Iosr Journal Of Economics And Finance (Iosr-Jef)
E-Issn: 2321-5933, P-Issn: 2321-5925.Volume 15, Issue 6 Ser. 2 (Nov. – Dec. 2024), Pp 68-95
www.Iosrjournals.Org

Effect Of Tax Incentives On The Performance Of Manufacturing Firms In Nairobi County, Kenya

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Abstract
Over the last few decades, the contributions of the firms on the performance of the largest economies in the world have beamed the searchlight on the uniqueness of the manufacturing firms; and this has succeeded in overruling previously held views that firms were only smaller versions of larger companies. Since the 1960s to date, manufacturing firms have been given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic performance, development and stability within several economies. Manufacturing firms in Kenya face challenges with regard to financing, disproportionate regulatory burdens and competition failures compared to large entities. The main objective of this study was to determine the effect of tax incentives on performance of manufacturing firms in Kenya. The specific objectives were to establish the effect of investment allowances, excise duty incentive and customs incentive on performance of manufacturing firms in Kenya. The study was guided by the, Normative Theory, Political System Theory and the resource-based view. This study was focused on the 150 large manufacturing firms in Nairobi County. The study employed explanatory research design. Both descriptive and inferential statistics for the data obtained was analyzed. The descriptive statistics was done using Statistical Package for Social Sciences (SPSS) and was presented by means, standard deviation and frequency tables. A regression model was used to evaluate the relationship between the dependent and independent variables of the study. The regression analysis revealed that investment allowances (B = 0.262, p = 0.000), excise duty incentives (B = 0.311, p = 0.000), and customs incentives (B = 0.089, p = 0.037) all have positive and significant relationships with the performance of manufacturing firms. The study concludes that investment allowances, excise duty incentives, and customs incentives significantly and positively influence the performance of manufacturing firms, highlighting the critical role of fiscal incentives in driving industrial growth and development. The study recommends maintaining and enhancing Investment allowances, Excise Duty Incentives, and Customs Incentives to support manufacturing firms in Nairobi County, Kenya, as these incentives have shown significant positive effects on firm performance. Additionally, policymakers should prioritize clear communication and accessibility of these incentives while tailoring them to address specific industry needs, ensuring that manufacturing firms can readily access and benefit from them, ultimately fostering economic growth and development in the region.

Date of Submission: 29-11-2024 Date of Acceptance: 09-12-2024

I. Introduction

This chapter starts by presenting the background to the study on the effect of tax incentives on the performance of manufacturing firms in Nairobi County, Kenya. The chapter further posits the problem statement and describes the objectives of the study and research questions. The chapter then discusses the significance of the study, the scope of the study and concludes with the limitations of the study.

Background to the study

Manufacturing lends itself to spatial concentration, creates opportunities for capital accumulation and economies of scale, and leverages the trend toward increased urbanization around the world. In the last few decades, the contributions of the manufacturing firms' sector on the performance of the largest economies in the world have beamed the searchlight on the uniqueness of the manufacturing firms (Kandie, 2020). Over the last 65 years, of the 13 countries that sustained high sustained growth for 25 years or more, 10 did so through manufacturing-led growth. (World Bank, 2015).

Manufacturing firms contribute a lot towards a country's economy by inculcating entrepreneurial skills, offering employment and upscaling innovation. Since the 1960s to date, manufacturing firms have been given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic performance, development and stability within several economies (Yitzhaki, 2019). They make-up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating better standards of living, and contributing to the gross domestic products (GDPs) of many countries (World Bank, 2020).

Globally, the performance of any economy is dependent on vibrant manufacturing firms and in the reverse, the entire economy suffers. Success in manufacturing and global value chains is currently concentrated in a limited number of countries. In 2015, 55% of the world's manufactured goods were produced in high-income countries (World Bank, 2017). The stunted performance of economies has often been blamed on many factors, top of which is the challenge of uncoordinated tax administration that has crippled production capacity of the manufacturing firms (Yitzhaki, 2019).

According to Thuronyi (2029), the yoke of taxes on manufacturing firms ranked second among the factors stunting the performance of the economy in USA. The study posited that taxes are heavy yokes that frustrate existing investors and scare away prospective ones. Clarke (2021) postulated that Jamaica's manufacturing firm's environment is strained by too many taxes from the national, and local governments.

According to OECD (2016), high corporate income taxes hindered economic growth in 17 developing countries in Asia. The study highlighted the need to achieve a balance in taxation to avoid slow economic growth. OECD (2013) argued that despite revenues from taxation being sufficient for public services in Australia and New Zealand, there was need to restructure tax reforms against the backdrop of reduced production activities.

In Africa, the focus on the performance and ensuing challenges of manufacturing firms has continued to top discussions among researchers. According to Olayemi and Folajimi (2021), and estimates from Manufacturers Association of Nigeria about 1,000 manufacturing firms in Nigeria that set out to do business in the country annually end up shutting down due to the unfriendly business environment. Taxes includes import duties, export and excise duties, sales and VAT, withholdings and income taxes, mobile advertising and billboard levies, education and social responsibility charges (Terkper, 2017). Taxation practice in Ivory Coast became more pronounced and prevalent in the late 1980's. This concern was first raised by Foluso (2017) who noted that about 54 taxes had been identified in the country and expressed doubt whether these taxes could attract serious investors into the country. According to the study, taxation undermines the quest for economic transformation and is pushing organizations to retrench staff because of the high cost of doing business.

According to Dladla and Khobai (2018), high taxation reduced investment activities in South Africa. While concluding that capital and taxes were cointegrated, the study highlighted the need for efficient administration of fiscal policy. Taxation being one of regulatory burdens stifling the performance of manufacturing firms in South Africa, the government is implementing several tax policies to support manufacturing. For example, the government has introduced a tax amnesty program to encourage informal businesses to formalize their operations and comply with tax regulations. The government has also reduced the corporate income tax rate for businesses, making it easier for manufacturing firms to reinvest in their businesses.

According to Ranti, Uwalomwa and Chineye (2016), Kenyan firms face challenges such as infrastructural deficiency, difficult and unfavorable operating environment, inadequate financing, difficulties in obtaining licenses and trade permits, poor working environment and exploitative taxes inform of double taxation or high tax rate. High tax rates act as a disincentive to firms for expansion and investment since it leaves them with inadequate funds for re-investment which in the long run discourages investment, output levels and the overall firms' productivity (Nyamori, 2017).

Taxes in Kenya confront the firms in different forms: import duties, export and excise duties, VAT, withholding and income taxes, and PAYE (KRA, 2019). According to Kenya Association of Manufacturers (KAM), manufacturing firms are grouped into 14 sectors based on the United Nations Industrial Development Organization (UNIDO) classification, and the type of raw materials respective companies import or the products they manufacture.

Performance of manufacturing firms is affected by various challenges including financing and high taxation. Manufacturing firms in Kenya pay several taxes including the 30% tax on profits for companies, 3% turnover tax for any entity whose turnover is between 1,000,000 and 25,000,000 Kenya Shillings, they are required to charge VAT if the company has a turnover of above 5 million shillings annually and remit pay as you earn on behalf of their employees (Zachary, Kariuki & Mwangi, 2017; Mativo, Muturi & Nyang'au, 2015).

Performance of manufacturing firms

Manufacturing firms' performance is gauged using parameters such as sales turnover, number of employees, level of technology adoption and market share (Marc, 2017). Marry (2014) argues that the performance of a firm is reflected through increased market share and increased sales. The mind-set of an entrepreneur that guides all decision making for manufacturing firms is a fundamental factor in the extent and rate of performance of the business' argues McGrath, (2018). This has been emphasized by Hashimoto (2017) who states that firms grow because they have resources which are not fully utilized within the firm and entrepreneurial motivation existing is so profit seeking. According to Nichter and Goldmark (2015), business performance can be described as the increase in the total number of employees over time.

The performance and size distribution of firms within a country from the very labor intensive to the very capital intensive is of course influenced by taxation behavior. Achievement of this performance is more difficult

if manufacturing firms' activity in general is discouraged by harsh policy of taxation (Cohen, Nelson & Walsh, 2020). High tax burden on manufacturing firms limits their ability to invest in their businesses, expand their operations, and hire more employees. In many cases, the high taxes leave manufacturing firms with limited resources to meet other financial obligations, such as paying rent, buying inventory, and marketing their products (Nyamori, 2017). Complex tax system further complicates the tax compliance process for manufacturing firms. The high compliance costs, such as the cost of hiring tax consultants and purchasing tax software, pose a significant challenge to businesses, which often operate on a shoestring budget. As a result, many manufacturing firms relocate to locations with favorable tax policies and low production costs (Nyabiange & Kapchanga, 2014)

Tax Incentives

Tax incentives are special offerings by tax agencies granting preferential provisions to certain investments or taxpayers (Klemm, 2018). Tax incentives can also be described as provisions that grant any activity or person favorable conditions that vary from the normal tax legislation provisions (KRA, 2019). Tax incentives include; tax holiday, reduced tax rates on profits, reduced tariff on imported equipment, accelerated depreciation, increased tariff to protect domestic market and loss carried forward for tax purpose. Keen (2019) further describes tax incentives as all the strategies and measures that provide for better tax treatment to specific activities or sectors.

On investment allowances, investors who incur capital expenditure on building and/or machinery used for manufacture are entitled to an investment deduction equal to 100% of the cost. The investment allowance, permits investors to deduct from taxable income a certain percentage of the cost of eligible assets in addition to depreciation allowances (Tax Laws Amendment Act, 2020) Investment allowances are granted to firms that incur capital expenditure on the construction of a building and on the purchase of and installation of new machinery and the owner of that machinery being also the owner or lessee of that building uses it for manufacturing or for the following ancillary purposes: generation, transformation and distribution of electricity; clean-up and disposal of effluents and other waste products; reduction of environmental damage; water supply or disposal and workshop machinery for the maintenance of the machinery (Income Tax Act, 2010).

The wear and tear allowances are charged on capital expenditure on machinery and equipment. They are classified into various classes and are offered at different rates (Tax Laws Amendment Act, 2020). Motor vehicles and heavy earth moving equipment at the rate of 25% per annum on reducing balance; Computer and peripheral computer hardware and software, calculators, copiers and duplicating machines at 25% per annum on reducing balance; Furniture and fittings at 10% per year on reducing balance; and telecommunications equipment at 10% per year on reducing balance (Tax Laws Amendment Act, 2020).

Customs incentives are measures aimed at reducing the custom duties and tariffs imposed on imports or exports of goods related to manufacturing activities. These incentives may include duty exemptions, duty drawbacks, preferential tariff rates, manufacturing under bond, and bonded warehouses. According to the East African Community Customs Management Act (2010), duty remission is granted to firms that import inputs for the purposes of manufacturing: goods for export and goods deemed essential for local consumption. The Customs and Excise Duty Act (2010) provides the legislation for duty refunds and rebates where the commissioner may refund duty paid in respect of goods which have been damaged or pillaged during the voyage or damaged or destroyed while subject to customs control. Refunds are also applicable to duty paid in error.

Excise duty incentives are tax advantages provided to manufacturing firms on specific goods or products subject to excise duties. These incentives may involve reduced excise duty rates or exemptions on the production, sale, or consumption of certain goods, such as raw materials, intermediate products, or final manufactured goods. According to the Excise Duty Act (2015), relief shall be granted where excise duty has been paid in respect of excisable goods imported into, or manufactured in Kenya by a licensed manufacturer and which have been used as raw materials in the manufacture of other excisable goods. The excise duty paid on the raw materials shall be offset against the excise duty payable on the finished goods. The act also lays the guidelines on excise duty refunds. It stipulates that excise duty may be refunded if goods have been stolen or damaged under excise control; if the buyer has returned the goods to the seller in accordance with the contract of sale and if a purchaser owes a manufacturer payment whose excise duty has been accounted and paid for.

Manufacturing firms in Kenya

These are firms that have been financed by individuals who operate their businesses within given geographical boundaries, with a significant number employees and increased production activity (Longenecker, Petty, Palich & Moore, 2016). The development of resilient manufacturing firms forms a crucial aspect of Kenya's goals to be a globally competitive country with high living standards by 2030 (Onyango, 2015).

