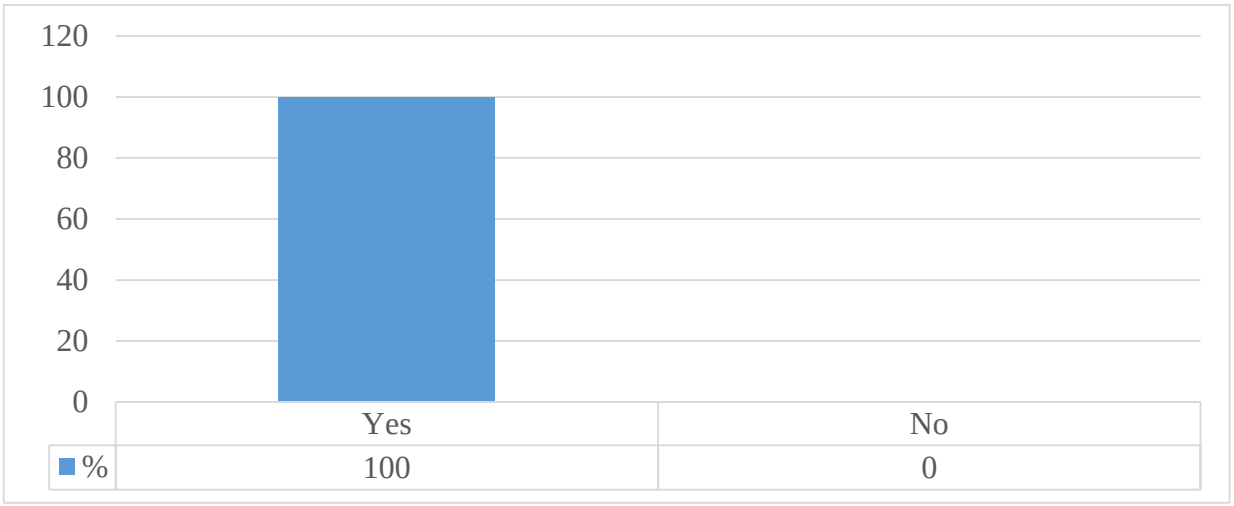


Figure 4.10 Effects of Wear and Tear Allowances on Company Performance

About the extent to which wear and tear allowance impacted on company performance, the respondents expressed mixed reactions. They were asked if wear and tear allowance affected company performance to a very great extent, great extent, average extent or low extent. Sixty six percent (n=69) of the respondents said that wear and tear allowance affected company performance to a very great extent. These were followed by those who said that the impact was to a great extent, which accounted for 33% (n=35); those who said the effect was to average extent, which stood at 1% (n=1); and lastly, those whose views was that the impact was to a low extent, at 0% (n=0). The respondents explained that since in relative terms many companies experienced wear and tear allowance, their effect on performance on those who experienced this kind of incentive was largely between very great and great extent. From the statistics, wear and tear tax allowance significantly affected company performance. A summary of these reactions is captured table 4.6.

Table 4.6 Extent of Effect of Wear and Tear Tax Allowance on Company Performance

Response Item	Frequency (n)	Percentage (%)
Very great extent	69	66
Great extent	35	33
Average extent	1	1
Low extent	0	0
Total	**105**	**100**

While rating the effect of wear and tear allowance on performance of manufacturing companies in Kenya based on three response items, majority (64%; n=67) of the respondents said that the effect was above average. Thirty three percent (n=35) said that the effect was on average while only 3% (n=3) indicated that the impact was below average. The questions were meant to gauge the respondents' opinions on how much the effect of this particular incentive was. These responses are illustrated in table 4.7.

Table 4.7 Rating Effect of Wear and Tear Allowance on Company Performance

Response Item	Frequency (n)	Percentage (%)
Above average	67	64
On average	35	33
Below average	3	3
Total	**105**	**100**

4.5 Industrial Building Deductions and Company Performance

The respondents were also asked whether industrial building deductions had any effect on performance of manufacturing companies in Kenya. Sixty percent (n=63) said yes while 40% (n=42) said no. However, the respondents indicated that most of the manufacturing companies did not qualify for this deduction. Hence, they may not have a very significant impact on the company's performance. These responses are summarized in figure 4.11.

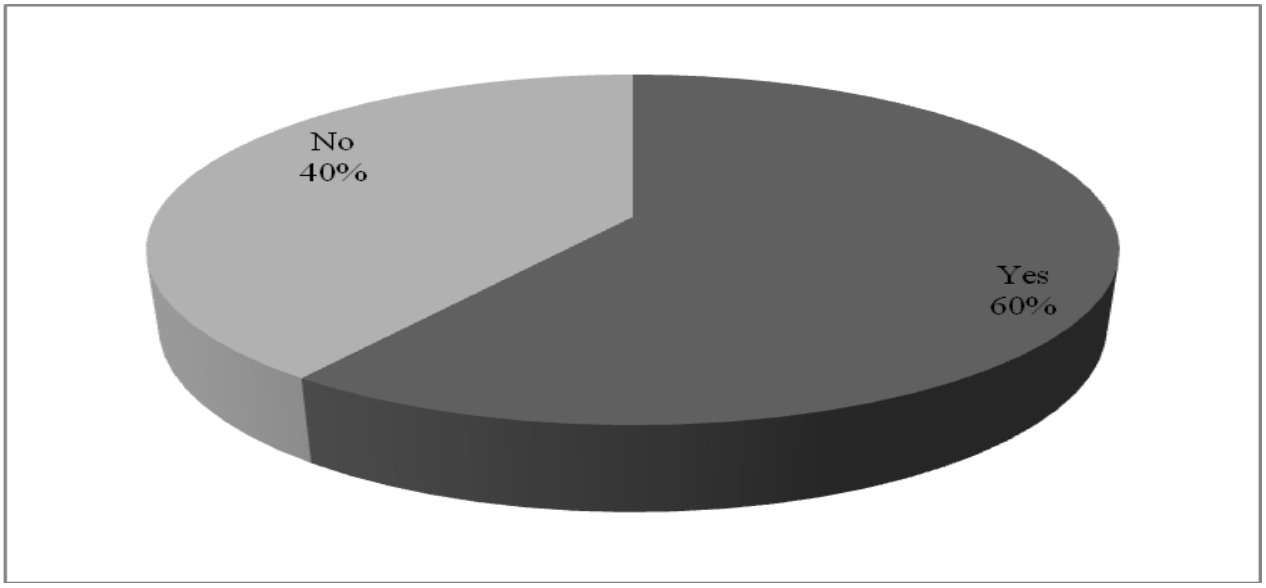


Figure 4.11 Effects of Industrial Building Deductions on Company Performance

Regarding the extent to which industrial building deductions affected performance of manufacturing companies in Kenya, majority (46%; n=48) of the respondents said that this type of incentive affected companies' performance to a low extent. Contrary to wear and tear where the effect was to a very large extent, industrial building deductions only had a negligible effect on the performance of companies. Only 8% (n=8) of the respondents said that this affected the

performances of companies to a very great extent. The respondents explained that since this kind of incentive was not very popular among manufacturing companies, their effect on performance on those who experienced the incentive was largely between average and low extent. Table 4.8 captures a summary of these responses.

