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TAX INCENTIVES AND FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN NAIROBI CITY COUNTY KENYA

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ABSTRACT

This research examined the impact of tax incentives on the financial performance of manufacturing firms in Nairobi City County, Kenya. Specifically, the study sought to assess the effects of corporation tax incentives, double taxation treaty incentives, customs duty incentives, and value-added tax incentives on these firms' financial performance. The study population comprised 499 manufacturing firms in Nairobi City County, Kenya. From this population, 998 respondents, consisting of chief finance officers and accountants, were purposively selected. Using the Yamane formula, a sample size of 285 respondents was determined. The research employed a descriptive research design, utilizing questionnaires for primary data collection and annual audited reports and financial statements for secondary data covering the period from 2018 to 2022. Data analysis was conducted using SPSS software, and the results were presented through tables. Findings revealed that VAT incentives, corporate income tax incentives, customs duty incentives, and double taxation treaty incentives independently exhibited a significant relationship with the financial performance of manufacturing firms. The positive relationships observed suggested that manufacturing firms should leverage the tax incentives provided by the government. Additionally, the study recommended that the government reevaluate its VAT policy and enhance the incentives offered to manufacturing enterprises to further improve their financial performance. The study suggested that those involved in tax administration should think about how corporate income tax incentives might benefit the manufacturing industry. In order to gain the respect of the manufacturing sector's stakeholders, the research suggested that the government reconsider the tax laws pertaining to custom duties. The study suggested that the value addition of incentives from double taxation treaties to the performance of manufacturing enterprises should be taken into account by those involved in tax administration concerns.

Key Words: *Taxation, Manufacturing Industry, Incentives, VAT, Value Additions, Customs Duty*

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INTRODUCTION

Most of the governments all-over the world are competing to create and promote investment hubs for their countries. To encourage advancement of local industries, governments are embracing tax policies as a solution to boost local industries especially start-ups (United Nations Conference on Trade and Development, 2019). Countries that offer safe investment environment for global investors, usually attracts foreign investments. This has led to governments around the world to start developing policies that are directed towards provision of tax incentives to attract investors into their jurisdiction. To promote investments in some specific sectors of the economy, tax incentives have been employed, also they help in attracting foreign investors who in return supports local industries fostering economic development (Uwaoma, 2016).

Tax incentives within the global perspective, are one of ways of encouraging financial activities and helps to foster investments in different areas of the economy and this includes the manufacturing firms (Jensen & Malesky, 2010). According to Thomas (2011), accelerated depreciation is used in the USA as one of the incentive to attract the investors into the country by the Government. There was a research conducted by Zwick and Mahon (2014) to explore the connection between the tax incentives and equipment investment in the US. This research outcomes were that investments increased by 18.5% on average due to accelerated depreciation from 2001 to 2004 and between 2008 and 2010 there was an increase of 31.2% in the manufacturing sector. This showed that there was a major influence on the firm's performance due to tax incentives. According to Chen, (2015) China undertook a VAT tax reform in 2004, introducing a 17% tax credit on fixed investments. They researched on the implications of tax incentives in six industries from the year 2004 to 2007 that operated within the northern region of China. According to this study investments grew by 28% due to tax incentives from 2004 to 2007 compared to the year 2001 to 2003.

Ngure (2018) arguing on tax incentives and financial performance of selected manufacturing firms in Kenya, suggest that capital allowance incentives, corporate income tax incentives, excise duty incentives and custom duty incentives have a positive and significant influence on performance of manufacturing firms in Kenya. Tax incentives available in Kenya include; reduction in tax rates, tax holidays, special zones, investment allowance, tax exemptions, indirect tax incentives, tax credits and accelerated depreciation (IEA, 2012).

Tax incentives can be well-elaborated as deductions, exemptions or exclusions that offer preferential tax rates, special credits or deferral of tax liability (Fletcher, 2003). Tax incentives include indirect tax incentives, accelerated depreciation, investment allowance and tax credits, subsidies, tax holidays, tax exemptions, special zones, and reduction in tax rates. Economic actions that are employed to appeal for non-local or local capital investment to designated areas in the country or certain economic undertakings can be referred to as tax incentives (Ngure, 2018).