The emergence of manufacturing firms in each sector of the economy has been indicative of investor's interest in Kenya's economy even as the manufacturing firms struggle to survive (UNTCAD, 2014). The Kenyan government has introduced many initiatives to boost the manufacturing sector which is crucial towards the

realization of Vision 2030 however the contribution of the sector to the national Gross Domestic Product (GDP) continues to average 8% for the past six years (Economic Survey, 2022).

Manufacturing firms are instrumental in creating equity between the needs of the marginalized areas that are occupied by poor individuals thus promoting equitable income distribution as well as competitiveness (GoK, 2019). They play a crucial role in every country's economic performance acting as the main source of entrepreneurial skills, employment and innovation (Mativo, Muturi & Nyang'au, 2015).

Technological advancements, new entrants to the market, increased liberalization, increased living standards compel manufacturing firms to strengthen inter-firm linkages, raise efficiency levels and align accordingly to changes in the market (Nyamori, 2017). Additionally, increased integration into the global economy allows manufacturing firms to participate in international supply chain networks and value chains. This allows manufacturing firms to adopt new technologies and rise up in the value chain. In order to compete globally, its mandatory for manufacturing firms to harness knowledge and technology so as to develop products of high quality (Zachary, Kariuki & Mwangi, 2017).

The promotion of manufacturing firms more so those in the informal sector form an ideal pathway to development which could be particularly sustained using the resources in Kenya. All firms are established on the basis of achieving a number of common objectives. These objectives include profit maximization, maximization of wealth, fair dealing with suppliers, and welfare of employees. In order to know whether these objectives are met, an organization has to device on means of gauging the extent of meeting these objectives or how well a firm is generating value for the owners (Onyango, 2015).

In Kenya, manufacturing firms represent a vital part of the economy, being the source of various economic contributions through the generation of income via exporting, providing new job opportunities, stimulating competition, contributing to GDP, aiding industrial development, satisfying local demand for services, introducing innovation and supporting other firms with inputs. (Mativo, Muturi & Nyang'au, 2015).

Statement of the Problem

Manufacturing firms are highly considered as the accelerators of innovation and performance in the economy (Kuria, & Memba, 2019). However, manufacturing firms face challenges with regard to financing, disproportionate regulatory burdens and competition failures. Manufacturing firms in Kenya pay several taxes including the 30% tax on profits for companies, 3% turnover tax for any entity whose annual turnover is between 1,000,000 and 25, 000,000 Kenya Shillings, they are required to charge VAT if the company has a turnover of above 5 million shillings annually and pay as you earn on behalf of their employees (Zachary, Kariuki & Mwangi, 2017; Mativo, Muturi & Nyang'au, 2015). These taxes present financial burden to manufacturing firms which are the backbone of the country's economy employing about 10 million Kenyans (Kuria & Memba, 2019). With all these taxes being implemented, Kenya appears to be on a path of reversing all the gains that have been made when it comes to being a leading manufacturing hub in Africa (Nyamori, 2017).

Kenya, as an economic hub, offers various tax incentives to stimulate the growth of manufacturing firms (Fernandez, Muhoho & Kahuthia, 2019). The underlying assumption is that by providing these incentives, the government encourages manufacturing firms to invest, innovate, and create employment opportunities, ultimately contributing to the county's economic development (Murage, 2019). Nevertheless, there is limited empirical evidence on the actual impact of tax incentives on the performance of manufacturing firms in Nairobi County. In addition, despite the significant contribution of tax incentives to manufacturing firms' performance, unequal treatment the taxpayer's hampers with the efficiency of and tax system's efficiency and thus tax incentive's social benefits have to be weighed against related costs (Ranti, Uwalomwa & Chineye, 2016). A favorable business environment is therefore important to minimize the impact of these barriers and seeks to provide a level playing ground for firms of all sizes. Reduction of the tax burden of manufacturing firms through issuing incentives would free up funds to be used in innovation and efforts to access global markets and ultimately ensure business performance. This could be achieved through alignment of tax-environment to the specific performance needs for manufacturing firms.

Objectives of the Study

This study was guided by both general and specific objectives

General Objective

The general objective of this study was to determine the effect of tax incentives on performance of manufacturing firms in Nairobi County, Kenya.

Specific Objectives

The specific objectives of this study are;

i. To determine the effect of investment allowances on performance of manufacturing firms in Nairobi County, Kenya
ii. To assess the effect of customs incentives on performance of manufacturing firms in Nairobi County, Kenya
iii. To establish the effect of excise duty incentives on performance of manufacturing firms in Nairobi County, Kenya.

Research Hypotheses

The Research Questions of this study are;

H_{o1}: Investment allowances has no significant effect on performance of manufacturing firms in Nairobi County, Kenya

H_{o2}: Customs duty incentives has no significant effect on performance of manufacturing firms in Nairobi County, Kenya

H_{o3}: Excise duty incentives has no significant effect on performance of manufacturing firms in Nairobi County, Kenya.

Significance of the Study

The research was useful to the government, tax revenue authorities and policy makers. It avails a framework for the thorough evaluation of tax policies, provide the basis for redesigning the tax incentive model and identify the inadequacies in the current tax system. The policy makers will also understand whether the present existing tax incentives only benefit the business owners in terms of their revenue earnings or contribute to firm performance, which generates appropriate economic benefits. Understanding these dynamics will enable the government to design the most appropriate typology for issuing of tax incentives.

This study would also be useful to prospective investors seeking to invest on various manufacturing firms as a result of tax incentives these businesses benefit from. The scheme could also be used to promote correct investments and secure private investor proposals. The potential investors will understand which type of tax incentives are available, whether applicable for all sectors or specific sectors and whether continuous or seasonal. This will offer effective evaluation of business decisions and ensure informed judgements.

The results also act as a reference to scholars, students and researchers who may wish to undertake studies in the same or correlated field. The findings also be used by analysts in identifying gaps through distinguishing proof in related areas. The survey contributes significantly to mechanical improvements among individuals in general division. The results of the study will also be used to assess the existing tax theories and determine whether the purported prepositions hold.

The Scope of the Study

This study focused on the manufacturing firms registered in Nairobi County with operations in Industrial Area. This study was limited to investment allowances, excise duty incentive and customs incentive as the tax incentives provided by the Kenya Revenue Authority. The study employed descriptive research design. The study was conducted between June and December 2023.

II. Literature Review

Introduction

This chapter presents a literature review for the study. The chapter presents the various theories that informed this study. Additionally, this chapter presents the empirical literature review. In the empirical literature review, the findings are critiqued to establish the knowledge gaps. The chapter bases its argument on information retrieved from journals and research papers.

Performance of manufacturing firms

Manufacturing firms grow in five stages, and every stage of development has its own set of unique characteristics, including challenges and milestones. These performance stages include: 1) Existence, 2) Survival, 3) Success, 4) Take-off, and 5) Maturity (Marc, 2017). Taxation and financing remain one of the key challenges at every stage of development for manufacturing firms (Nyamori, 2017). Determining financial needs, and matching financing options to the appropriate level of development or stage of performance is difficult for business owners. Business performance is gauged using parameters such as sales turnover, employees, level of technology adoption and market share.

Manufacturing firms play a major role in most economies, particularly in developing countries. They account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide.

Formal manufacturing firms contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal manufacturing firms are included. According to World Bank (2020), 600 million jobs are needed by 2030 to absorb the growing global workforce, which makes manufacturing firm development a high priority for many governments around the world. In emerging markets, most formal jobs are generated by manufacturing firms, which create 7 out of 10 jobs. However, access to finance as a key constraint to manufacturing firm performance, is the second most cited obstacle facing manufacturing firms to grow their businesses in emerging markets and developing countries. Manufacturing firms are less likely to obtain bank loans for expansion; instead, they rely on bootstrapping, or cash from friends and family, to launch and run their firms (World Bank, 2020).

According to a study conducted by the Kenya Institute for Public Policy Research and Analysis (KIPPRA) in 2020, Manufacturing firms in Kenya have experienced significant performance over the past decade. The study, which was based on data from the Kenya National Bureau of Statistics, showed that the number of registered manufacturing firms in Kenya increased to 2500 in 2019. The study also revealed that manufacturing firms in Kenya are major contributors to employment, accounting for about 7.5 million direct and indirect jobs in 2019, which is approximately 81% of the total employment in the private sector. Additionally, manufacturing firms contribute significantly to Kenya's Gross Domestic Product (GDP), accounting for about 8% of the country's GDP.

The performance of manufacturing firms in Kenya can be attributed to various factors, including the government's efforts to create a conducive business environment through policies such as the Micro, Small and Medium Enterprises Act of 2012, enactment of tax incentives, export processing zones and special economic zones which aim to promote the performance and development of manufacturing firms. Additionally, the rise of technology and digital platforms has made it easier for manufacturing firms to access markets and finance, contributing to their performance. However, manufacturing firms in Kenya still face various challenges, including access to finance, taxation, market access, and limited capacity to innovate and adopt new technologies. Addressing these challenges is crucial to sustaining the performance of manufacturing firms in Kenya and ensuring their continued contribution to the country's economic development.

Tax Incentives

Tax incentives are policies implemented by governments to encourage or discourage certain behaviors or activities by offering financial benefits or penalties through the tax system. Tax incentives can take many forms, such as tax credits, tax deductions, tax exemptions, and reduced tax rates. They are typically designed to promote specific economic or social objectives, such as attracting foreign investment, promoting research and development, or encouraging energy efficiency (Olayemi & Folajimi, 2021).

Some of the tax incentives available in Kenya include;

Investment Allowances: Investment allowances refer to tax deductions or allowances provided to manufacturing firms to encourage investments in qualifying assets. These allowances are typically granted as a percentage of the cost of acquiring or developing eligible capital assets, such as machinery, equipment, buildings, or infrastructure. Manufacturing firms can deduct the investment allowances from their taxable income, reducing their overall tax liability.

Customs Incentives: Customs incentives are measures aimed at reducing the customs duties and tariffs imposed on imports or exports of goods related to manufacturing activities. These incentives may include duty exemptions, duty drawbacks, or preferential tariff rates on specific raw materials, components, or machinery used in manufacturing processes. Customs incentives help lower production costs, encourage local manufacturing, and foster international trade.

Excise Duty Incentives: Excise duty incentives are tax advantages provided to manufacturing firms on specific goods or products subject to excise duties. These incentives may involve reduced excise duty rates or exemptions on the production, sale, or consumption of certain goods, such as raw materials, intermediate products, or final manufactured goods. The aim is to promote domestic manufacturing, stimulate production, and enhance the competitiveness of local industries.

Tax incentives can be used to achieve a range of policy goals, such as promoting economic performance, job creation, and innovation. For example, a government may offer tax incentives to businesses that invest in research and development, such as tax credits for the costs of research and development activities or tax deductions for expenses related to research and development. Similarly, governments may also use tax incentives to promote social goals, such as promoting renewable energy or reducing pollution. For instance, a government may provide tax credits or exemptions to businesses that invest in renewable energy projects, such as solar or wind power (Boadway & Shah, 2015).

However, tax incentives can also have unintended consequences, such as creating distortions in the economy or favoring specific industries or groups. Additionally, tax incentives can be complex and difficult to

administer, leading to compliance costs for businesses and administrative burdens for governments. Tax incentives are a powerful tool that governments can use to achieve policy goals. While they can be effective in promoting certain activities or behaviors, they must be carefully designed to ensure that they do not have unintended consequences or create unfair advantages (Saez, & Stantcheva, 2016).

Investment allowances

Governments through policy attempt to influence physical and financial capital. The Income Tax Act provides for various tax incentives through capital deductions. The government has allowed companies that invest in Kenya to claim 100% of their cost expenses in buildings and machinery. Investment allowances are granted to firms that incur capital expenditure on the construction of a building and on the purchase of and installation of new machinery and the owner of that machinery being also the owner or lessee of that building uses it for manufacturing or for the following ancillary purposes: generation, transformation and distribution of electricity; clean-up and disposal of effluents and other waste products; reduction of environmental damage; water supply or disposal and workshop machinery for the maintenance of the machinery (Income Tax Act, 2010). The expenditures that qualify include: construction of a building used for purposes of manufacture; purchase and installation of machinery used for purposes of manufacture and construction of a hotel building certified by the commissioner (Income Tax Act, 2010). The investment allowance, permits investors to deduct from taxable income a certain percentage of the cost of eligible assets in addition to depreciation allowances.