Table 4.8 Extent of Effect of Industrial Building Deductions on Company Performance

Response Item	Frequency (n)	Percentage (%)
Very great extent	8	8
Great extent	13	12
Average extent	36	34
Low extent	48	46
Total	**105**	**100**

About the rating of the effect of industrial building deductions on the performance of manufacturing companies in Kenya, the popular feeling was that this rated below average. Fifty eight percent (n=61) of those who were interviewed said that the effect was below average while only 10% (n=11) felt that the effect was above average and 31% (n=33) said that the effect was on average. The questions were meant to gauge the respondents' opinions on how much the effect of this particular incentive was. Table 4.9 illustrates a summary of these responses.

Table 4.9 Rating Effect of Industrial Building Deductions on Company Performance

Response Item	Frequency (n)	Percentage (%)
Above average	11	10
On average	33	31
Below average	61	58
Total	**105**	**100**

4.6 Tax Exemptions and Remissions and Company Performance

Asked whether tax exemptions and remissions had any effect on performance of manufacturing companies in Kenya, 51% said no while 49% answered in the affirmative. The respondents further explained that very few companies qualified for this kind of incentive hence did not have much impact. A summary of these sentiments is presented in figure 4.12.

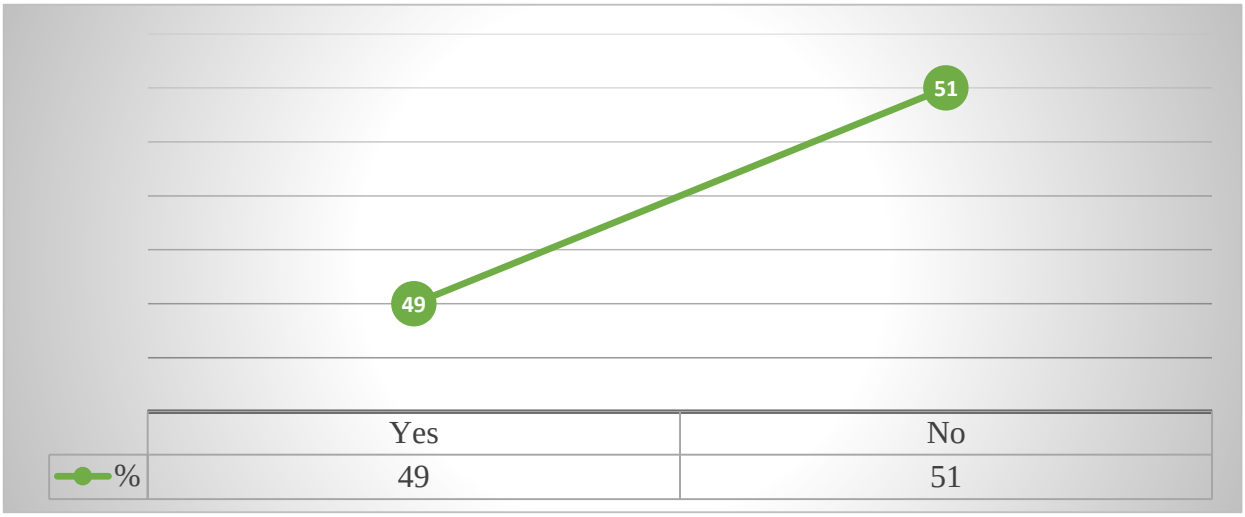


Figure 4.12 Effects of Tax Exemptions and Remissions on Company Performance

On the extent to which tax exemptions and remissions affected performance of manufacturing companies in Kenya, the most common feeling (79%; n=83) of the respondents said that the incentive affected companies' performance to a very low extent. Unlike wear and tear where the effect was to a very great extent, tax exemptions and remissions had insignificant effect on the performance of companies. None (0%) of the respondents said that this type of incentive affected the performances of companies to a very great extent. The respondents explained that although it was almost fifty-fifty that a manufacturing company would experience tax exemptions and remissions, the effect of this kind of incentive on company performance was largely to a low extent. Table 4.10 illustrates the summary of these responses.

Table 4.10 Extent of Effect of Tax Exemptions and Remissions on Company Performance

Response Item	Frequency (n)	Percentage (n)
Very great extent	0	0
Great extent	5	5
Average extent	17	16
Low extent	83	79
Total	**105**	**100**

On the rating of the effect of tax exemptions and remissions on the performance of manufacturing companies in Kenya, 90% (n=94) of the respondents had the opinion that the effect was below

average while none of the respondents said that the effect was above average. Only 10% (n=11) said that the effect was on average. The questions were meant to gauge the respondents' opinions on how much the effect of this particular incentive was. A summary of these responses is presented in table 4.11.

Table 4.11 Rating Effect of Tax Exemptions and Remissions on Company Performance

Response Item	Frequency (n)	Percentage (n)
Above average	0	0
On average	11	10
Below average	94	90
Total	**105**	**100**

4.7 Tax Holidays and Company Performance

On whether tax holidays had any effect on the performance of manufacturing companies in Kenya, 71% answered in the affirmative while 29% said no. The respondents further explained that very few companies are aware of this allowance and do qualify for the deduction. Figure 4.13 presents a summary of these responses.