Kaplan (2011), where some important industries of the economy are not existing or felt, tax incentives may be granted by governments all over the world to expand investments or monetary activities of the organizations by channelling some special economic activities. Businesses comprising those operating at EPZ in Kenya may profit from key tax incentives mostly capital allowance tax incentive. Such incentives aid organizations in reducing their corporate tax liability through deduction claims, ultimately resulting in higher reported profits after tax. This contributes to an enhanced financial performance for these organizations.

Agundu (2012), tax incentives are reduced tax payments by government to encourage or incentivize a particular economic activity for instance tourism to a particular country or region. According to Njuguna (2015), in different political jurisdictions, incentives are mainly offered to cancel out perceived or actual differences in the cost of doing business, whether the cost difference was

caused by labor, differences in transport, tax differences or other costs. Profitability of the firm may increase due to incentives since they may increase capital returns, therefore appealing to the investors to make their investments in certain regions. Different types of fiscal incentives exists such as use of credits to help with tax relief, direct grants of land and facilities, deduction and government provisions of below market interest loans (Bronos & Mc Donald 2008).

Kenya, unlike most of the less developed countries has not developed a strong manufacturing industry, agriculture and service has been the major contributor to the economic growth. There has been a decline by the manufacturing industry in the contribution towards the GDP from 9.2% in the year 2016 to 8.4% in the year 2017 clearly showing that the country is experiencing a premature de-industrialization. KNBS (2018) shows manufacturing sector growth has been on a downward trend, in 2015 it was at 3.6%, 2016 the growth was 2.7% and 2017 only 0.2%. This clearly shows manufacturing firms compared to past years, is performing poorly. This has led to the Kenyan government to introduce tax incentives as a way of strengthening the sectors among other measures.

As part of Kenya's Vision 2030 initiative, the government designated the manufacturing industry as one of the six focus areas within the financial pillar. The aim is to elevate the sector's market share from seven percent to fifteen percent, thus enticing crucial strategic investors to the country. The manufacturing sector envisions diversifying its operations, implementing competitive manufacturing practices, and fortifying its processes (KAM, 2018).

Statement of the Problem

According to KNBS (2022) economic survey growth in Kenya's manufacturing sector remained subdued as the sector took a hit from high taxation, increased production cost and increased competition from cheap imports. The sector growth slowed down to 2.7% in 2022 compared to 7.3% in 2021. This paints a frizzy picture for the sector whose players and government has set an ambitious target of having it contribute up to 20% to the economy by 2030 and create at least one million jobs annually.

Big Four Development Agenda was announced by government of Kenya in December 2017, they included increasing affordable housing, universal health coverage, increasing food security and raising the share of manufacturing industry. The growth rate of manufacturing industry to gross domestic product, according to the Big Four Agenda was targeted to be at 15% in 2022. This is a research gap that required to be explored since the manufacturing industry only contributed 7.2% to the gross domestic product in 2022 (KAM, 2022).

According to Ngure (2018), the Kenya manufacturing sector is expected to play a major part in alleviating poverty, growing the country's economy and also partnering with several large organizations. The industry is also expected to have a huge local knowledge on supply patterns, purchasing trends and also where to source for resources. According to KAM (2022) to revive Kenya's economy, to eradicate poverty and to create more jobs there is a need to drive the manufacturing growth through enhancing production and increasing value addition. Manufacturing sector contribution to the GDP of the country has been on downward trend, in 2018 it was at 8.4% , 7.9% in 2019, 7.6% in 2020, 7.3% in 2021 and 7.2% in 2022 (KNBS, 2022), despite its potential to expand the economy.

Although researchers have examined the notion of tax incentives, their studies encounter certain limitations. Previous research on tax incentives has mostly focused on the service sector, neglecting the manufacturing industry. For instance, Onyango (2015) investigated the impact of tax incentives on the performance of a five-star hotel in Nairobi. The findings indicated that 89% of the variations could be accounted for by changes in tax incentives. However, this research examined a distinct sector that is not directly relevant to the present topic. There is a limited amount of research on tax

incentives in the manufacturing business. For instance, Ngure (2018) conducted a study on the relationship between tax incentives and the performance of certain manufacturing companies in Kenya. The research focused only on Kenya and did not examine the incentives provided by double taxation treaties, which are addressed in the present study. The present research addressed the conceptual gap by examining the impact of tax incentives on the financial performance of manufacturing enterprises in Nairobi City County. Kenya.