A business' operational assets - such as computers, machinery, and vehicles - are crucial parts of any commercial enterprise. The consistent and sustained use of these assets in generating value for a business, leads to wear and tear over their useful lives. Wear and tear allowances are classified into various classes and are offered at different rates (Tax Laws Amendment Act, 2020). Motor vehicles and heavy earth moving equipment at the rate of 25% per annum on reducing balance; Computer and peripheral computer hardware and software, calculators, copiers and duplicating machines at 25% per annum on reducing balance; Furniture and fittings at 10% per year on reducing balance; and telecommunications equipment at 10% per year on reducing balance (Tax Laws Amendment Act, 2020).

The Kenyan tax laws also provide for accelerated depreciation for certain types of assets, such as buildings and machinery used for manufacture. These accelerated allowances allow businesses to claim tax relief of 50% of the cost in the first year of use (Tax Laws Amendment Act, 2020). Investment allowances can provide significant tax savings for businesses, as they reduce the amount of taxable profits on which tax is paid. This can help to improve cash flow and allow businesses to reinvest in their operations. However, these incentives are subject to strict rules and regulations, and not all capital expenditures will qualify for tax relief. Businesses should seek professional advice to ensure they are claiming the correct amount of tax relief and to avoid any potential penalties for non-compliance (KRA, 2021).

Customs Incentives

Customs tax incentives play a crucial role in promoting manufacturing activities and fostering economic growth in Kenya. The government of Kenya has implemented various measures to provide tax advantages to manufacturing firms through customs incentives. These incentives aim to reduce the customs duties and tariffs imposed on imported goods or materials used in the manufacturing process, as well as facilitate the export of finished goods.

One key customs tax incentive for manufacturing firms in Kenya is the provision of duty remission granted to firms that import inputs for the purposes of manufacturing: goods for export under the Export Promotion Program Office (EPPO) and goods deemed essential for local consumption the Essential Goods Production Support Program (EGPSP), (East African Community Customs Management Act, 2010). Under this incentive, specific raw materials used in the manufacturing process are imported either without incurring customs duties or paying a reduced duty.

The Customs and Excise Duty Act (2010) provides the legislation for duty refunds and rebates where the commissioner may refund duty paid in respect of goods which have been damaged or pillaged during the voyage or damaged or destroyed while subject to customs control. Refunds also apply to overpaid duty. Refunds are also applicable under the duty drawback scheme where a Kenyan importer who exports products that contain imported components, may be able to claim a drawback (refund) of duty that was originally paid. This scheme allows manufacturing firms to claim a refund of customs duties paid on imported materials that are subsequently incorporated into exported finished goods.

Additionally, Kenya has established preferential tariff rates for certain goods and products. These preferential rates, often negotiated through regional trade agreements or trade blocs, provide reduced customs duties on imports or exports of specific goods relevant to the manufacturing sector. By lowering the tariff rates on these goods, the government encourages the importation of necessary inputs and the exportation of finished products, supporting the growth and development of manufacturing firms.

The government aims to alleviate the burden of customs duties on manufacturers, ensuring that they are not subject to double taxation on imported materials used for export-oriented production. This incentive promotes exports, strengthens the competitiveness of local industries, and encourages value addition within the manufacturing sector. Customs tax incentives for manufacturing firms in Kenya are designed to create a favorable business environment, attract investments, and stimulate economic activity within the sector. By reducing the costs of importing materials and facilitating the export of manufactured goods, these incentives aim to enhance the competitiveness of local industries, create employment opportunities, and contribute to the overall economic development of the country.

Excise Duty Incentives

Excise Duty Incentives for manufacturing firms in Kenya aim to provide tax advantages and support to encourage local production and boost the competitiveness of the manufacturing sector. These incentives are designed to reduce the burden of excise duties on specific goods or products related to manufacturing activities. Manufacturing firms can benefit from various types of excise duty incentives, which include reduced excise duty rates and exemptions on the production, sale, or consumption of certain goods. These goods may include raw materials, intermediate products, or final manufactured goods that are crucial for the manufacturing processes.

By offering reduced excise duty rates, the government aims to lower the production costs for manufacturing firms, making them more competitive in both domestic and international markets. According to the Excise Duty Act (2015), relief shall be granted where excise duty has been paid in respect of excisable goods imported into, or manufactured in Kenya by a licensed manufacturer and which have been used as raw materials in the manufacture of other excisable goods. The excise duty paid on the raw materials shall be offset against the excise duty payable on the finished goods. This reduction in excise duty rates enables manufacturers to allocate their resources more effectively, invest in technology, improve product quality, and expand their production capacities. Excise duty refund is also a form of relief provided for under the excise duty laws where a manufacturer can claim a refund if the goods are damaged or stolen before being consumed in Kenya.

Additionally, excise duty exemptions on specific goods provide manufacturing firms with significant cost advantages. These exemptions may apply to essential raw materials or components required for manufacturing unexcisable goods. They ensure that manufacturers can access crucial inputs at lower costs. By exempting specific goods from excise duties, the government encourages local production, reduces dependency on imports, and supports the growth of domestic industries.

Excise duty incentives play a vital role in promoting industrial development, creating employment opportunities, and driving economic growth in Kenya. By alleviating the tax burden on manufacturing firms, these incentives stimulate investment, innovation, and productivity within the sector. They encourage firms to engage in value-added activities, develop new products, and explore market opportunities both locally and internationally. The specific goods or products eligible for excise duty incentives may vary based on government policies, industry priorities, and economic conditions. The details and provisions of these incentives are subject to the tax laws and regulations of Kenya, which can evolve over time. Manufacturing firms seeking to leverage excise duty incentives in Kenya are advised to stay informed about the latest tax regulations, consult with tax experts or professional advisors, and engage with the relevant tax authorities to ensure compliance and maximize the benefits offered by these incentives.

Theoretical Literature Review

The theoretical review seeks to establish some of the theories that are attributed by other researchers, authors and scholars and are relevant to the study. This study was guided by the, Optimal Tax Theory, Political System Theory and the resource-based view.

Optimal Tax Theory

The Optimal Tax Theory, developed by Mirrlees (1971), provides a crucial framework for analyzing how tax structures, including tax incentives, can be designed to maximize social welfare while minimizing economic distortions. Mirrlees posits that an optimal tax system should balance the goals of revenue generation, economic efficiency, and equity. The theory suggests that tax policies, including incentives, should be structured in a way that encourages productive economic activity while considering their distributional effects on society. In the context of tax incentives such as investment allowances, customs incentives, and excise duty incentives, the theory proposes that these should be designed to stimulate economic growth and investment without creating undue market distortions or inequities.

The key tenets of Optimal Tax Theory include efficiency, equity, revenue adequacy, and administrative feasibility. The efficiency principle suggests that tax incentives should minimize distortions in economic behavior, encouraging productive investments and trade without creating market inefficiencies. The equity consideration examines the distributional effects of tax policies, ensuring that incentives do not disproportionately

benefit certain groups at the expense of others. Revenue adequacy emphasizes that while offering incentives, governments must maintain sufficient revenue to fund public services. Administrative feasibility focuses on the practicality of implementing and managing tax incentives. The theory's strength lies in its comprehensive approach to tax policy design, considering multiple economic and social factors. However, it has been criticized for relying on complex mathematical models that may not fully capture real-world economic conditions and for potentially oversimplifying human behavior in response to tax policies.

The Optimal Tax Theory is highly relevant to studies on tax incentives for manufacturing firms, providing a theoretical foundation for evaluating the effectiveness and impact of specific incentives like investment allowances, customs incentives, and excise duty incentives. It offers a framework for assessing how these incentives influence firm behavior, economic growth, and overall social welfare. Researchers can apply this theory to analyze whether investment allowances effectively stimulate capital formation, if customs incentives promote international trade without unduly disadvantaging domestic producers, and whether excise duty incentives encourage production of specific goods without creating market imbalances. By using this theoretical lens, studies can contribute to a more comprehensive understanding of how these incentives impact manufacturing firm performance, while also considering broader economic implications.

Political System Theory

The political systems theory of entrepreneurial performance was proposed by Hoselitz (1917). According to Easton (1950), political systems are a set of interrelated components that process inputs (such as demands and supports from society) to produce outputs (such as policies and laws). The theory argues that the political system creates favorable laws, adequate infrastructure, security to entrepreneurs, fair taxation system, provides subsidies and incentives, creates promoting policies and encourages individuals to engage in entrepreneurship. The state can provide an enabling environment for upcoming entrepreneurs through the political system. Therefore, the contribution of the political system can meaningfully lead to entrepreneurial advancement. The source of resources emanating from the judgment of government owners constitutes of entrepreneurial element in the government action. Lack of these elements implies that ownership, direction and judgment would basically imply monopoly powers as implied in the economic theory (Karol, 2013). In the context of tax incentives, Political System Theory can help to explain how tax policies and incentives are influenced by the political context in which they are developed.

Hoselitz argues that Japanese entrepreneurs flourished because their political system could integrate appropriately with different sectors such as agricultural, industrial, handcraft industries, old-style and current social structure and labor-intensive technologies. Bounding documents show that the political structure is the pivotal factor for entrepreneurial performance in Russia and France. The political systems theory of entrepreneurship is considered to be beneficial over other theories found in public literature since it does not rely on the anti-social, economically inefficiency. The entrepreneurs make decisions regarding use of resources but are beholden by higher authorities (Foss & Glein, 2010).

Political System Theory can provide insights into the ways in which different actors, such as government officials, interest groups, and citizens, interact to shape tax policy and the use of tax incentives. For example, Political System Theory might help to explain why certain tax incentives are adopted or expanded, based on factors such as the influence of interest groups, public opinion, or the electoral cycle. In addition, Political System Theory can help to identify the potential benefits and drawbacks of using tax incentives as a policy tool, based on the underlying political context. For example, Political System Theory might suggest that tax incentives can be effective for achieving policy goals in a democratic system, where there is a high degree of accountability and transparency in the policy-making process. However, in a more authoritarian system, tax incentives may be used primarily to benefit the ruling elite or to maintain social control, rather than to promote economic performance or social welfare.

However, Political System Theory tends to oversimplify complex political processes by reducing them to a few key variables. This oversimplification can lead to a shallow understanding of the factors that influence tax policy and implementation. Taxation is a multifaceted process influenced by various social, economic, and political factors that cannot be adequately captured by a single theory. Political System Theory often fails to adequately address power dynamics within political systems. Taxation is inherently linked to power and wealth distribution. Certain groups or individuals may have more influence over tax policies and be able to shape them in their favor. This theory often overlooks the role of power imbalances and the influence of powerful interest groups in shaping tax systems.

The theory is relevant to the study since it emphasizes the function the government plays in bringing up firm development through different policy initiatives such as tax incentives. The theory enlarges the potential scope of political entrepreneurship and could include definite bureaucratic functions other which may be decided through a political process. Even though the state does not directly control resources, it may regulate the flow of resources within the economy through different policy initiatives and regulatory frameworks. Political System

Theory provide a useful framework for analyzing the political context in which tax incentives are developed and implemented, and for evaluating their potential effectiveness and fairness. By taking into account feedback from implemented tax policies (such as their economic or social impacts) policymakers can develop more effective and sustainable policies that reflect the needs and interests of diverse stakeholders.

Resource-Based View Theory

The Resource based view theory was proposed by Barney in 1991. The theory proposes that having strategic resources provide a firm with a unique opportunity to create competitive advantages and performance over its rivals which in the long run helps the organization enjoy strong profits and performance over time. The resource-based view is a theory that explains variance in firm performance as a function of differences in the resources and capabilities. Tax incentives may provide resource relief that may spur performance (Milios, 2021). The focus of the RBV is on the correlation between firm's limited resources and performance. Grant (1991) asserts that the overall extended success of any firm is based upon the internal firm resources and the capabilities of the firm in using available resources to develop a competitive advantage contribution to its performance in a market (Peteraf, 2013). Resources, strategy implementation, and performance inter-dependence are central to the resource-based theory of competitive advantage (Hart, 2015).