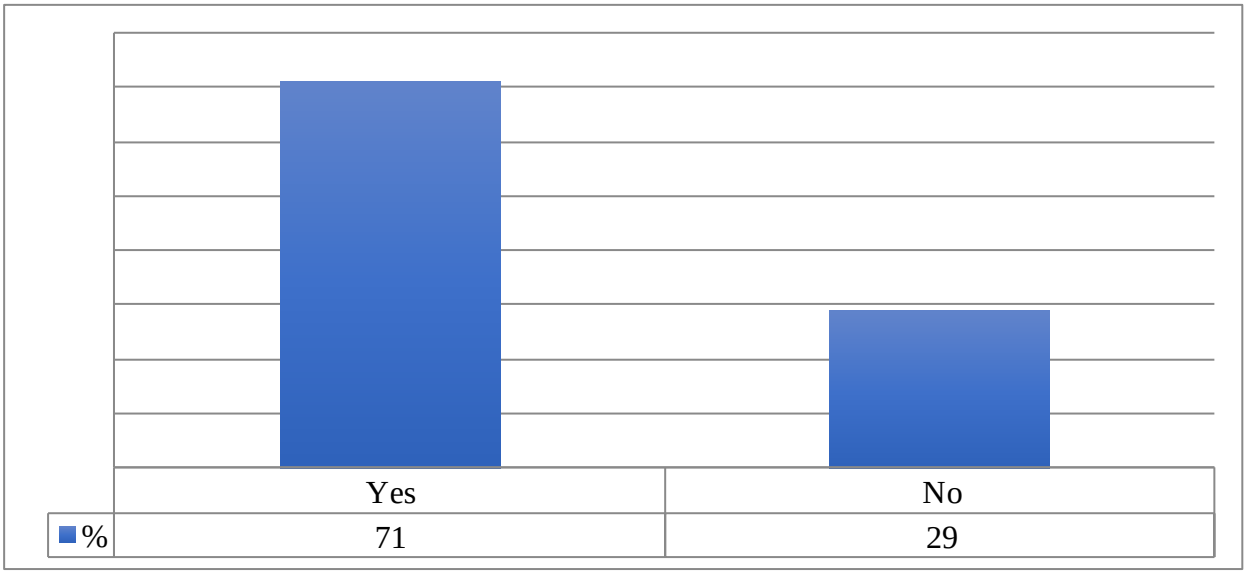


Figure 4.13 Effects of Tax Holidays on Company Performance

Regarding the extent of the effect of tax holidays on performance of manufacturing companies in Kenya, majority (47%; n=49) of the respondents said that the effect was to a great extent. Twenty

two percent (n=23) said that the effect was to an average extent, 19% (n=20) said that the impact was to a very great extent, while 12% (n=13) had the opinion that the effect was to a low extent. The respondents explained that since was more common than not for companies to enjoy wear and tear allowance, the extent of the effect of this tax would be viewed as to a great extent. The responses are summarized in table 4.12.

Table 4.12 Extent of Effect of Tax Holidays on Company Performance

Response Item	Frequency (n)	Percentage (n)
Very great extent	20	19
Great extent	49	47
Average extent	23	22
Low extent	13	12
Total	**105**	**100**

Rating of the effect of tax holidays on the performance of manufacturing companies was mainly placed at average level. Fifty one percent (n=54) of those interviewed said that the effect was on average while only 10 (n=11) opined that the effect was below average. On the other hand, 38% (n=40) said that tax holiday's effect was above average. Generally, the statistics show that this type of incentive had significant effect on company performance. The questions were meant to gauge the respondents' opinions on how much the effect of this particular incentive was. These responses are summarized in table 4.13.

Table 4.13 Rating Effect of Tax Holidays on Company Performance

Response Item	Frequency (n)	Percentage (n)
Above average	40	38
On average	54	51
Below average	11	10
Total	**105**	**100**

The overall impact of tax incentives on performance of manufacturing companies in Kenya was not felt to a great extent. This was informed by the fact that the only allowance claimable by companies without restrictions was wear and tear. Furthermore, most business people are not aware of tax incentives. This therefore meant that manufacturing companies needed more

sensitization so that they could have clearer understanding of the existence of tax incentives and their overall effect on their performances.

4.8 Diagnostic Tests

Before regressing tax incentives and performance of manufacturing firms, the researcher carried out multicollinearity test and normality tests. The findings are shown in sections below.

4.8.1 Multicollinearity Test

This was detected using Variance of Inflation Factor. The findings are shown in Table 4.14 below.

Table 4.14 Multicollinearity Test

(Constant)	Collinearity Statistics	
	Tolerance	VIF
Investment Deduction	.136	7.372
Wear and Tear Allowance	.126	7.940
Individual Building Deduction	.141	7.074
Tax Exemption and Remission	.167	5.981
Tax Holidays	.125	7.973

a. Dependent Variable: Performance of Manufacturing Companies

From the findings, all the VIF values were between 1 & 10. This implies that there was no multicollinearity in the data set. The data set was therefore suitable for regression modelling.

4.8.2 Normality Test

Normal PP plots were used to test for normality of the data set as shown in Figure 4.15 below.