Objectives of the study

The overarching goal of the research study was to investigate the impact of tax incentives on the financial performance of manufacturing firms located in Nairobi City County, Kenya. This study was conducted under the following specific objectives:

- To establish the influence of value added tax incentives on financial performance of manufacturing firms in Nairobi city county Kenya.
- To assess the influence of customs duty incentives on financial performance of manufacturing firms in Nairobi city county Kenya.
- To determine the influence of corporate income tax incentives on financial performance of manufacturing firms in Nairobi city county Kenya.
- To determine the influence of double taxation agreement incentives on financial performance of manufacturing firms.

LITERATURE REVIEW

Theoretical Literature

Normative theory

Normative theories were first proposed by Fred Siebert, Theodore Peterson and Wilbur Schramm in 1969 in their book called “Four Theories of the Press”. At first the word Normative Theory was pronounced in USA during the height of cold war with communism and soviet. The theory explains how the structure of government growth creates a range of motivations and limitations that impact the actions of governments and other participants (Cochran, 1999). These incentives influence the direction of growth, and different governments may develop in different ways, not all of which are highly efficient. As a result, the development of tax policies and the implementation of administrative reforms happen at the same time and are mutually reliant on each other. The institutional theory offered here provides a broad framework for understanding how tax policy and administration have evolved in different time periods and cultural settings. It provides an attractive framework for describing, explaining, and predicting.

Chua (1995) proposes that, based on this theory, every incentive involves both benefits and drawbacks, making it very difficult to identify a universally successful set of incentives that are acceptable for significantly varied economies with diverse problems and conditions. The effectiveness of incentives depends greatly on the economic conditions, the competence of the tax administration, the type of investment being pursued, and the government's financial limitations in promoting investment in specific sectors or areas, while minimizing loss of revenue and opportunities for tax evasion.

Tax Discrimination Theory

The theory was developed by Glaeser in (2001), tax discriminatory theory states that different tax charges are enforced by government and the consideration is the type of investment and also where it is located. The tax charge is determined by the requirement for the companies to be situated in a certain location. Those organizations on the locational margin will be the beneficiaries of the tax incentives according to this theory. To encourage the investors to place their businesses in areas that has potential for growth compared to major cities, tax holidays and low tax rates are awarded. Mason (2006) states that both citizens and non-citizens experience different tax systems in the same jurisdiction due to tax discrimination.

Capital allowance is granted to the taxable entities that invest in capital expenditure according to the Kenyan tax law and manufacturing firms are examples of such entities. According to GOK (2012) capital allowance of 100% is offered to manufacturing firms with capital expenditure of 200 million Kenya shillings, and investors are offered 150% of capital allowance if they operate outside Nairobi, this is because capital allowances are granted according to the region. When taxes are charged for the same purpose in different areas, according to Glaeser that leads to tax discrimination.

Laffer Curve Theory

An economist Arthur B Laffer in 1979 was the first to develop the Laffer curve theory borrowing heavily from John Keynes and Khaldun. Laffer (2004). Tax revenue is affected by any change in the tax rates according to the Laffer curve that is, tax revenue will go down if the tax rate rises and tax revenue will go up if the tax rate goes down. Keynes observed that when you reduce the tax rates the objectives of taxation will be achieved and when you increase tax rates the purpose of charging taxes will not be met.

The theory assumes that there is either arithmetic or economic effect on tax revenue due to the changes that arise in the Laffer curve. Liapis (2015) sates that there is low productivity by workers when tax rates are high since it leads to low morale and they are not able to produce at optimal level, workers productivity level is high when tax rates are low according to the economic effect. Therefore increasing tax rates discourages establishments to produce more and reducing tax charges encourages them to be more productive. Arithmetic effect states that if tax charges are high the tax income collected by government will be high and if the tax charge is low the income collected is low. There is always an optimum tax charge where beyond that, the performance or productivity of the business will be affected according to the Laffer curve. Tax payers are willing and ready to comply with tax laws if they are awarded sufficient tax incentives.