The RBV of competitive advantage is an influential theoretical framework used in this research to highlight the essence of tax incentives in accruing a firm competitive advantage which facilitates firm's performance activities (Stiftung, 2012). Tax incentives stand out as an important resource to the firm in that it saves the firm additional costs that would have been used for payment of taxes which are otherwise invested in other projects such as acquisition of modern equipment or adoption of new innovations which translate to firm performance (Milios, 2021).

Tax incentives are one way in which governments can encourage manufacturing firms (manufacturing firms) to invest in their resources and capabilities. Tax incentives can take many forms, such as tax credits, deductions, and exemptions, and are intended to reduce the cost of investing in specific areas. For example, governments may offer tax incentives for manufacturing firms that invest in research and development (R&D) or training programs for their employees. These incentives can make it easier for manufacturing firms to invest in their human capital and intellectual property, which are key resources that can give them a competitive advantage.

RBT is criticized as it tends to focus on the static analysis of resources and capabilities, overlooking the dynamic nature of the business environment. Tax systems and regulations are subject to frequent changes, and firms must possess dynamic capabilities to adapt and respond to these changes effectively. RBT's static view may not fully capture the dynamic tax-related challenges and opportunities faced by firms.

The Resource Based View theory is relevant in this study in portraying how the use of tax incentives as a resource within different firms can help with gaining a competitive edge to the firms' advantage while creating value on existing resources to maximum benefits and performance over time. Resource-Based Theory suggests that a company's resources and capabilities are key drivers of its long-term success. Tax incentives can be a useful tool for encouraging manufacturing firms to invest in their resources and capabilities, but manufacturing firms also need to have a clear understanding of how these investments fit their business and how they can leverage their resources to create value.

Empirical Review

Investment allowances on performance manufacturing firms

A study by the International Monetary Fund (2019) found that investment incentives, including investment allowances, could have a positive impact on private investment and economic performance. The study also found that investment incentives could be particularly effective for manufacturing firms. A study by the European Commission (2018) found that investment allowances have a positive impact on firm investment, particularly in the manufacturing sector. The study also found that investment allowances could have a spillover effect on other firms in the supply chain.

A study by the Institute for Fiscal Studies (2014) found that investment allowances have a positive impact on business investment, with smaller businesses being more responsive to the incentive than larger businesses. The study also found that investment allowances could have a positive impact on productivity and employment. A study by the OECD (2015) found that investment incentives, including investment allowances, could be effective in stimulating business investment and innovation. The study also found that investment incentives could be particularly beneficial for manufacturing firms, which may face greater financial constraints than larger firms.

Chukwumerije and Akinyomi (2018) examined the impact of the tax incentives on the overall performance of registered industries in Rivers State, Nigeria. Eleven, out of the twenty-two registered food and beverages manufacturing industries in Rivers State were selected randomly for the study. The study used a descriptive research design. Questionnaires were administered to 260 respondents. Frequency distribution and

chi-square were used in the analysis of data and hypotheses testing respectively. The findings revealed that tax incentives do significantly affect the profitability, staff strength and the performance of industries positively.

Fernandez, Muhoho and Kahuthia (2019) surveyed that the impact of tax incentives on FDI inflows of firms listed at the NSE. This study focused on the impacts of wear and tear allowances; investment deductions and industrial building deductions, towards attracting FDI inflows to firms listed at the NSE. The study involved collection of a time series data on investments and tax incentives from a sample of 10 firms listed at the NSE between years 2008–2011. The data was mainly from secondary sources, attention being focused on annual reports and audited financial statements of the sampled firms. Correlation analysis was carried out on FDI inflows and tax incentives variables to establish whether there was any relationship. The results of the study revealed a strong relationship between wear and tear allowances and FDI inflows. Industrial building deductions and investments deductions had no significant relationship with FDI inflows.

Murage (2019) did a study on the impact of tax incentives on investment by Kenyan EPZ firms. The population of the study included 104 EPZ firms in Kenya. The study adopted a descriptive research design with the use of questionnaires. The findings were that investments by EPZ firms increase with increase in tax incentives, sales and profits. The influence of tax incentives on investments by EPZ companies was however found to be insignificant. The research recommended the government to adopt other incentives apart from tax to boost sales.

Chege (2022) sought to identify the various tax incentives put in place to promote house development by construction companies. This study used exploratory design to achieve this objective. The population of the study was obtained from a list of developers who are members of Kenya Private Developers Association. A sample size of 30 was obtained using simple random sampling technique. Primary data was collected for the purpose of the study. The primary data was collected through the use of a self-administered questionnaire. Data was analyzed using mean scores and regression analysis in order to relate tax incentives to housing development. This study found out that government incentives, if any, has been minimal. The study also found that there are no government incentives in terms of financial resources. There are slight incentives in infrastructure development, conducive legal and political environment.

Ojochogwu and Ojeka (2018) studied the relationship between investment allowances, the performance of manufacturing firms, and the Nigerian economy. Using business sustenance and expansion as indices of performance, the study analyzed responses obtained from questionnaires distributed to manufacturing firms in Zaria, North Central Nigeria. A correlational research design was used, with non-probability sampling, specifically judgmental sampling, employed for the survey. The hypothesis was tested using Spearman's Rank Correlation. The study revealed a significant positive relationship between investment allowances and the business' ability to sustain itself and expand. The findings suggest that in order to foster a vibrant and flourishing manufacturing sector, investment allowances need to be appropriately structured to encourage the growth and expansion of small and medium-sized firms.

Rapuluchukwu, Ibukun, and Belmoondo (2016) examined the effect of fiscal incentives, including investment allowances, on firm productivity using firms in Cameroon. The survey included specific measures to assess the beneficiary status of firms from various groups of fiscal incentives, such as profit tax exemption, import duty exemption, and export financing. A desktop review methodology was adopted. The study found that government involvement in firm endeavors, particularly through investment allowances, could provide a crucial component of industrialization by rewarding outputs and encouraging further investments.

Ordu and Owaume (2014) conducted a survey to examine the effect of tax incentives, including investment allowances, on the economic development of Nigeria between 2004 and 2014. The study's population involved 51 respondents from management, taxpayers, and staff from selected manufacturing firms in the southern political zones of Nigeria. Using a descriptive research design, the study established that sufficient investment allowances enhanced industrial performance and economic development. It was recommended that the government continue to provide such allowances, particularly in the early stages of firm growth, as the long-term benefits would outweigh the initial revenue loss.

Agundu and Ohaka (2013) explored the extent to which capital allowances, a form of investment allowance, served as a compelling investment incentive for stakeholders in the Nigerian manufacturing sector. The corporate financial performance indicators considered were profit after tax (PAT), return on total assets (ROTA), and return on shareholders' equity (ROSE). The statistical results, including coefficients of correlation and determination, demonstrated the significant association of capital allowances with PAT, ROTA, and ROSE, justifying their potency as an investment incentive.

Lall (2011) discovered that in Ghana, investment allowances and tax-deductible R&D expenditures failed to elicit a significant response from the business community. Trela and Whailey (2017), in applying an equilibrium model, examined the impact of various tax incentives, including investment allowances, on Korean economic performance. The results showed that investment allowances accounted for less than one-tenth of the performance of the Korean economy during 1962-82, with no significant relationship observed between

investment allowances and foreign direct investment in Korea. CITA (2014) considered capital allowances as a relief given to any person who had acquired qualifying capital expenditure during a basis period in respect of assets in use for the purpose of business or trade at the end of a basis period.

Customs Incentives

Customs incentives for manufacturing firms in Kenya are implemented to promote local production, enhance competitiveness, and facilitate international trade. These incentives involve measures to reduce customs duties and tariffs on imported and exported goods related to manufacturing activities, providing cost advantages and boosting the manufacturing sector (Nichter and Goldmark, 2015).

One form of customs incentive is duty exemptions. Certain raw materials, components, or machinery used in manufacturing processes may be exempted from customs duties. This exemption reduces the cost of importing crucial inputs, making them more affordable for manufacturing firms. By lowering production costs, these customs incentives enable manufacturers to be more competitive in the global market, as they can access essential resources at a reduced price (Keen, 2019). Another type of customs incentive is duty drawbacks. Under this scheme, manufacturing firms can receive a refund or exemption of customs duties paid on imported materials or components that are later exported as part of a finished product. Duty drawbacks aim to promote export-oriented manufacturing and incentivize firms to source materials globally while maintaining a competitive advantage in international markets. By encouraging exports, these incentives contribute to foreign exchange earnings and overall economic growth.

Preferential tariff rates are also a significant aspect of customs incentives. Kenya may have bilateral or multilateral trade agreements with other countries or trading blocs, such as the East African Community (EAC) or the Common Market for Eastern and Southern Africa (COMESA). These agreements often include provisions for reduced tariff rates or duty-free access to member countries for specific goods or sectors. Manufacturing firms can benefit from these preferential tariff rates, enabling them to access new markets, expand their customer base, and attract foreign investment (Zachary, Kariuki & Mwangi, 2017).

Customs incentives for manufacturing firms in Kenya play a vital role in attracting investment, fostering industrial development, and promoting trade. By reducing the cost of imported inputs, these incentives encourage domestic production and value addition. They also incentivize firms to invest in advanced technologies, improve production processes, and enhance product quality to meet international standards (Mativo, Muturi & Nyang'au, 2015).

Excise Duty Incentives on performance of manufacturing firms

Onyango (2015) explored the influence of tax incentives on performance of four-star hotels in Nairobi City County. The study adopted a descriptive research design. The survey's findings revealed that there exists a negative association between industrial deductions and investment reduction and performance of hotels of this classification. Other findings were that depreciation allowances had a positive impact on financial performance of the four-star hotels in the County. The study only used financial measures to measure performance yet tax incentives may affect other factors in the organization which may not be depicted through financial measurements and thus the study should have considered the use of both financial and non-financial measures.

Gumo (2013) conducted a study to establish the effect of tax incentives on business performance in Kenya. The study adopted a descriptive research design. The study found that tax incentives would have a positive resultant effect on business performance and posited that the government need to evaluate its tax incentives policy, and weigh against the benefits that accrue with the intention of spurring investment including introducing evidence based tax incentives that would minimize tax evasion. A positive correlation between wear and tear allowances and business performance was revealed. Both investments deductions and industrial building deductions had a negative relationship on business performance. Further, the impact of tax incentives on business performance was insignificant regardless the fact that there is a positive relationship between wear and tear allowances and business performance.

Musyoka (2012) carried out an investigation to find out the relationship between industrial building deduction and development of manufacturing firms. The study adopted a correlational research design. The study employed data from a period of ten years that included investments incentives, trade related incentives, import duty exemption as well as development of manufacturing firms. The measures of central tendency (the mean), measures of variability (standard deviation) and measures of relative frequencies were used to measure dispersion while relationship between the dependent variable and the independent variables were determined by the correlation and regression analysis. The study findings revealed that tax incentives lead to the losses of revenue by the government.

Klemm and Parys (2019) carried out a study to examine how effective tax incentives can attract investments. The study adopted a correlational research design. The study adopted a correlational research design. This used collected data from 1984-2004 from over 40 countries mainly from Africa, Latin America and

Caribbean. The study used FDI and private gross fixed capital formation as the dependent variable whereas the tax as the independent variable. The study findings indicated that there was a strong relationship between tax incentives and FDI inflows.

Fahmi (2012) carried out a study to analyze the relationship between tax holiday and foreign direct investment in Indonesia. This research examined historical tax holiday regulation in 1958-2010 and analyze whether it affected the foreign direct investment trend during that study period. The study adopted a correlational research design. In order to have an all-inclusive understanding of their effectiveness and efficiency in regards to their capability to attract FDI, the study methodically analyzed the considerations and background of tax holiday regulations as well as their implementation. The results of the study revealed that inconsistency in the first implementation of tax holiday was experienced creating uncertainty among investors. Furthermore, investors were skeptical in extending tax holiday facility since there were no comprehensible measures to select which investors were qualified to be given tax holiday. The study concluded that tax holiday was not significant as a determinant of FDI inflow.