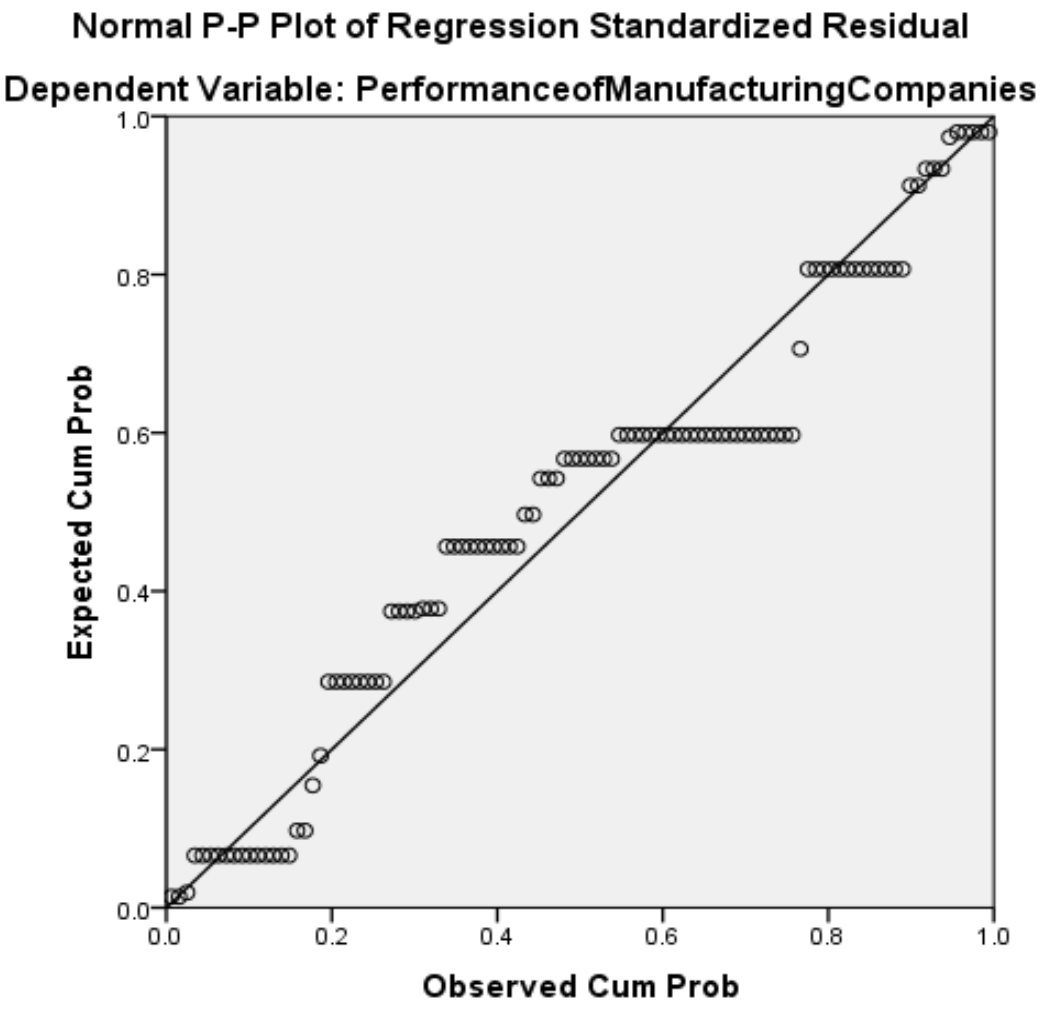


Figure 4.14 Normality Test

From the Figure above, almost all the data points are closely aligned along the line showing relationship between observed and expected cumulative probabilities. This shows that the observations came from a normal distribution thus suitable to regress.

4.9 Effect of Tax Incentives on Performance of Manufacturing Firms

In order to determine how tax incentives affected performance of manufacturing firms, multiple regression analysis was carried out. The findings are reported in subsequent sections.

4.9.1 Model Summary

A regression analysis was used conducted to establish the effect of tax incentives on financial performance of manufacturing firms in Kenya, Nairobi County. Coefficient of determination, R^2

was used as a statistical measure to predict how well the data fit the model and also the degree to which the dependent variable change while adjusted R^2 was used to measure unbiased estimate of the population.

The findings of the coefficient of correlation R and the coefficient of determination R square are shown in Table 4.16.

Table 4.15 Model Summary

Model	R	R Square (R^2)	Adjusted R Square	Std. Error of the Estimate
1	.931[a]	.867	.861	.84296

a. Predictors: (Constant), Tax Holidays, Tax Exemption and Remission, Investment Deduction, Individual Building Deduction, Wear and Tear Allowance

From Table 4.16 above, the coefficient of correlation R is 0.931. This implies that tax incentives have a strong relationship with performance of manufacturing firms in Kenya. The coefficient of determination R square is 0.867. This indicates that 86.7% change in performance of manufacturing firms in Kenya is explained by the tax incentives. Thus, there are other factors (apart from tax incentives) that affect performance of manufacturing firms in Kenya by 13.3%. Future studies should therefore focus on these other factors.

4.9.2 Analysis of Variance (ANOVA)

An Analysis of Variance of the processed data was conducted at 5% level of significance. The findings are reported in Table 4.17.

Table 4.16 ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	460.187	5	92.037	129.525	.000[b]
Residual	70.347	99	.711		
Total	**530.533**	**104**			

a. Dependent Variable: Performance of Manufacturing Companies

b. Predictors: (Constant), Tax Holidays, Tax Exemption and Remission, Investment Deduction, Individual Building Deduction, Wear and Tear Allowance

Table 4.17 above indicates the value of F calculated of 129.525. The value of F critical (at df, 5, 99) is 2.306. Since the value of F calculated is greater than F critical, it can be inferred that the

overall regression model used in the study was significant in predicting how tax incentives affected performance of manufacturing firms.

4.9.3 Regression Coefficients

The regression coefficients with p values of individual variables of the study are indicated in Table 4.18.

Table 4.17 Regression Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**		
	B	Std. Error	Beta	**t**	**Sig.**
(Constant)	4.062	1.213		3.347	.001
Investment Deduction	.255	.067	.081	3.811	.019
Wear and Tear Allowance	.111	.034	.024	3.237	.013
Industrial Building Deduction	1.177	.237	.484	4.968	.000
Tax Exemption and Remission	.097	.376	.023	.257	.798
Tax Holidays	.935	.255	.378	3.662	.000

a. Dependent Variable: Performance of Manufacturing Companies

From Table 4.18, the following model is established;

PMF = 4.062 + 0.255ID + 0.111WT + 1.177IBD + 0.097TER+ 0.935TH,

where PMF represents the performance of manufacturing firms; ID represents investment deduction, WT represents wear and tear allowance, IBD represents industrial building deduction, TER represents tax exemption and remissions and TH represents tax holiday and f is a functional relationship.

Thus, at ceteris paribus, performance of manufacturing firms would be at 4.062. A unit increase in investment deduction other factors held constant would lead to 0.255 increase in performance of manufacturing firms. A unit increase in wear and tear allowances holding other factors constant would result into 0.111 increase in performance of manufacturing firms. A unit increase in

individual building deduction other factors kept constant would lead to 1.177 increase in performance of manufacturing firms. A unit increase in tax exemption and remission other factors kept constant would result into 0.097 increase in performance of manufacturing firms. A unit increase in tax holiday holding other factors constant would result into 0.935 increase in performance of manufacturing firms. The unstandardized coefficients show how dependent variables vary with independent variables when other variables are held constant.

At 5% level of significance, the study documents that investment deduction ($p=0.019<0.05$), wear and tear allowance ($p=0.013<0.05$), individual building deduction ($p=0.000<0.05$) and tax holidays ($p=0.000<0.05$) all had significant influence on performance of manufacturing firms. Only tax exemption and remission ($p=0.789>0.05$) had insignificant influence on performance of manufacturing firms.