Optimal Tax Theory

The theory of optimal taxation, first introduced by Mirrlees in 1976, provides a basic foundation for creating taxing policies that attempt to reduce market imperfections and inefficiencies while meeting predetermined income objectives. According to the notion, a "neutral tax" system would be achieved if taxes were designed so as to prevent them from having an excessive impact on economic decision-making. In actuality, taxes necessarily influence how people and businesses behave, which may cause market distortions.

The realization that various economic activities may get varied tax treatment—leading rational actors to choose activities with lower tax obligations or those that give tax breaks—is one of the fundamental ideas of optimal tax theory. For example, people can choose to spend their time leisurely or produce goods for their homes rather than taking part in income-taxed market activities. Comparably, taxing commodities differently—that is, charging meals produced in a restaurant differently than materials purchased from a supermarket—can also cause market inefficiencies by affecting customer decisions.

Ramsey's work from 1927 advanced the field of optimum taxation by putting out methods for applying consumer demand elasticity to sales taxes on commodities. He contended that taxes on products would lead to lesser distortions of deadweight loss in cases when consumer demand responses were less elastic. Over time, these ideas about the best taxes have changed, with current views emphasizing the assessment of marginal deadweight losses in order to gauge the effectiveness of tax policies.

Empirical Review

Tassie and Akinyomi (2011) conducted a study to examine the impact of VAT incentives on the financial performance of small-scale industries registered in River State, Nigeria. The study employed questionnaires distributed to 260 participants, focusing on 11 registered companies selected through simple random sampling. Utilizing

the chi-square method for hypothesis testing and frequency distribution for data analysis, the research revealed a significant positive effect of VAT incentives on the financial performance of small-scale industries.

Building on this research, it was recommended that tax incentives, including VAT incentives, be periodically reviewed to ensure relevance to the current economic landscape. In the context of the study on the influence of tax incentives on the financial health of manufacturing firms in Nairobi City County, Kenya, suggestions included extending the duration of tax exemptions for dividends and providing unconditional tax holidays for new small-scale industries to stimulate investment. The overarching recommendation emphasized the importance of analyzing all tax incentives comprehensively, regardless of firm size, given their potential impact on financial performance.

Amariati (2013) conducted a study aimed at identifying the factors influencing the financial performance of listed manufacturing firms in Kenya. The research revealed that the tax regime significantly impacts the financial performance of manufacturing companies. According to the majority of participants, high taxes contribute to increased commodity prices, thus affecting the competitiveness of the firms. Specifically, high taxes on inputs and imported commodities lead to elevated production costs, thereby hampering productivity. The study concluded that custom duty incentives play a crucial role in enhancing the financial performance of manufacturing companies by reducing importation taxes on inputs.

Similarly, Ohaka and Dagogo (2015) conducted a study in Nigeria to investigate how tax incentives, particularly in the form of custom duty exemptions, influence the financial welfare of companies in the manufacturing sector. Their research, involving 60 manufacturing companies listed on the Nigerian stock exchange, utilized both secondary data from stock exchange records and primary data gathered through questionnaires. The findings indicated a positive impact of custom duty incentives on the economic welfare of manufacturing businesses in Nigeria. The study recommended further application of custom duty incentives to bolster the financial capabilities of these companies.

Githaiga (2013) conducted research to investigate the influence of tax incentives on foreign direct investment (FDI) inflows in quoted firms on the Nairobi Stock Exchange (NSE), Kenya. Using a sample of ten quoted firms over a four-year period from 2008 to 2011, the study employed correlation analysis and sourced data from financial statements and annual audited reports. The findings revealed a strong positive correlation between wear and tear allowances and FDI inflows, while industrial building allowances and investment deductions showed no significant connection to FDI inflows. Despite the positive relationship between foreign direct investment and wear and tear allowance, the study concluded that tax incentives, as measured by wear and tear allowances, did not statistically influence FDI inflows.