Clarete (2012) examined the effects of tax incentives on the imported machinery and equipment by priority industries. The study concluded that there is a strong impact tax incentive on investment. In the study carried out by Feldstein (2017) on the efficacy of tax incentives on investment, the result showed that investment allowance and investment tax credit are more simulative in its impact on private capital formulation. First investors emphasize more on incentives such as subsidies, reduced cost of establishment, while firms that reinvest prefer more incentives that deal with taxation such as tax-holidays, accelerated depreciations and loss-carry forwards and loss-carry backwards.

Conceptual Framework

A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Mugenda & Mugenda, 2003). According to Kombo and Tromp (2009), conceptual framework is a hypothesized model identifying the model under study and the relationship between the dependent and independent variables. The goal of a conceptual framework is to categorize and describe concepts relevant to the study and map the relationships among them. The conceptual framework for this study is presented in Figure 2.1.

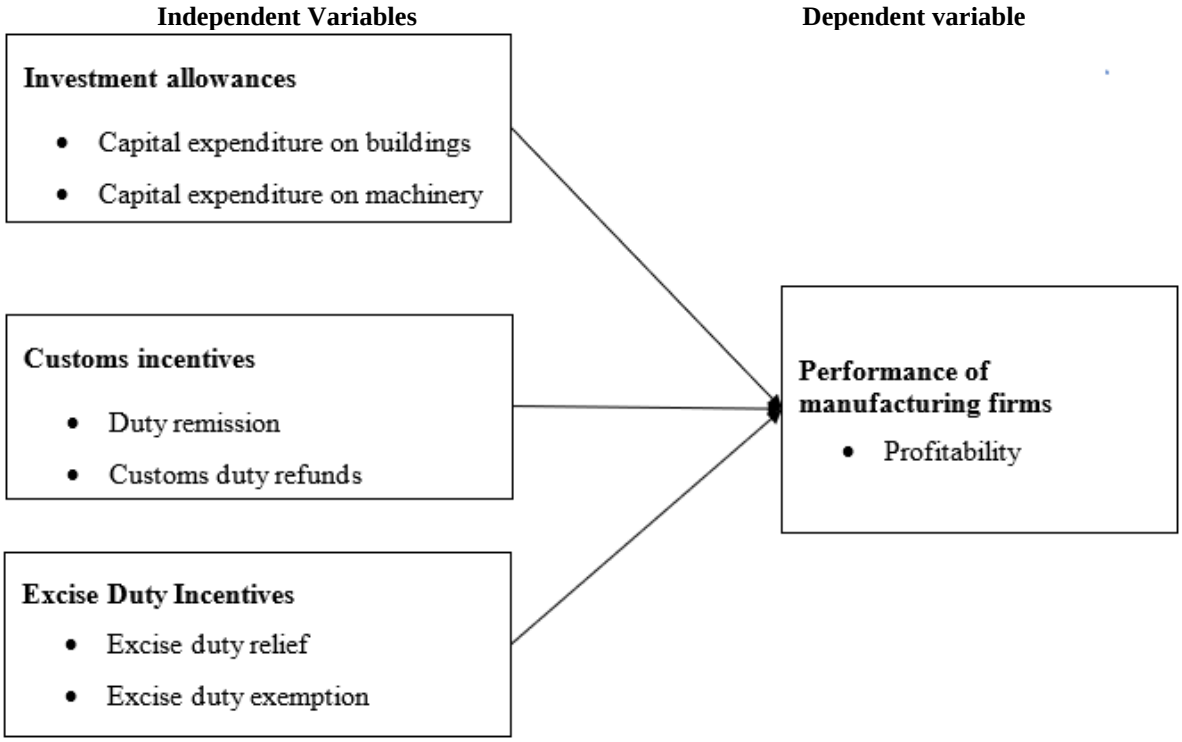

Figure 2.1: Conceptual Framework
Source: (Author, 2022)

Research Gaps

From the literature review, the empirical findings have depicted mixed results from the empirical studies conducted in different sectors; Further, the studies conducted present research gaps; A research gap is created by

the study conducted by Onyango (2015) which examined the effect of tax incentives on financial performance of five-star hotels in Nairobi County, the study revealed a conceptual gap since it focused on the five-star hotels while the current study focused on the manufacturing firms. Tembur (2016) examined effect of tax incentives on financial performance of export processing zone firms in Kenya. The study presents a conceptual gap as it focused on the export processing zone firms while the current study focuses on the manufacturing firms. The study by Mativo, Muturi and Nyang'au (2015) on tax incentives and performance of selected manufacturing firms in Kenya further presents a contextual gap as it was conducted in the manufacturing sector while the current study was conducted in the manufacturing firms. The study by Zachary, Kariuki and Mwangi (2017) on the effect of taxpayer education on tax compliance in Kenya presents a conceptual gap as it focused on the taxpayer education while the current study focused on the tax incentives for manufacturing firms. The current study will therefore address the presented gaps by examining the influence of tax incentives on performance of manufacturing firms in Kenya.

Further, on critique of the literature, Chukwumerije and Akinyomi (2018) findings revealed that tax incentives do significantly affect the profitability, staff strength and the performance of industries positively. Githaiga (2013) study revealed a strong relationship between wear and tear allowances and FDI inflows. Industrial building deductions and investments deductions had no significant relationship with FDI inflows. Ojochogwu and Ojeka (2018) study revealed a significant negative relationship between taxes and the business' ability to sustain itself and to expand. Rapuluchukwu, Ibukun and Belmoondo (2016) in Cameroon found that the preposition for government involvement in firm endeavors could be inclined towards reward of outputs thus providing an integral component of industrialization. Ordu and Owaume (2014) research established that sufficient tax incentives enhanced industrial performance and economic development and recommended the government to waive certain taxes to assist them mature more so at their early stages. Alhulial (2014) results showed that tax incentives have a strong positive effect on sales.

Burggraeve, Jeanfils, Van Cauter, and Van Meensel (2018) found that the introduction of the risk capital allowance led to a structural change in the financial behavior of companies, as it was very much in their interests to adapt their financial structure to take full advantage of the tax concession. Onyango (2015) findings revealed that there exists a negative association between industrial deductions and investment reduction and performance of hotels of this classification. Gumo (2013) study found that tax incentives would have a positive resultant effect on business performance and posited that the government need to evaluate its tax incentives policy, and weigh against the benefits that accrue with the intention of spurring investment including introducing evidence based tax incentives that would minimize tax evasion. Musyoka (2012) study findings revealed that tax incentives lead to the losses of revenue by the government. Fahmi (2012) in Indonesia revealed that inconsistency in the first implementation of tax holiday was experienced creating uncertainty among investors.

Chapter Summary

The above chapter reviewed the various theories that explain the independent and dependent variables. The empirical review is conducted where past studies both global and local are reviewed in line with the following criteria, title, scope, methodology. The next chapter will outline the methodology that the study will adopt in order to achieve the stated objectives.

III. Research Methodology

Introduction

This section discusses the methodological approach that was used to provide answers to the research hypothesis. Jackson (2013) defines a research methodology as a part of research that explains the research procedures in a manner appropriate for the audience. In particular, the section discusses the research design, sample size, data collection, data analysis, data presentation and ethical consideration.

Research Design

Research design is a 'blue-print' that enables the researcher to come up with solutions to problems and guides in the process of collecting, analyzing and interpreting the data (Bryman & Bell, 2011). This study adopted an explanatory research design in form of a census survey. According to Mugenda and Mugenda (2003), explanatory research model is a quantitative method that is used to test a hypothesis by collecting data that supports or defies it. This study aimed at collecting information from respondents on their attitudes, perception and opinions in relation to tax incentives on performance of manufacturing firms in Kenya. Explanatory research was appropriate for this study, since the researcher intends to collect detailed information through hypothesis testing of the variables.

Mugenda and Mugenda (2003) indicate that explanatory research designs are conducted to establish the extent of a range of issues. They argue that in explanatory designs, variables with greater dispersion indicate disparities within the community and provide important clues regarding the issues that the investigator should

focus on. Orodho (2003) postulates that explanatory design is a method of collecting data by interviewing or administering a questionnaire to a sample of individuals which can be used when collecting information about people's attitudes, opinions, habits or any other social issues.

Target Population

According to Kombo and Tromp (2006), a population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated to generalize the results. This definition assumed that the population is not homogeneous. Lumley (2004) defines population as a larger collection of all subjects from where a sample is drawn. It refers an entire group of individuals, events or objects having common observable characteristics (Mugenda & Mugenda, 2003).

Cooper and Schindler (2006) observe that a population is the total collection of elements about which one wants to make inferences. Target population in statistics is the specific population about which information is desired (Gupta, 2012). Target population is that population which the researcher wants to generalize results (Mugenda & Mugenda, 2003). The target population for this study was the 150 manufacturing firms that have NCC trading licenses (Nairobi County, 2022). The respondents were the general managers of the manufacturing firms.

Sample Size

Kombo and Tromp (2006) define a sample as a finite part of a statistical population whose properties are studied to gain information about the whole or universe. By studying the sample, one can draw conclusions that can be generalized to the population of interest (Mugenda & Mugenda, 2003; Kothari, 2004). This study utilized Yamane's formula (Yamane, 1967) to determine the sample size. Yamane's formula is given as:

n=N/(1+N(e2)

Where:

n is the sample size,

N is the population size, and

e is the level of precision (margin of error).

Given a target population of 150 manufacturing firms, with a precision level of 5% (0.05), the sample size was calculated as follows:

$$n = \frac{150}{1 + 150(0.05^2)} = \frac{150}{1 + 150(0.0025)} = \frac{150}{1 + 0.375} = \frac{150}{1.375} \approx 109$$

Therefore, the sample size for this study was approximately 109 respondents. Simple random sampling was then used to select the 109 general managers from the manufacturing firms with NCC trading licenses in Nairobi County. This sampling method ensures that each manager had an equal chance of being selected, which helps maintain the validity and reliability of the study's results.

Research Instruments

The study used primary data. Primary data was collected through the administration of the questionnaires. Questionnaires are most effective for quantitative research, they help the researcher explain, understand and explore research subjects' opinions, behavior, experiences and phenomenon.

Pilot Test

Pilot testing was undertaken to ensure that the data collected enables the investigative questions to be answered (Saunders, Lewis & Thornhill, 2012). Newing (2011) states that the importance of pilot testing cannot be overemphasized as there are questions that people fail to understand or interpret in different ways, there can be places in the questionnaire where they are not sure where to go next, and their questions that turn out simply not to elicit useful information. Cooper and Schindler (2006) concur that the purpose of pilot test is to detect weaknesses in design and implementation and to provide proxy for data collection of a probability sample.

According to Schindler and Cooper (2006) the respondents in a pilot test do not have to be statistically selected when testing the validity and reliability of the instruments. In this study, data collection instrument which is an interview guide was tested on a number equal to 20% of the sample at Thika's Industrial area in Kiambu County to ensure that it is relevant and effective. Pilot testing was conducted using questionnaire duly completed by randomly selected respondents. These respondents were not included in the final study sample in order to controlresponse biasness. As per the recommendation of Cronbach (1951), a coefficient of 0.7 was utilized. The results are as shown in Table 3.1.

Table 3.1: Reliability Test

Variables	Items	Cronbach Alpha
Investment allowances	6	0.813
Excise duty incentive	6	0.776
Customs incentive	6	0.812
Performance	8	0.801

The results indicated that the statements under Investment allowances, Excise duty incentive, Customs incentive and Performance had a Cronbach alpha of above 0.7 and thus the statement were considered reliable**.**

Data Collection Procedure

Leavy (2015) defined data collection as the precise, systematic gathering of information relevant to the research sub-problems. The study obtained an approval from the university in order to conduct the study; permission also obtained from the National Commission of Science Technology and Innovation (NACOSTI). Primary data to be used in this study was collected using a questionnaire, which was administered to the respondents by the researcher. Questionnaires are a time-efficient method of data collection, both for researchers and respondents. Researchers can distribute questionnaires to a large number of participants simultaneously, and respondents can complete them at their own convenience, without the need for face-to-face interaction or scheduling conflicts (Cooper & Schindler, 2006).