4.10 Discussion

Taxation plays a very critical role in any country's economy, especially given its obligatory nature. Through taxation, the government gets the resources for funding of its national budget. This then means that every taxpayer must pay tax, both individuals and organizations. Driven by the need to improve the performance of manufacturing firms, the government avails robust tax incentives for the taxpayers. As an exemption or relief granted to an individual or organization to lessen the effect of taxation hence encouraging taxpayers' savings and investments, tax incentives are common for companies. From the data analysis, the study found out that manufacturing firms in Kenya, taking Nairobi County as a case study had a strong relationship with tax incentives of 0.931. Further, the study found out that the coefficient of determination (R^2) is 0.867 meaning that 86.7% change in the performance of manufacturing firms is explained by tax incentives. Further, an analysis of Variance of the processed data conducted at 5% level of significance showed that the value of F calculated (129.525) was greater than the value of F critical (2.306) inferring the effect of tax incentives on the performance of manufacturing companies.

According to Mainelli and Giffords (2010), as opposed to laying infrastructural facilities or correcting deficiencies in the tax systems, tax incentives are easier to provide since they do not require additional funds in terms of operational costs for the government to implement. Furthermore, tax incentives were a common feature for promoting investments worldwide, especially in developing countries. Essentially, tax incentives provide a chance for organizations

to enhance their savings and investments. Some of the common incentives included investment deductions, wear and tear, industrial building deductions, tax exemptions and remissions, and tax holidays.

Despite the respondents saying that their respective companies had enjoyed at least one of these incentives, there were varied sentiments regarding the level of their influence on performance of companies. For instance, majority of the respondents said that the effect of investment deductions on company performance was felt to a great (54%) and very great extent (34%). Same sentiments were expressed regarding the effect of wear and tear allowance where 66% and 34% respectively said that the effect of the incentive on company performance was to a very great and great extent. On the other hand, majority of the respondents felt that industrial building deductions, tax exemptions and remissions, and tax holidays did not have as much effect on company performance as investment deductions, and wear and tear allowance. For instance, 71% of the respondents thought that the effect of industrial building deductions was to a low extent.

Importance of the manufacturing industry in jobs creation and general wealth generation for the country cannot be gainsaid. This would justify the government's move to issue tax incentives to the manufacturing firms so as to boost their investments and maximize their profits. This even reemphasizes the government's renewed attention on the manufacturing sector as one of its Agenda Four items. Yet, doing this through introduction of tax incentives is not always a win-win situation for the firms and the government. Indeed, previous studies have indicated that tax incentives are occasionally abused by some firms which disguise themselves as start-ups yet they are undergoing reorganization (Githaiga, 2013).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the study findings based on the specific objectives. The chapter also highlights conclusions and recommendations and provides suggestions for possible future studies on subjects related to the topic of research.

5.2 Summary

This study sought to examine the effect of tax incentives on the performance of manufacturing firms in Kenya, with Nairobi County as a reference case. The study was guided by five specific research objectives. These included: to identify how investment deductions affect performance of manufacturing companies, to examine the impact of wear and tear allowance on performance of manufacturing companies, to investigate the influence of industrial building deductions on performance of manufacturing companies, to examine the effect of tax exemptions and remissions on performance of manufacturing companies, and to establish how tax holidays influence performance of manufacturing companies in Nairobi County.

The study adopted a descriptive research design and targeted 343 manufacturing companies in Nairobi where a sample of 137 respondents were picked. A structured questionnaire was used to collect primary data. All the research questions were answered satisfactorily, with the response rate of 77%. On the respondents' profiles, 64% were men while 36% were women. Regarding their age distribution, a greater majority of the respondents were aged 36 years and above, which cumulatively accounted for 84%. More than 50% of them had attained at least university education.

Regarding designations of the respondents, majority of those who were interviewed were in junior management positions as opposed to those in senior positions, accounting for 44% and 23% respectively. Most of those who were interviewed had worked for their respective companies for 4-9 years. Cumulatively, these made 66%. Most of the companies which participated in the study had existed for 6 years and above, making a collective 78%. Generally, the companies had been in existence long enough to understand how the tax incentives worked. Concerning the companies' annual turnover, majority of the firms had annual turnover of at least 26 million Kenya shillings.

Collectively, this made 70% while 30% of this number indicated that they had annual turnover of 0-25 million shillings. Wear and tear allowance were enjoyed more than the rest of the incentives.

From the findings of the study, the effect of tax incentives on the performance of manufacturing firms was found to be positive with a coefficient of correlation (R) of 0.931 and a coefficient of determination (R^2) of 0.867. This clearly showed that 13.3% of the performance of manufacturing firms is affected by other factors other than tax incentives. In addition, the overall p value of the regression equation conducted at a significance of 5% was $.000^b$ which is less than 0.05 clearly showing the effect of tax incentives on the performance of manufacturing firms.

5.2.1 Objective 1: Investment Deductions and Manufacturing Companies

Objective 1 of the study was to identify how investment deductions affected performance of manufacturing companies. Forty percent of the respondents said that this incentive had some effect on performance of the company while 60% said it did not have any effect. At 5% level of significance, the p value was $p=0.019<0.05$ inferring the significance of investment deductions on manufacturing firm's performance.

5.2.2 Objective 2: Wear and Tear Allowance and Manufacturing Companies

Objective 2 was to examine the impact of wear and tear allowance on performance of manufacturing companies. All the respondents unanimously (100%) acknowledged that this incentive had some impact on the company performance. At 5% level of significance, the p value was $p=0.013<0.05$ clearly showing the significance of wear and tear on manufacturing firm's performance.

5.2.3 Objective 3: Industrial Building Deductions and Manufacturing Companies

Objective 3 was to investigate the influence of industrial building deductions on performance of manufacturing companies. Sixty percent of the respondents indicated their agreement on the effect of this incentive on company performance while 40% said the incentive did not have any effect on company performance. At 5% level of significance, the p value was $p=0.000<0.05$ meaning that the incentive was significant in determining manufacturing firm's performance.

5.2.4 Objective 4: Tax Exemptions and Remissions and Manufacturing Companies

Objective 4 was to examine the effect of tax exemptions and remissions on performance of manufacturing companies. At 5% level of significance, the p value was $p=0.000<0.05$ meaning

that the incentive was significant in determining manufacturing firm's performance. Forty nine percent of those who were interviewed affirmed that this incentive affected company performance. On the other hand, 51% said the incentive did not have any effect on company performance.