In Vietnam, Pham (2015) conducted research on the influence of corporate income tax on the economic welfare of small and medium-sized businesses (SMEs). This study echoed similar sentiments as that conducted by Assidi, Aliani, and Omri (2016) in Tunisia. Pham focused on reducing income tax charges by 30% in 2009 for SMEs with a base capital of five thousand dollars and a minimum of 300 full-time employees. The findings suggested that reducing tax rates improved profitability for SMEs, thus enhancing their financial health and attracting multinational companies to the country.

According to OECD (2005), double taxation occurs when the same taxpayer is taxed by two different nations on the same business matter over a period of time, imposing a significant burden on the taxpayer. To address this issue, double taxation treaties have been introduced as bilateral agreements between nations to prevent businesses from being taxed twice on the same income. These treaties aim to avoid situations where revenue is taxed both in the nation where it is earned and in the taxpayer's country of residence (Mwangi, 2021).

Double taxation not only burdens taxpayers but also hinders economic relations between nations, prompting countries to enter into bilateral treaties to mitigate this problem (Lang, 2013). The current research aims to examine the effects of double taxation on the financial performance of manufacturing companies, an area that has received limited attention compared to its impact on foreign direct investment (FDI).

Conceptual framework

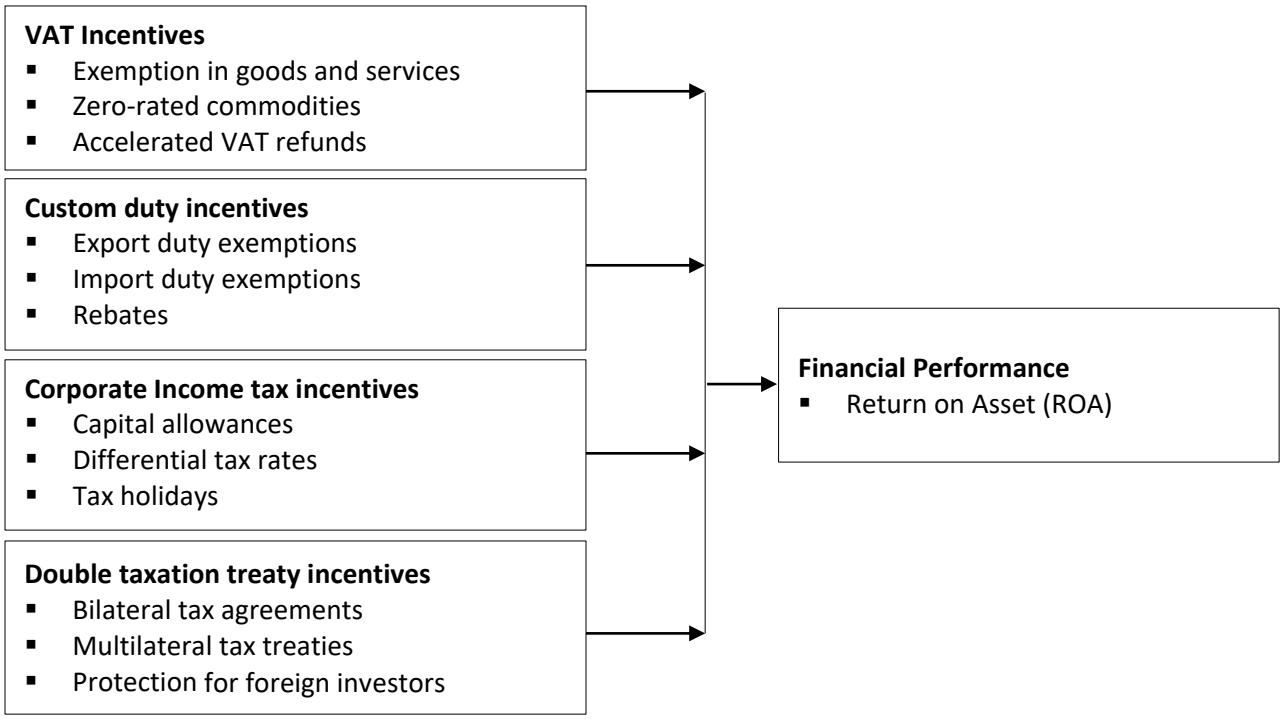

Figure 1: Conceptual Framework

METHODOLOGY

The research used descriptive research design. The research targeted manufacturing companies in Nairobi City County which were under the umbrella of Kenya Association of Manufacturers (KAM). The 499 manufacturing companies formed the unit of analysis while the unit of observation was the accounts department from where target respondents consisting of chief finance officer and an accountant dealing with tax issues were drawn giving a target population of 998.