Regression Assumptions

The study will conduct normality test, multicollinearity and heteroscedasticity. The regression assumptions was conducted to avoid doing regression analysis with spurious results.

Multicollinearity

Multicollinearity "refers to a situation in which more than two explanatory variables in a multiple regression model are highly linearly related. Multicollinearity was tested using variance inflation factor VIF. Multicollinearity was found present if VIF value is above 10. This is according to Bryman and Bell (2013) who indicated that where VIF $\geq$ 10 indicate presence of Multi-collinearity. Where the values are above 10, multicollinearirty was corrected by removing the highly correlated independent variables."

Heteroscedasticity

According to Williams (2016), "heteroscedasticity gives equal weight to all observations and causes the standard errors to be discriminated and consequently results in an incorrect conclusion when testing the hypothesis. Breusch-Pagan was used to check for existence of heteroscedasticity in the data collected. The rule of the thumb is that the data is homoscedastic and was tested at 0.05 significance level. If the p-value is larger than the critical 0.05, then we will conclude that the data does not suffer from heteroscedasticity.

Normality test

The assumption of normality enables one to make accurate statistical inferences from test of hypothesis (Field, 2009). "This study used the Jarque-Bera test statistic (Bera & Jarque, 1982) to test for the normality of the residuals. The rule of thumb is that the data is normal. If the p-value was above the critical 0.05, then we will conclude that the data is normally distributed.

Data Processing and Presentation

Data analysis includes quite a number of related operations which have an effect of creating summaries of data collected; sorting them out in a way that they effectively answer research questions developed (Kothari, 2012). Prior to the analysis, the data obtained from the questionnaires would be coded, cleaned and checked for accuracy. Both descriptive and inferential statistics for the data obtained was analyzed. The descriptive statistics would be done using Statistical Package for Social Sciences (SPSS) and was presented by means, standard deviation and frequency tables.

On the other hand, a regression model was used to test the influence of tax incentives on performance of manufacturing firms (inferential statistics). This will help to evaluate the relationships between the dependent and independent variables of the study. A critical value of 0.05% was used to reject or accept the study hypotheses. The regression model adopted the form:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Where;

Y = Performance

X_1 = Investment allowances

X_2 = Excise duty incentive

X_3 = Customs incentive
β_0= Constant Term;
β_1, β_2, β_3,= Beta coefficients; ε = Error Term.

Operationalization of the Variables

Table 3.2: Operationalization of Study Variables

Variable	Type	Measurement
Investment allowances	Independent Variable	• Investment deduction
Excise duty incentive	Independent Variable	• Tariff Exemptions
Customs incentive		• Excise Duty Exemptions
Performance manufacturing firms	Dependent Variable	• Revenue Performance

IV. Data Analysis And Interpretation

Introduction

This chapter focused on data analysis, findings and interpretation. Results were presented in tables and diagrams. The analyzed data was arranged under themes that reflected the research objectives.

Response Rate

The response rate was analyzed to show the representative from the sample size. A response rate is very important to the credibility of the research results. The study administered 150 questionnaires to general managers of the manufacturing firms and 93 questionnaires were filled as shown in Table 4.1.

Table 4.1: Response Rate

Response	Frequency	Percent
Returned	93	85.32%
Unreturned	16	14.68%
Total	109	100%

According to Mugenda and Mugenda (2003) and Kothari (2004), a response rate of above 50% is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50% are acceptable, 60% is good and 70% is very good. Thus, the response rate of 85.32% under this study was very good for study.

Demographic Characteristics

This section consists of information that describes basic characteristics including duration of the managers in the manufacturing firms, operation age of the manufacturing firms and number of employees.

Duration of service

The respondents were asked to indicate their duration of service and the results are as shown in Table 4.2.

Table 4.2: Duration of service

Duration of service	Percent
1-5 years	6.0
5-10 years	26.0
10-15 years	40.0
Over 15 years	28.0
Total	100.0

Majority of the respondents have a substantial tenure within their firms. Specifically, 40% of the respondents have been in their positions for a period ranging from 10 to 15 years. This suggests a significant level of experience and long-term commitment within the manufacturing sector, which may have implications for the study's findings. Additionally, 28% of the respondents have been in their roles for over 15 years, indicating an even longer-term dedication to their respective manufacturing firms. This extended duration of service may be reflective of a deeper understanding of the industry and potentially greater expertise in navigating the complexities of tax incentives and their impact on firm performance.

On the other hand, 26% of the respondents have a duration of service between 5 to 10 years, and 6% have a tenure of 1 to 5 years. While these percentages are lower than the categories representing longer-term service, they still contribute significantly to the overall sample. This mix of respondents with varying lengths of service provides a more comprehensive view of the workforce within Nairobi County's manufacturing sector. This data on the duration of service among the respondents underscores the diversity of experiences and perspectives that was valuable in analyzing the effect of tax incentives on manufacturing firms' performance. The substantial number of long-serving employees suggests a potential reservoir of institutional knowledge, while

those with shorter durations may bring fresh insights and perspectives to the study. This diversity within the workforce will likely enrich the research findings as it explores the intricate relationship between tax incentives and manufacturing firm performance in Nairobi County, Kenya

Firm Duration of Operation

The respondents were asked to indicate the firm duration of operation and the results are as shown in Table 4.3.

Table 4.3: Firm Duration of Operation

	Percent
Below 5years	4.0
5 to 10 years	24.0
Above 10 years	72.0
Total	100.0

Out of the 50 respondents surveyed, the data reveals that a significant proportion of the firms have been in operation for more than 10 years, accounting for 72.0% of the total. This indicates that a substantial majority of manufacturing firms in Nairobi County have a long history in the industry. Furthermore, 24.0% of the surveyed firms reported a duration of operation ranging from 5 to 10 years. This suggests that a notable portion of manufacturing firms has been established relatively recently but has still managed to sustain their operations for a considerable period.

On the other hand, a smaller proportion, 4.0% of the firms, indicated that they have been in operation for less than 5 years. While this percentage is relatively low, it's important to acknowledge the presence of newer firms in the manufacturing sector, as they can contribute to the overall economic landscape and potentially benefit from tax incentives to foster their growth. The data on the firm duration of operation in Nairobi County's manufacturing sector illustrates a diverse landscape with a substantial number of well-established firms that have been operating for more than a decade.

Number of employees

The respondents were asked to indicate the number of employees and the results are as shown in Table 4.4.

Table 4.4: Number of employees

Number of employees	Percent
Less than 50	16.0
51 – 100	30.0
101 – 200	44.0
Above 200	10.0
Total	100.0

A significant portion of the surveyed firms in Nairobi County have fewer than 50 employees, comprising 16.0% of the total respondents. This indicates that a substantial number of manufacturing firms in this region are relatively small in scale. Moving on to the next category, approximately 30.0% of the respondents reported having a workforce in the range of 51 to 100 employees. This category represents a moderate-sized segment of manufacturing firms in the county, suggesting a certain level of diversity in terms of employment size among these businesses.

The data also reveals that 44.0% of the surveyed manufacturing firms fall within the range of 101 to 200 employees. This category represents the largest proportion among the respondents, indicating that a significant number of firms in Nairobi County have a relatively sizable workforce. Lastly, the study found that 10.0% of the manufacturing firms in the sample had more than 200 employees. While this percentage is smaller compared to the other categories, it is noteworthy as it signifies the presence of larger manufacturing enterprises in Nairobi County.

Descriptive Statistics

This section presents the descriptive results on investment allowances, excise duty incentive, customs incentive and performance of manufacturing firms. The Likert scale was 1 - Very little extent; 2- Little extent; 3- Moderate Extent; 4-Large extent 5- Very large extent.

Investment allowances

The first objective was to determine the effect of investment allowances on performance of manufacturing firms in Nairobi County, Kenya. The study evaluated the respondents' level of agreement with the various statements on investment allowances. The findings are as illustrated in Table 4.5.

Table 4.5: Descriptive Statistics Outputs for Investment allowances

Statements on investment allowances	Very little extent	Little extent	Moderate Extent	Large extent	Very large extent	Mean	S.D
The firm receives investment and capital deduction during a period of time in the year	4%	10%	14%	26%	46%	4.00	1.18
The firm has ever received some form of corporate income tax incentives	4%	18%	12%	30%	36%	3.76	1.24
The firm receives some percentage of tax relief on value invested in innovation	0%	14%	16%	44%	26%	3.82	0.98
The firm receives a reduction in tax rates for borrowed funds for investment	2%	8%	18%	28%	44%	4.04	1.07
The government offers special trade zones for establishment of business firms by potential investors	8%	18%	8%	26%	40%	3.72	1.37
The firm receives depreciation allowances on its assets	2%	14%	16%	32%	36%	3.86	1.13
Average						3.87	1.16

The first statement in the table pertains to whether the firm received investment and capital deductions during a specific period in the year. It's notable that a significant proportion of respondents, 46%, expressed a "very large extent" of agreement with this statement, indicating that a substantial portion of manufacturing firms in Nairobi County benefit from such deductions. On the other hand, only 4% indicated "very little extent" of agreement, suggesting that this is not a common concern. Moving on to the second statement, which addresses whether the firm had ever received some form of corporate income tax incentives, the responses are fairly distributed across the categories. However, the largest group of respondents (36%) indicated a "very large extent" of agreement, indicating that many firms in the sample have indeed benefited from these incentives.

The third statement focuses on tax relief on the value invested in innovation. Here, a considerable 44% of respondents expressed a "large extent" of agreement, suggesting that a substantial portion of manufacturing firms in Nairobi County receive tax relief for their innovation-related investments. The fourth statement relates to a reduction in tax rates for borrowed funds for investment. Impressively, 44% of respondents indicated a "very large extent" of agreement, implying that many firms enjoy reduced tax rates on borrowed funds used for investment purposes. Moving on to the fifth statement concerning special trade zones offered by the government for business establishment, 40% of respondents expressed a "very large extent" of agreement, indicating that these zones attract a significant number of potential investors.

Finally, the sixth statement pertains to depreciation allowances on firm assets. Here, 36% of respondents indicated a "very large extent" of agreement, suggesting that depreciation allowances are a notable benefit for manufacturing firms in the region. On average, the respondents' level of agreement with these statements yielded a mean score of 3.87 with a standard deviation of 1.16. This indicates a moderate to high level of agreement with the various aspects of investment allowances among the general managers of manufacturing firms in Nairobi County. The findings from this study suggest that investment allowances and related tax incentives play a significant role in the operations and performance of manufacturing firms in Nairobi County, Kenya. A substantial portion of these firms appears to benefit from these allowances, contributing to their overall competitiveness and success.

Customs incentive

The third objective was to determine the effect of Customs incentive on performance of manufacturing firms in Nairobi County, Kenya. The study evaluated the respondents' level of agreement with the various statements on Customs incentive. The findings are as illustrated in Table 4.6.

Table 4.6: Descriptive Statistics Outputs for Customs incentive

Statements on investment allowances	Very little extent	Little extent	Moderate Extent	Large extent	Very large extent	Mean	S.D
Customs incentives have a positive impact on reducing import costs for manufacturing inputs.	2%	12%	14%	42%	30%	3.86	1.05
Customs incentives encourage domestic manufacturing by making it more cost-effective.	4%	6%	20%	34%	36%	3.92	1.09
Customs incentives contribute to the competitiveness of manufacturing firms in domestic markets.	4%	20%	12%	34%	30%	3.66	1.22

Customs incentives enhance the ability of manufacturing firms to compete in international markets.	2%	18%	8%	26%	46%	3.96	1.21
Customs incentives have significantly reduced the overall production costs for our manufacturing firm	6%	16%	10%	34%	34%	3.74	1.26
Customs incentives have contributed to increased export volumes and foreign exchange earnings for our firm.	4%	8%	12%	36%	40%	4.00	1.11
Average						3.86	1.16

When asked whether Customs incentives have a positive impact on reducing import costs for manufacturing inputs, the majority of respondents (72%) indicated that they believe these incentives have a large to very large extent of impact. This suggests that many manufacturing firms in Nairobi County perceive Customs incentives as effective in reducing their input costs from international markets. Similarly, when respondents were asked if Customs incentives encourage domestic manufacturing by making it more cost-effective, a significant portion (70%) expressed a positive perception, with 34% stating that these incentives have a large extent of impact and 36% indicating a very large extent. This implies that Customs incentives are seen as supportive of local manufacturing activities.