5.2.5 Objective 5: Tax Holidays and Manufacturing Companies

Objective 5 was to establish how tax holidays influenced performance of manufacturing companies. At 5% level of significance, the p value was $p=0.789<0.05$ clearly showing that the incentive had insignificant influence on the performance of manufacturing firm. Seventy one percent of the respondents agreed that the incentive had some effect on company performance while 29% of them said this did not have any impact.

In addition, the regression analysis established the following model;

PMF = 4.062 + 0.255ID + 0.111WT + 1.177IBD + 0.097TER+ 0.935TH

According to the analysis, a unit increase in investment deduction other factors held constant would lead to 0.255 increase in performance of manufacturing firms. A unit increase in wear and tear allowances holding other factors constant would result into 0.111 increase in performance of manufacturing firms. A unit increase in individual building deduction other factors kept constant would lead to 1.177 increase in performance of manufacturing firms. A unit increase in tax exemption and remission other factors kept constant would result into 0.097 increase in performance of manufacturing firms. A unit increase in tax holiday holding other factors constant would result into 0.935 increase in performance of manufacturing firms.

Generally, all the respondents acknowledged the fact that all the tax incentives had some level of effect on performance of companies. There were however varied responses regarding the degree to which each of the incentives affected company performance. Similarly, there were diverse views on other domains regarding the impact of each of these incentives on company performance.

5.3 Conclusions

Based on the findings of the study, it can be concluded that investment deduction does have a significant effect on the performance of manufacturing companies thus investors in the sector should make good use of it. In regards to the high percentage of the deduction granted, this can

help firms in the sector make some tax savings which would in one way or another affect the firm's cashflows thus improving its performance.

Further, wear and tear allowance, industrial building allowance and tax exemptions and remissions had significant effect on the performance of manufacturing firms with p values of 0.013, 0.000 and 0.000 respectively. Despite the fact that very few manufacturing companies do pass the requirements test, the incentives have proven to reduce a firm's tax liability significantly thus encouraging most firms to work towards meeting them for granting of the incentive.

However, the study concluded that tax holidays do have insignificant effect on the performance of manufacturing firms in Kenya. This is due to the limiting nature of granting the incentive locking out many investors in the sector.

5.4 Recommendations

Based on the findings, the study recommends that the government should increase investment deduction allowance, wear and tear allowance, investment deduction and tax exemptions and remissions rates as they do have significant effect on the performance of manufacturing firms in regards to the reduction of tax liabilities. In addition, the requirements for qualification of industrial building allowance should also be relooked to make it easier for firms to make use of the incentive. This would also go a long way to attract investors from other countries to invest in the sector thus supplementing the government's effort of achieving the big four agendas.

Further, the government should put in place effective policies for management of tax incentives to allow fairness in issuance of the same. This would help in sensitizing investors on the importance of tax holidays and its effect on the performance of manufacturing firms.

5.5 Suggestions for Further Studies

Since the study focused on the effect of tax incentives on the manufacturing sector, further research needs to be done on the effect of tax incentives on other sectors of the economy; majorly those enhancing the big four agendas of the government.

REFERENCES

Aguolu, O. (1999), Taxation and Tax Management in Nigeria (Revised Edition) Enugu, Meridian Associates

Ahmed, S. (2004). "Modeling Corporate Income Tax liabilities using company accounts", *http://www.econ.cam.ac.uk/dae/repec/cam/pdf/cwpe0412.pdf.*

Akinyomi, O. and Tasie, C. (2011). The impact of tax incentives on the performance of small scale enterprises. Adamawa state university, *Journal of Accounting Res*., 1:183-188.

Ayanwale, A.B. (2007). FDI and economic growth: Evidence from Nigeria. *Africa Economic Research Consortium Research,* No 165.

Babatunde, O., & Adepeju, S. (2012). The impact of tax incentives on foreign direct investment in the oil and gas sector in Nigeria. *IOSR Journal of Business and Management 6(1),01-15.Retrieved from,*www.iosrjournals.org.

Beardshaw, J., Brewster, D., Cormack, P. & Ross, A. (2001). *Economics – A student's guide*. Fifth Edition. Prentice Hall.

Becker, G. (2006) Corporate Income Tax Reform and Foreign Direct Investment in Germany Evidence from Firm-Level Data, *Cesifo Working Paper* No. 1722 Category 1: Public Finance www.ifo.de/~DocCIDL/cesifo1_wp1722.pdf.

Biggs, P. (2007). Tax Incentives to Attract FDI, *A conference convened in honour of Sanjaya Lall,* UNCTAD, Geneva, Palais des Nations.

Bird R. M. (2012). Subnational Taxation in Large Emerging Countries: *BRIC plus One, IMFG* Papers 06.

Blackwell, W. (2009). *The World Economy: Global Trade Policy 2009*. Retrieved from www. http://eu.wiley.com/WileyCDA/WileyTitle/productCd-1444324748.html.

Bolnick, B. (2004). *Effectiveness and Economic Impact of Tax Incentives in the Southern Africa Development Community (SADC) Region, report by Nathan-MSI Group to the SADC Tax Subcommittee,* Gaborone, Botswana: SADC.

Bond, S, & Xing, J. (2013). "Corporate Taxation and Capital Accumulation," Working Paper No. 1015. Centre for Business Taxation, Oxford University, Oxford, UK.

Bronos, R. & McDonald, A. (2008). Perspectives on the role of investment incentives, in a. Shah (ed.), *Fiscal Incentives for Investment and Innovation,* Washington, DC: World Bank.

Bruce, B. (2004). *Effectiveness and economic impact of tax incentives in the SADC* Retrievedfromhttp://www.nathaninc.com/sites/default/files/Effectiveness_and_Economic ImpactofTax_Incentives_in_the_SADC_Region_0.pdf. *Journal of taxes*, 7(12), 100.

Chukwumerije, T. & Akinyomi, O. (2011). The impact of tax incentives on the performance of small-scale enterprises, *Published Thesis*, Redeemer's University, Ogun State, Nigeria.

Djankov, T., Ganser, C. M., & Ramalho, R. (2009). The effect of corporate taxes on investment and entrepreneurship. *American Economic Journal: Macroeconomics, 2(3), 31– 64.*

Ekpung, E. G., & Wilfred, O. W. (2014). The Impact of Taxation on Investment and Economic Development in Nigeria. *Academic Journal of Interdisciplinary Studies, 3(4) 209-318.*

European Commission, (2013). "Corporate taxation and the composition of capital". Volume 12 Issue 4 - Quarterly report on the euro area.