Stratified random sampling technique was used and to determine sample size of 285 Yamane formula was employed. Primary data in this research was gathered through questionnaires. The questionnaires were used because the data collected from them is straight forward and easy to process Sharma, Yetton and Crawford (2009). Secondary data was collected from the company's website and also from the audited annual financial statement by the researcher. The research was conducted using a multivariate regression model to understand the relationships between independent factors and the dependent variable. The following model was used.; $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Where Y= Financial performance measured by ROA
β0= y intercept of the regression equation
β_1, β_2, β_3, β_4 = Regression Coefficients of the respective independent variables
X_1= Corporate Income Tax Incentive
X_2= Custom Duty Incentive
X_3= VAT Incentive

X_4= Double Taxation Treaty
i = number of firms
t = time period from 2018-2022
ε = Error Term

FINDINGS AND DISCUSSION

Response Rate

The researcher administered a total of 285 questionnaires out of which 255 were collected dully filled and were subjected to analysis. The response rate was therefore 89.5% per cent which was deemed adequate for analysis.

Descriptive Analysis

The questionnaire used Likert scale ranging between 1 (strongly disagree) to 5 (strongly agree). The equivalent mean scores for disagree and strongly disagree ranged from 0 to 2.4 on the continuous Likert scale; (0≤S.D/D<2.4) while the scores for not sure had equivalent score of 2.5 to 3.4 (2.5≤NS<3.4). Finally, the scores for agree and strongly agree had equivalent mean score ranging from 3.5 to 5.0; (3.5≤S.A/A<5.0). Equally, standard deviation of > 2 indicated that there was significant variation in the individual statement responses from the mean.

VAT Incentives

The first objective was to ascertain how Kenya's Nairobi City County's manufacturing companies fared financially as a result of VAT incentives. In order to do that, the researcher solicited feedback from the respondents on the impact of VAT incentives on the financial performance of Kenyan manufacturing companies. The investigator distributed surveys with many items, to which participants responded using a five-point Likert scale, as seen in Table 1.

Table 1: VAT Incentives

	Mean	Std. Dev
We receive zero rated VAT incentives.	3.8529	.71275
Revenues in my firm have improved due to zero rated goods.	3.9059	.45998
Operational cost in my firm have reduced because of zero rated goods.	3.9373	.34933
Assets in my firm have increased due to zero rated goods.	4.0784	.51141
We receive VAT exemptions.	3.9961	.43014
Revenues in my firm have improved due to VAT exemptions.	4.1314	.55173
Operational cost in my firm have reduced due to VAT exemptions.	4.2588	.59167
Assets in my firm have increased due to VAT exemptions.	4.5373	.49959
We receive VAT refunds	4.4444	.49876
Revenues of my firm have improved due to VAT refunds.	4.4353	.49677
Operational cost in my firm have reduced because of VAT refunds.	4.4455	.49776
Assets in my firm have increased due to VAT refunds.	4.4157	.52473
We receive zero rated VAT incentives.	4.4559	.49666
Revenues in my firm have improved due to zero rated goods.	4.3961	.49004
Aggregate Score	**4.2322**	**.50775**

Source: Researcher (2023)

The results from Table 1 provide a thorough analysis of the effects of Value Added Tax (VAT) incentives on manufacturing companies in Kenya. The analysis reveals that zero-rated items have a substantial and favorable effect on income generation, as shown by a mean answer of 3.8529 and a standard deviation of 0.71275. This suggests a widespread consensus among the respondents. In addition, the management of products that are not subject to VAT is linked to a decrease in expenses (mean: 3.9059, standard deviation: 0.45998), and exemptions from VAT lead to a decrease in operating costs (mean: 4.2588, standard deviation: 0.59167). In addition, the majority of respondents think that exempting manufactured items from VAT results in higher profitability and greater assets. The mean values for profitability and assets are 4.3961 (with a standard deviation of 0.49004) and 4.5373 (with a standard deviation of 0.49959), respectively.