In terms of competitiveness in domestic markets, the data reveals that about half of the respondents (64%) believe that Customs incentives contribute to the competitiveness of manufacturing firms, with 34% reporting a large extent of impact and 30% suggesting a very large extent. This indicates that these incentives are considered beneficial in helping firms compete effectively within the local market. Moving to international markets, the majority of respondents (72%) seem to believe that Customs incentives enhance the ability of manufacturing firms to compete globally. Nearly half (46%) perceive a very large extent of impact, while 26% see a large extent. This indicates that Customs incentives are seen as a factor that helps firms from Nairobi County compete effectively in the global arena. When it comes to reducing overall production costs, 68% of the respondents indicated a positive impact of Customs incentives, with 34% reporting a large extent and 34% a very large extent. This suggests that these incentives are viewed as effective in reducing the overall cost of production for manufacturing firms.

Lastly, in terms of export volumes and foreign exchange earnings, a significant proportion (76%) of respondents believe that Customs incentives have contributed positively to their firms. A total of 40% perceive a very large extent of impact, while 36% believe it has a large extent. This indicates that these incentives are seen as beneficial for increasing exports and foreign exchange earnings for manufacturing firms in Nairobi County. The data suggests that the general managers of manufacturing firms in Nairobi County, Kenya, generally hold positive perceptions about the impact of Customs incentives. They believe that these incentives help reduce import costs, encourage domestic manufacturing, enhance competitiveness in both domestic and international markets, reduce overall production costs, and contribute to increased export volumes and foreign exchange earnings. These findings indicate that Customs incentives play a significant role in shaping the perceptions and strategies of manufacturing firms in the region.

Excise duty incentive

The fourth objective was to determine the effect of Excise duty incentive on performance of manufacturing firms in Nairobi County, Kenya. The study evaluated the respondents' level of agreement with the various statements on Excise duty incentive. The findings are as illustrated in Table 4.7.

Table 4.7: Descriptive Statistics Outputs for Excise duty incentive

Statements on Excise duty incentive	Very little extent	Little extent	Moderate Extent	Large extent	Very large extent	Mean	S.D
Excise Duty Incentives have positively influenced our manufacturing firm's investment decisions.	2%	14%	14%	32%	38%	3.90	1.13
Excise Duty Incentives have helped us reduce our production costs and improve competitiveness.	4%	10%	20%	40%	26%	3.74	1.08
Excise Duty Incentives have encouraged us to invest in new machinery, equipment, or technology.	0%	16%	8%	44%	32%	3.92	1.03
Excise Duty Incentives have facilitated our expansion and growth in the manufacturing sector.	0%	16%	10%	38%	36%	3.94	1.06
Excise Duty Incentives have improved our ability to compete with imported goods.	2%	12%	12%	38%	36%	3.94	1.08
Excise Duty Incentives have positively impacted our overall profitability.	4%	14%	12%	32%	38%	3.86	1.20
Average						3.88	1.10

Starting with the first statement, which addresses whether Excise Duty Incentives have positively influenced manufacturing firms' investment decisions, the data indicates that a significant proportion of respondents, 38%, believe that these incentives have had a "Very large extent" of positive influence. Additionally, 32% of respondents reported a "Large extent" of positive influence. This suggests that a substantial majority of general managers perceive these incentives as beneficial for their investment decisions. Moving on to the second statement, which examines whether Excise Duty Incentives have helped reduce production costs and improve competitiveness, the data reveals that 40% of respondents perceive a "Large extent" of impact, and 26% report a "Very large extent." This indicates that a considerable portion of respondents believe that these incentives have played a significant role in cost reduction and enhancing competitiveness.

The third statement assesses whether Excise Duty Incentives have encouraged investments in new machinery, equipment, or technology. Notably, 44% of respondents report a "Large extent" of encouragement, and 32% indicate a "Very large extent." This suggests that a substantial number of manufacturing firms have been motivated to invest in modernization and technology due to these incentives. Regarding the fourth statement, which investigates whether Excise Duty Incentives have facilitated the expansion and growth of manufacturing firms, the data shows that 36% of respondents perceive a "Very large extent" of facilitation, and 38% report a "Large extent." This indicates that many firms attribute their growth and expansion in the manufacturing sector to these incentives. The fifth statement examines whether Excise Duty Incentives have improved the ability of manufacturing firms to compete with imported goods. The data reveals that 38% of respondents perceive a "Large extent" of improvement, and 36% report a "Very large extent." This suggests that these incentives have had a significant positive impact on firms' competitiveness in the face of imported products.

Finally, the last statement inquires about the overall impact of Excise Duty Incentives on profitability. The data indicates that 38% of respondents report a "Very large extent" of positive impact, and 32% perceive a "Large extent." This suggests that many manufacturing firms attribute a substantial improvement in their profitability to these incentives. The data portrays a favorable perception among general managers in Nairobi County's manufacturing firms regarding the impact of Excise Duty Incentives. These incentives are seen as positively influencing investment decisions, reducing production costs, encouraging investment in technology, facilitating growth, enhancing competitiveness, and improving overall profitability for a significant proportion of the surveyed firms. These findings underscore the importance of such incentives in promoting the growth and competitiveness of the manufacturing sector in the region.

Performance manufacturing firms

The dependent variable was to determine the performance of manufacturing firms in Nairobi County, Kenya. The study evaluated the respondents' level of agreement with the various statements on performance. The findings are as illustrated in Table 4.8.

Table 4.8: Descriptive Statistics Outputs for performance

Performance manufacturing firms	Very little extent	Little extent	Moderate Extent	Large extent	Very large extent	Mean	S.D
The business has registered increased profits over the last three years	4%	64%	12%	10%	10%	2.58	1.07
The business has registered an increase in its sales revenue over the last three years	4%	60%	8%	16%	12%	2.72	1.16
The market share of the business has increased for the last three years	2%	58%	12%	14%	14%	2.80	1.16
The innovative capabilities of the business have been increasing over time	2%	60%	10%	12%	16%	2.80	1.20
The asset base of the business has been expanding significantly for the last three years	0%	60%	10%	14%	16%	2.86	1.18
The operational costs of the business have been reducing over time	4%	62%	8%	10%	16%	2.72	1.21
The business has diversified into new line of activities compared to the last three years	0%	54%	26%	12%	8%	2.74	0.97
The business has more employees compared to the last three years	0%	58%	8%	4%	30%	3.06	1.36
Average						2.83	1.18

The data reveals that 64% of the respondents reported that their businesses had experienced a "little extent" of increased profits. This suggests that a significant portion of the manufacturing firms did not see substantial growth in profits during the specified period. The mean score for this variable was 2.58, indicating a

moderate level of agreement among respondents. Similarly, the study looked into the growth in sales revenue over the same period. The data shows that 60% of the respondents perceived a "little extent" of growth in sales revenue. While this indicates that some firms experienced growth, it was not a dominant trend. The mean score of 2.72 suggests a moderate level of agreement on this aspect.

Another aspect of performance assessed was the increase in market share. It is noteworthy that only 2% of respondents reported a "very little extent" of increase, while 58% perceived a "little extent." This suggests that a majority of the manufacturing firms did not witness significant improvements in their market share. The mean score of 2.80 reflects a moderate level of agreement. In terms of innovation, the study found that 60% of the respondents perceived a "little extent" of increase in innovative capabilities. This implies that while there was some level of improvement, it was not substantial across the board. The mean score of 2.80 again points to a moderate level of agreement. Expanding the asset base of a business is often a sign of growth. However, the data indicates that only 60% of respondents perceived a "little extent" of expansion in their firms' asset bases over the last three years. The mean score of 2.86 suggests a slightly higher level of agreement compared to other performance indicators.

Furthermore, the study examined the reduction in operational costs over time. It appears that 62% of respondents perceived a "little extent" of reduction in operational costs. This suggests that cost reduction efforts may not have been highly successful for most firms. The mean score of 2.72 indicates a moderate level of agreement. Diversification into new lines of activities and an increase in the number of employees were also considered. The data shows that diversification efforts were perceived as successful by 26% of respondents, while employee growth was reported as substantial by 30% of respondents. However, these percentages are relatively low compared to other categories. The mean scores for these variables are 2.74 and 3.06, respectively. The findings from this study suggest that, overall, manufacturing firms in Nairobi County, Kenya, did not experience significant performance improvements across various key indicators over the last three years. The majority of respondents reported only a "little extent" of positive changes in areas such as profits, sales revenue, market share, and innovation.

Diagnostic Tests

The diagnostic tests conducted included Multicollinearity Test, Test for Heteroscedasticity and Normality Test.

Multicollinearity Test

Multicollinearity test was conducted to determine if two or more of the predictor (independent) variables in the regression model was highly correlated. Variance inflation factor (VIF) were used to test multicollinearity and VIF of below 10 indicated acceptable limits. If the VIF value of exploratory variables are greater than 10, then variables were regarded as highly collinear.

Table 4.9: Multicollinearity Test Using Tolerance and VIF

	Collinearity Statistics	
	Tolerance	**VIF**
Investment allowances	0.263	3.804
Excise duty incentive	0.298	3.354
Customs incentive	0.43	2.327

From the findings above all the variables had tolerance values >0.2 and VIF values <10 as shown in Table 4.9 and thus according to Myres (2015) who indicated that where VIF ≥ 10 indicate presence of Multicollinearity, there was no multicollinearity among the independent variables.

Test for Heteroscedasticity

Heteroscedasticity is the circumstance in which the variability of a variable is unequal across the range of values of a second variable that predicts it. Running a regression model without accounting for heteroscedasticity would lead to unbiased parameter estimates. To test for heteroscedasticity, the Breusch-Pagan/Godfrey test was used. Heteroscedasticity test was run using Breusch-Pagan / Cook-Weisberg test in order to test whether the error terms are correlated across observations in the cross sectional of the data (Long & Ervin, 2000). The hypothesis was that;

H_1: The data is Homoscedastic.

If the p-value is less than 0.05, the hypothesis is rejected.

The Breusch-Pagan results are presented in Table 4.10.

Table 4.10: Heteroscedasticity Results

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity		
Ho: Constant variance **Variables: fitted values of Performance**		
chi2(1)	=	73.35
Prob > chi2	=	0.065

Source: Field Survey Data (2022)

Results in Table 4.10 show that the p-value is greater than the 5%. Then the hypothesis was not rejected at a critical p value of 0.05 since the reported Chi2 (1) = 73.35and p-value was 0.065>0.05 and thus the data did not suffer from heteroscedasticity.

Normality Test

Test for normality determines if the data is well modeled and normally distributed (linear). To test the normality of the variables, Shapiro–Wilk test was used as it has the highest power among all tests for normality. The hypothesis was tested at a critical value at 0.05, where the rule is that reject H_0 if the probability (P) value is less than 0.05 or else do not reject. The dependent variable should be normally distributed because the study was analyzed using a multiple regression model where the condition of normality must be satisfied (Quataroli & Julia, 2012). The hypothesis was that;

H_1: The data is normal.

The results for normality are as shown in Table 4.11.

Table 4.11: Normality Outputs

	Shapiro-Wilk		
	Statistic	**df**	**Sig.**
Investment allowances	0.743	92	0.054
Excise duty incentive	0.724	92	0.068
Customs incentive	0.862	92	0.073
Performance	0.925	92	0.078
a Lilliefors Significance Correction			

The results indicated that using the Shapiro-Wilk test of normality, the data is normal since the p-values are above 0.05 for all the variables and thus we do not reject the alternative hypothesis (H_1). Therefore, the variables on Investment allowances, Excise duty incentive, Customs incentive and Performance are normal in distribution and hence subsequent analysis can be carried out.

Correlation Analysis

Correlation analysis was conducted to establish the association between the independent and dependent variables. Correlation coefficients (r) are used to quantify the strength and direction of these relationships. A correlation coefficient ranges from -1 to 1, with positive values indicating a positive relationship, negative values indicating a negative relationship, and values closer to 0 indicating a weaker relationship. The correlation matrix is presented in Table 4.12.