Fakile, A. S. & Adegbile, F. F. (2011). Tax Incentives: Tool for Attracting Foreign Direct Investment in Nigerian economy. *International Journal of Research in Commerce and Management*, 2(2), 87 105.

Fakile, S.A and Uwuigbe, O. (2013), Effects of strategic tax behaviours on corporate governance, *International Journal of Finance Accounting*. 2: 326-330.

Fletcher, K. (2003). An Evaluation of Marginal Effective Tax Rates on Domestic Investment in South Africa between 1994 and 2002, MA thesis, University of Witwatersrand.

Fowowe, B. (2013), Do fiscal incentives promote investment? Empirical evidence from Nigeria. Journal of Development Areas, 47: 17-35.

Githaiga, I. (2013). The impact of tax incentives on foreign direct investments inflows of firms listed at the Nairobi Securities Exchange, *Unpublished MBA Project,* University of Nairobi.

Grubert, H., & Mutti, J. (1991). Taxes, Tariffs and Transfer Pricing in Multinational Corporate Decision Making, *the Review of Economics and Statistics* 73, 285{2 http://papers.ssrn.com/sol3/papers.cfm?abstract_id=289834.

Institute of Economic Affairs. (2012).Tax Incentives and Exemption Regime in Kenya: Is It Working? Issue No. 30.

Jorgenson, D.W. & Hall, R. (1971).''Application of the theory of optimum capital accumulation". In G. froom, ed., Tax incentives and capital spending. Washington, D.C. The Brookings institute.

Kaplan, D. (2001). Rethinking Government Support for Business Sector R&D in South Africa: The Case for Tax Incentives, *The South African Journal of Economics*, 69,1, 72-73.

Karabegovic, A., Niels, V., Jason, C., and Keith, G. (2014) . "Do Tax Rates Matter?" *Fraser Forum*. Online at:http// www. fraserinstitute ca/admin/books/chapterfiles/. July04ffkarabeg.pdf#.

Karingi, S. Kimenyi, M. & Ndung'u, N. (2001). "Beer Taxation in Kenya: An Assessment". Discussion Paper No. 6, KIPPRA, Nairobi.

Kenya Association of Manufacturers (2016), Annual Report 2016, KAM, Nairobi, Kenya.

Kenya Revenue Authority (2004) The Corporate Strategic Plan 2003/2004 2005/2006: Nairobi; KRA.

Kimeu, G. (2013). The effect of tax reforms on financial performance of real estate firms in Kenya, *Unpublished MBA Project,* University of Nairobi.

Klemm, A., & Parys, S.V. (2013). .*Empirical evidence on the effects of tax incentives*. Retrieved from http*://* www.imf.org/external/pubs/ft/wp/2009/wp09136.pdf.

Kothari, C. (2014). *Research methodology: Methods and Techniques*. *Third Edition*. New Delhi: New Age International.

Lymer and Oats, 2009, "Law of Tax Administration and Procedure, "in Victor ed.,Tax Law Design and Drafting, (Washington: International Monetary Fund.

Mainelli, M. & Giffords, B. (2010). Size matters: risk and scale, *The Journal of Risk Finance*, 11, 344-348.

Mason , R. (2006). A theory of Tax Discrimination, *Jean Monnet Working Paper*, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=289834.

Morisset, J., & Neda, P. (2001). *How tax policy and incentives affect Foreign direct Investment.* Retrieved from http://www.fias.net/documenty/morissetax.

Morisset, J., & Pirnia, N. (2003). How tax policy and incentives affect foreign Direct Investment, *A review* pg. 15.

Mugenda, O.M., & Mugenda, A.G. (2008), *Research methods*. Nairobi: McMillan Publishers.

Musyoka, K. (2012). The relationship between tax incentives and foreign direct investment in Kenya*, Unpublished MBA Project,* University of Nairobi.

Mutua, J.M. (2012). *A citizen's Handbook on taxation in Kenya.* Published by Institute of Economic Affairs with the support of International Budget Partnership.

Obida, G. W., & Nurudeen, A. (2010). Determinants of foreign direct investment in Nigeria: An Empirical Analysis, *Global Journal of Human Social Science, 10*(1), 26 – 34.

Ohaka, J. and Agundu, P.U.C (2012). Tax Incentives for industry synergy in Nigeria: a pragmatic proprietary system advocacy. African Res. Rev., 6:42-58.

Ojochogwu, A. & Ojeka, A, (2012). Relationship between tax policy, growth of SMEs and the Nigerian economy, *International Journal of Business and Management*; 7 13.

Okoi, W. W., & Edame, E. (2013). The Impact of Taxation on Economic Development in Nigeria: A Case of Small Scale Businesses in Calabar Metropolis (1980-2010). Calabar: Department of Economics, Unpublished PGD Economics Thesis.

Oriakhi, D.E and Osemwengie, P.K (2013), Tax incentives and revenue productivity of the Nigerian tax system. *International Journal of Economic Sustainability*, 1:31-41.

Orodho, A. J. (2003). *Essentials of educational and social science research method.* Nairobi: Masola Publishers.

Philips, E. (2010). *Tax Incentive and employment opportunities in an economy,* Washington, DC: World Bank.

Romer, P. M. (1990). 'Endogenous technological change', *Journal of Political Economy, USA.*

Samatar, E. (2012) The effect of Administrative Procedures On Income tax Collections. Inland revenue Department.

Saunders, M., Lewis, P., & Thornhill, A. (2009). *Research methods for business students.* (5th Edition). London: Prentice Hall.

Simiyu, D. (2013). Challenges Affecting Collection of Turnover Tax in Nairobi County-Kenya. *International Journal of Business and Social Research, 3*(4), 25–27.

Smith, R. (2004). Exploring the usefulness of a conceptual framework as a research tool: A researcher's reflections. *Issues in Educational Research, Vol 14, 2004*, University of New England.

Tessema, S.T. (2008). *Competition to attract foreign direct investment through tax incentives as a threat for the realization of socio-economic rights in Africa*. LLM Degree Dissertation, University of Mauritius.

UNCTAD. (2014). *World Investment Report*. New York and Geneva: United Nations. United Nations Publications.

Vergara, T. (2004). Taxation and Private Investment: Evidence for Chile.*Institute of Economics working Papers no. 268.* Chile, Pontificia Universidad Católica de Chile.

Yadav, V., and Goyal, P. (2015). User *Innovation and Entrepreneurship: Case studies from rural India.* Journal of Innovation and Entrepreneurship, 4 (5).