Additionally, the research suggests that VAT refunds contribute to the creation of income, with a mean value of 4.4353 and a standard deviation of 0.49677. The majority of respondents agree that VAT incentives have a beneficial impact on the financial performance of manufacturing enterprises in Kenya, as shown by the average score of 4.2322. The standard deviation of 0.71275 shows a very significant amount of diversity in the replies. However, the lowest standard deviation of 0.34 reflects a considerable level of unanimity.

The results align with previous studies, as Kuria (2018) determined that VAT incentives had a favorable impact on the financial performance of EPZ enterprises, while Falkenhall, Manssson, and Tano (2019) discovered a positive correlation between VAT decrease and the financial performance of restaurants. The research conducted by Tassie and Akinyomi (2011) on small-scale enterprises in Nigeria provides evidence that VAT incentives have a substantial impact on financial performance. The study suggests the need for periodic evaluations of tax incentives. The research conducted by Uwaoma and George (2015) on agriculture enterprises in Nigeria supports the existing results, highlighting the favorable influence of Value Added Tax (VAT) on economic well-being. Nevertheless, Nanik and Ratna (2015) warn that tax incentives might potentially diminish the worth of a company as a result of heightened competitiveness and decreased attention to expenses unrelated to taxes.

In addition, Kuria's (2018) study on EPZ enterprises in Kenya examined several tax incentives, such as VAT, and discovered a direct correlation between VAT incentives and financial success, as assessed by Return on Assets (ROA). According to the research, EPZ enterprises have more advantages when they are provided with VAT incentives, resulting in enhanced output and performance. Yoke and Chan (2018) conducted study in Asia and found that there is a negative relationship between VAT (Value Added Tax) and the economic well-being of manufacturing enterprises. This highlights the need of implementing efficient tax incentive schemes to improve financial performance. The statistical results of the present analysis are consistent with and add to the existing empirical literature, confirming the beneficial effect of VAT incentives on the financial performance of manufacturing enterprises. The findings derived from this research emphasize the significance of continuous assessment and modifications to tax incentive regimes in order to stimulate economic development and ensure financial well-being.

Custom Duty Incentives

Examining the impact of custom duty incentives on the financial performance of manufacturing companies was the second objective. Table 2 displays the respondents' results.

Table 2: Respondents Opinion on Custom Duty Incentives

	M	SDV
We receive import duties waiver.	4.3888	.48798
Revenues in my firm have improved due to waiver of import duties.	4.3804	.51780
Operational cost in my firm have reduced because of waiver of import duties.	4.3137	.52834
Assets in my firm have increased due to waiver of import duties.	4.3966	.49054
We receive export duties waiver.	4.4356	.49679
Revenues in my firm have improved due to waiver of export duties	4.4784	.50052
Operational cost in my firm have reduced because of waiver of export duties.	4.4275	.49568
Assets in my firm have increased due to waiver of export duties.	4.5059	.50095
We receive customs rebates.	4.4627	.49959
Revenues in my firm have improved due to custom tax rebates.	4.4902	.50089
Operational cost in my firm have reduced because of custom tax rebates.	4.4471	.49817
Aggregate Score	**4.4297**	**.50157**

Source: Field Data (2023)

The findings from Table 2 illuminate the substantial impact of custom duty incentives on the financial performance of manufacturing companies in Kenya. The analysis reveals that manufacturing enterprises were granted import duty exemptions, export duty waivers, and customs rebates, with average ratings of 4.3888, 4.4356, and 4.4627, respectively. This suggests a consensus among the respondents. The average value of 4.42 and the measure of variability, represented by the standard deviation of 0.50, provide further evidence that most people are in agreement with the beneficial effects of custom duty incentives. The results also emphasize the anticipated beneficial impact of waiving import tariffs on increasing income (mean: 4.3804) and reducing operating costs (mean: 4.3137). The exemption of export tariffs is linked to higher income (mean: 4.4784) and lower operating expenses (mean: 4.4275). Customs tax refunds have a significant impact on the financial performance of manufacturing enterprises in Kenya. They are associated with increased revenue (mean: 4.4902) and lower operating expenses (mean: 4.4471), making custom duty incentives key contributors to financial success.