Table 4.12: Correlation Matrix

	Performance	**Investment allowances**	**Excise duty incentive**	**Customs incentive**
Performance	1.000			
Investment allowances	.757**	1.000		
	0.037			
	0.024	0.058		
Excise duty incentive	.705**	.464**	1.000	
	0.001	0.870		
Customs incentive	.879**	.333**	.387**	1.000
	0.029	0.467	0.350	

The provided statistics show a clear pattern of associations between different factors. To begin, there is a positive and significant relationship between Performance and Investment allowances. This relationship is strong, with a correlation coefficient of 1.000, indicating that as investment allowances increase, performance also increases in a strong and linear manner. Additionally, Excise duty incentive is positively correlated with Performance, with a coefficient of 0.729, indicating a strong and significant connection. This implies that higher excise duty incentives are associated with better performance outcomes. Lastly, customs incentive also shows a positive correlation with Performance, with a coefficient of 0.879. This suggests that higher customs incentives are linked to improved performance. The statistics reveal strong, positive associations between performance and

for investment allowances, excise duty incentive, and customs incentive. These findings indicate that these incentives and factors play a significant role in influencing and potentially enhancing overall performance.

Regression Analysis

The study carried out regression analysis to establish the statistical significance relationship between the independent and dependent variables. The results presented in Table 4.13 present the fitness of model used of the regression model in explaining the study phenomena.

Table 4.13: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.787[a]	.775	.773	7.71901

The regression model demonstrates a good fit to the data, as indicated by the high coefficient of determination (R-squared) value of 0.775. This implies that approximately 77.5% of the variability in performance can be explained by the linear combination of the predictor variables used in the model. The Analysis of Variance (ANOVA) results are shown in Table 4.13.

Table 4.14: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	105159.336	3	35053.112	165.542	.000[b]
Residual	19858.976	89	223.144		
Total	125018.312	92			

The findings further confirm that the regression model is significant, supported by $F = 165.542$, $p < 0.000$, indicating that the p-value is less than 0.05. The study also conducted a regression of coefficient analysis to establish the statistical significance of the relationship between the independent variables and the dependent variable. The regression of coefficient results is shown in Table 4.15.

Table 4.15: Regression of Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.327	.962		4.494	.016
Investment allowances	.262	.065	.280	4.037	.000
Excise duty incentive	.311	.049	.314	6.414	.000
Customs incentive	.089	.041	.101	2.146	.037

The constant value of 4.327, which represents the intercept of the regression equation. This constant indicates that when all other independent variables are zero, the predicted value of the dependent variable is 4.327. The regression analysis results indicate that investment allowances have a positive and significant relationship with the performance of manufacturing firms. The coefficient for investment allowances is 0.262, with a standard error of 0.065. This coefficient suggests that for each unit increase in investment allowances, the performance of manufacturing firms increases by 0.262 units. The t-value for this relationship is 4.037, with a p-value of 0.000, indicating that the relationship is statistically significant at the 5% significance level.

Similarly, excise duty incentives also show a positive and significant relationship with the performance of manufacturing firms. The coefficient for excise duty incentives is 0.311, with a standard error of 0.049. This implies that a unit increase in excise duty incentives leads to a 0.311-unit increase in the performance of manufacturing firms. The t-value for this relationship is 6.414, and the p-value is 0.000, confirming that this relationship is statistically significant.

Lastly, customs incentives exhibit a positive and significant relationship with the performance of manufacturing firms, though the effect is less pronounced compared to the other variables. The coefficient for customs incentives is 0.089, with a standard error of 0.041. This suggests that a unit increase in customs incentives results in a 0.089-unit increase in firm performance. The t-value for customs incentives is 2.146, with a p-value of 0.037, indicating that this relationship is statistically significant at the 5% significance level.

The findings are consistent with Chukwumerije and Akinyomi (2018) whose findings revealed that tax incentives do significantly affect the profitability, staff strength and the performance of industries positively. Fernandez, Muhoho and Kahuthia (2019) revealed a strong relationship between wear and tear allowances and FDI inflows Murage (2019) findings were that investments by EPZ firms increase with increase in tax incentives, sales and profits. Ojochogwu and Ojeka (2018) study revealed a significant negative relationship between taxes and the business' ability to sustain itself and to expand. The study posited that in order to obtain a vibrant and flourishing manufacturing firm sector, the tax policy needs to be appropriate such that it will not be an

encumbrance to the performance of small and medium firms. Ordu and Owaume (2014) study posited that the government should not focus on revenue that is lost at this point since the benefits will surpass in the long run what is lost in the early stages. Burggraeve, Jeanfils, Van Cauter, and Van Meensel (2018) study found that the introduction of the risk capital allowance led to a structural change in the financial behavior of companies, as it was very much in their interests to adapt their financial structure to take full advantage of the tax concession

Hypothesis Testing

The first hypothesis was stated in the null that;

Ho_1: Investment allowances has no significant effect on performance of manufacturing firms in Nairobi County, Kenya

The regression analysis indicates that Investment allowances have a positive and statistically significant coefficient ($B = 0.262$, $p < 0.05$). This means that there is a significant positive association between Investment allowances and the dependent variable, which represents the performance of manufacturing firms. Given this statistical evidence, we should reject Ho1. In other words, Investment allowances do have a significant effect on the performance of manufacturing firms in Nairobi County, Kenya.

The second hypothesis was stated in the null that;

Ho_2: Excise Duty Incentive has no significant effect on performance of manufacturing firms in Nairobi County, Kenya.

The regression analysis shows a positive and highly significant coefficient for Excise duty incentive ($B = 0.311$, $p < 0.05$). This statistical evidence indicates a significant positive association between Excise duty incentive and the performance of manufacturing firms. Consequently, we should reject Ho3, suggesting that Excise Duty Incentive does have a significant effect on the performance of manufacturing firms in Nairobi County, Kenya.

The third hypothesis was stated in the null that;

Ho_3: Customs incentive has no significant effect on performance of manufacturing firms in Nairobi County, Kenya

The regression analysis indicates that Customs incentive has a positive coefficient ($B = 0.089$) but with a slightly higher p-value ($p = 0.037$). While this coefficient is still statistically significant ($p < 0.05$), it is weaker compared to the other variables. Nonetheless, it does provide evidence of a significant positive relationship between Customs incentive and the performance of manufacturing firms. Therefore, we should reject Ho4, indicating that Customs incentive does have a significant effect, albeit a comparatively weaker one, on the performance of manufacturing firms in Nairobi County, Kenya.

V. Summary, Conclusions And Recommendations

Introduction

This chapter summarizes the study findings, its conclusions and recommendations, presented in consideration to the study objective the effect of tax incentives on performance of manufacturing firms in Nairobi County, Kenya.

Summary of Findings

Investment allowances and Performance of Manufacturing Firms

In our first objective, we aimed to understand the relationship between Investment allowances and the performance of manufacturing firms in Nairobi County, Kenya. Firstly, the descriptive statistics revealed that Investment allowances have a mean value of 3.87, indicating that on average, firms in the sample received positive allowances. Furthermore, the correlation between Investment allowances and firm performance was notably positive ($r = 0.755$), suggesting a direct association. This correlation was substantiated by the regression analysis, which yielded a statistically significant positive coefficient ($B = 0.262$, $p < 0.05$). This finding indicates that Investment allowances, which could include various incentives or tax benefits, have a significant and positive effect on the performance of manufacturing firms in the region.

Excise Duty Incentive and Performance of Manufacturing Firms

In our second objective, we examined the influence of Excise Duty Incentives on the performance of manufacturing firms in the region. Descriptively, Excise Duty Incentives had a mean value of 0.386, indicating that, on average, firms received these incentives. The correlation between Excise Duty Incentives and firm performance was strongly positive ($r = 0.705$), indicating a clear relationship. The regression analysis further supported these findings, revealing a statistically significant positive coefficient ($B = 0.311$, $p < 0.05$). These results suggest that Excise Duty Incentives, have a significant and positive impact on the performance of manufacturing firms in Nairobi County, Kenya.

Customs Incentive and Performance of Manufacturing Firms

In the third objective, we investigated the effect of Customs Incentives on the performance of manufacturing firms. Descriptively, Customs Incentives had a mean value of 3.88, indicating that, on average, firms received some level of Customs Incentives. The correlation between Customs Incentives and firm performance, exhibited a strong association ($r = 0.879$). The regression analysis supported the presence of a statistically significant positive relationship ($B = 0.089$, $p = 0.037$). This indicates that Customs Incentives, have a significant but relatively weaker impact on the performance of manufacturing firms in Nairobi County, Kenya.

Conclusion

The study concludes that Investment allowances have a significant and positive effect on the performance of manufacturing firms in Nairobi County, Kenya. The strong correlation and the statistically significant positive coefficient in the regression analysis provide robust evidence that firms benefiting from Investment allowances tend to exhibit improved performance. This finding underscores the importance of these allowances, including various incentives and tax benefits, in supporting the growth and development of manufacturing firms in the region.

The study concludes that Excise Duty Incentives have a significant and positive impact on the performance of manufacturing firms in Nairobi County, Kenya. The strong positive correlation and the statistically significant positive coefficient in the regression analysis confirm this conclusion. Excise Duty Incentives, which may include reductions in excise taxes or other related benefits, contribute to reducing production costs or stimulating demand, thereby enhancing firm performance.

The study concludes that Customs Incentives have a significant but relatively weaker impact on the performance of manufacturing firms in Nairobi County, Kenya. While there is a strong positive correlation between Customs Incentives and firm performance, the statistical significance of the relationship, as indicated by the coefficient in the regression analysis, is comparatively weaker. Nevertheless, this finding suggests that Customs Incentives, which often relate to international trade facilitation, do contribute to improving the performance of manufacturing firms in the region, albeit to a lesser extent compared to other incentives.

This study provides clear and empirically supported conclusions regarding the effects of Investment allowances, Excise Duty Incentives, and Customs Incentives on the performance of manufacturing firms in Nairobi County, Kenya. These conclusions highlight the significance of government policies and incentives in shaping the business landscape and driving economic growth within the manufacturing sector of the region.

Recommendations

Practical Implications

Policymakers and government authorities in Nairobi County, Kenya, should continue to emphasize and expand investment allowances for manufacturing firms. Given the significant and positive impact observed, it is crucial to maintain and possibly enhance these allowances, including incentives and tax benefits. Efforts should be made to simplify and streamline the process of accessing and utilizing these allowances. Simplification will ensure that a broader range of manufacturing firms can benefit from these provisions, likely leading to increased investment, job creation, and overall growth in the manufacturing sector.

Excise duty incentives should be maintained and potentially strengthened as part of the strategy to support the performance of manufacturing firms. These incentives have demonstrated a significant and positive impact, and their continued availability is essential. Policymakers should actively engage with industry stakeholders to assess the specific needs and challenges faced by manufacturing firms in relation to excise duties. Tailoring incentives to address these challenges could further enhance the positive effects on firm performance.

Although the impact of customs incentives is relatively weaker compared to other incentives, they still play a role in supporting the performance of manufacturing firms in Nairobi County. Policymakers should promote measures that facilitate international trade and reduce customs-related costs for manufacturing firms. This may include simplifying customs procedures, reducing tariffs, and exploring trade agreements that benefit local manufacturers, thereby improving access to global markets and potentially enhancing firm performance over time.

Managerial Implications

Managers of manufacturing firms should be proactive in leveraging available investment allowances to enhance their firm's performance. By taking full advantage of these allowances, firms can reduce their taxable income and reinvest the savings into business expansion, technology upgrades, and other strategic initiatives that drive growth.

Manufacturing firm managers should engage more actively with policymakers to ensure that the excise duty incentives are tailored to their specific needs. By providing feedback on the challenges and opportunities

related to excise duties, managers can help shape policies that better support their operations, leading to improved firm performance.

Managers should focus on optimizing their customs processes to benefit from available incentives. This may involve training staff on the latest customs procedures, working closely with customs brokers, and staying informed about changes in trade agreements. By doing so, firms can reduce costs associated with international trade, thereby improving their competitiveness and overall performance.

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