Zee, H. H., Stotsky, J. G., & Ley, E. (2002). Tax Incentives for Business Investment: A Primer for Policy Makers in Developing Countries, *World Development*, 30, 9, 1497-1516.

Zikmund, G.W., Babin, B.J., Carr, C.J., & Griffin, M. (2010). *Business research methods* 8th ed. South-Western, Cengage Learning.

APPENDICES

APPENDIX I: QUESTIONNAIRE

This questionnaire seeks to collect information for an academic study on the **effect of tax incentives on performance of manufacturing firms in Kenya: a case of Nairobi County**. Please spare about 10 minutes to fill this questionnaire in an honest manner. All responses provided will be kept with utmost confidentiality and will be published as anonymous data.

Please tick where appropriate or fill in the required information on the spaces provided

SECTION A: SOCIAL AND DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

No.	Questions	Response
1.	Gender	Male 1 Female 2
2.	Age	(a) 18-25 ( ) (b) 26-35 ( ) (c) 36-45 ( ) (d) 46-55 ( ) (e) 56-& above ( )
3	Highest Level of Education	(a) High School ( ) (b) Tertiary ( ) (c) University ( ) (d) Postgraduate ( )
4	Level of service	(a) Top Manager ( ) (b) Mid-level manager ( ) (c) Junior manager ( )
5	Length of service (**in years**)	(a) 1-3 Years ( ) (b) 4-6 Years ( ) (c) 7-9 Years ( ) (d) 10 & above ( )
6	Length of Company's existence (**in years**)	(a) 0-10 years ( ) (b) 11-15 years ( ) (c) Over 15 years ( )
7	Company's annual turnover (**in million Kshs**)	(a) 0-25 Million ( ) (b) 26-50 Million ( ) (c) 51-75 Million ( ) (d) 76 & above ( )

8. Has your company ever enjoyed any tax incentive? **Yes ( ) No ( )**

9. If yes, which one of the following tax incentives has your company ever received? (***tick all applicable***)

   (i) Investment Deductions ( )

   (ii) Wear and tear ( )

   (iii) Industrial Building Deductions ( )

   (iv) Tax exemptions and remissions ( )

   (v) Tax Holidays ( )

   (vi) (Others (specify…….)

10. On a scale of 1-5 where ***1= not at all, 2= to a small extent, 3= to some extent, 4=to a large extent, 5=to a very large extent***, to what extent do you agree with the following:

   (i) Manufacturing companies in Kenya are aware of tax incentives. ( )

   (ii) Manufacturing companies in Kenya should be granted tax incentives ( )

   (iii) Kenyan manufacturing firms are encouraged to invest in tax exempt goods and services( )

SECTION B: INVESTMENT DEDUCTIONS

11. Do investment deductions affect performance of manufacturing companies in Kenya?

   Yes ( ) No ( )

12. Please explain

   ……

   ……

13. To what extent do investment deductions affect performance of manufacturing companies in Kenya?

   ☐ Very great extent

   ☐ Great extent

   ☐ Average extent

   ☐ Low extent

14. How would you rate the effect of investment deductions on performance of manufacturing companies in Kenya?

   On average ☐

Above average ☐

Below average ☐

SECTION C: WEAR AND TEAR

15. Does wear and tear affect performance of manufacturing companies in Kenya?

Yes ( ) No ( )

16. Please explain

……

……

17. To what extent does wear and tear affect performance of manufacturing companies in Kenya?

☐ Very great extent

☐ Great extent

☐ Average extent

☐ Low extent

18. How would you rate the effect of wear and tear on performance of manufacturing companies in Kenya?

On average ☐

Above average ☐

Below average ☐

SECTION D: INDUSTRIAL BUILDING DEDUCTIONS

19. Do industrial building deductions affect performance of manufacturing companies in Kenya?

Yes ( ) No ( )

20. Please explain

……

……

21. To what extent do industrial building deductions affect performance of manufacturing companies in Kenya?

☐ Very great extent

☐ Great extent

☐ Average extent

☐ Low extent

22. How would you rate the effect of industrial building deductions on performance of manufacturing companies in Kenya?

    On average ☐

    Above average ☐

    Below average ☐

SECTION E: TAX EXEMPTIONS & REMISSIONS

23. Do tax exemptions and remissions affect performance of manufacturing companies in Kenya?

    Yes ( ) No ( )

24. Please explain

    ……

    ……

25. To what extent do tax exemptions and remissions affect performance of manufacturing companies in Kenya?

    ☐ Very great extent

    ☐ Great extent

    ☐ Average extent

    ☐ Low extent

26. How would you rate the effect of tax exemptions and remissions on performance of manufacturing companies in Kenya?

    On average ☐

    Above average ☐

    Below average ☐

SECTION F: TAX HOLIDAYS

27. Do tax holidays affect performance of manufacturing companies in Kenya?

    Yes ( ) No ( )

28. Please explain

    ……

    ……

29. To what extent do tax holidays affect performance of manufacturing companies in Kenya?

    ☐ Very great extent

    ☐ Great extent

☐ Average extent

☐ Low extent

30. How would you rate the effect of tax holidays on performance of manufacturing companies in Kenya?

On average ☐

Above average ☐

Below average ☐

31. In your opinion, what is the overall impact of tax incentives on performance of manufacturing companies in Kenya, taking Nairobi County as a point of reference?

……
……
……

Thank you very much for your time and assistance.

APPENDIX II: INTRODUCTION LETTER

GILBERT MUSAU
P. O BOX 4911-00100
NAIROBI

13 March 2018

Dear Respondent,

RE: Involvement in Research

I am a student pursuing Postgraduate Diploma in Tax Administration in Kenya School of Revenue Administration (KESRA). As a requirement for this course, I am conducting a research on **effect of tax incentives on performance of manufacturing firms in Kenya: a case of Nairobi County.** I would therefore kindly ask you to participate in this study and help me fill this questionnaire. It is my assurance to you that all information given will be kept confidential and will only be used for the purpose of this study. Please answer all questions freely and in openness.

Your participation is important for the success of this project and I would highly appreciate your contribution.

Thanking you most sincerely in advance.

Yours Sincerely,
Sign……
GILBERT MUSAU

APPENDIX III: KREJEE & MORGAN TABLE 1970

Table 3.1

Table for Determining Sample Size of a Known Population

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384

Note: N is Population Size; S is Sample Size *Source: Krejcie & Morgan, 1970*