The results of this research are consistent with the findings of Ohaka et al. (2015), which confirm that custom duty incentives have a beneficial impact on the financial performance of manufacturing companies in Nigeria. The research conducted by Amariati (2013) is pertinent as it highlights the influence of tax systems, such as custom duty incentives, on financial performance. It suggests that high taxes are associated with elevated commodity prices and augmented production expenses. The study conducted by Ohaka and Dagogo (2015) in Nigeria examines the influence of custom duty incentives on the financial well-being of manufacturing enterprises. Their results align with the present research, emphasizing the favorable effects of these incentives on economic wellbeing.

The research conducted by Rapulukuchu, Belmodo, and Ibukun (2016) examines how fiscal incentives impact the productivity of enterprises in Cameroon. Significantly, it corroborates the present research by highlighting the favorable influence of export funding and profit tax exemptions on firm productivity. This aligns with the results of the present research, which indicate that custom duty incentives, such as import duty exemptions and export duty waivers, have a favorable impact.

Furthermore, Kuria's (2018) research on the economic well-being of enterprises registered under export processing zones in Kenya, specifically examining custom duty incentives, supports the present results by demonstrating a positive association between economic well-being and custom duty incentives. The suggested research study, which focuses on manufacturing enterprises in Nairobi City County, enhances Kuria's work by broadening the range to include a wider array of industries outside export processing zones.

The statistical results shown in Table 2 and their consistency with existing empirical research highlight the significant impact of custom duty incentives on enhancing the financial performance of manufacturing companies in Kenya. According to respondents, the favorable opinions of these incentives highlight their importance in lowering operating expenses and boosting revenues, thus benefiting the financial well-being of manufacturing companies.

Corporate Income Tax Incentives

The study's third purpose was to examine the influence of income tax incentives on the financial performance of manufacturing enterprises. The objective of the research was to determine if the higher revenue of Kenyan manufacturing businesses may be related to different tax rates. The participants expressed their opinions using a five-point Likert scale, as shown in Table 3.

Table 3: Corporate Income Tax Incentives

	M	SDV
We are given differential tax rates incentives	3.6784	.51459
Revenues in my organization have improved due to provision of differential tax rates	3.7657	.45682
Operational cost in my firm have reduced due to differential tax rates	3.8546	.62374
We are given tax holidays	3.8905	.54572
Revenues in my firm in have increased due tax holidays	3.6754	.43497
Operational cost in my firm have reduced due to the tax holidays	3.6576	.67697
Assets in my firm have increased due to tax holidays	3.6578	.65789
We receive wear and tear allowance	4.1237	.54341
We receive investment deduction allowance	4.4563	.57654
We receive industrial building allowance	3.5678	.65787
Aggregate Score	**3.8328**	**.56885**

Source: Researcher (2023)

The statistical analysis of corporate income tax incentives in Table 3 reveals that respondents typically had a good opinion of these incentives. The aggregate mean of 3.8328 and a standard deviation of 0.56885 indicate agreement with the assertions about these incentives. The majority of participants agree that the implementation of varying tax rates has resulted in enhanced revenues (M=3.7657) and decreased operating expenses (M=3.8546) in Kenyan manufacturing companies. The research also examines the effect of tax holidays on the rise in revenue (M=3.6754) and expansion of assets (M=3.6578), emphasizing their mild influence on these factors. In addition, the respondents report receiving a wear and tear allowance with an average score of 4.1237, an investment deduction allowance with an average score of 4.4563, and an industrial building allowance with an average score of 3.5678. These allowances are considered important in the context of corporate income tax incentives and financial success. The aggregate results indicate that corporate tax incentives have a modest impact on the revenue growth and other financial characteristics of manufacturing enterprises.

The results are consistent with the findings of Assidi et al. (2016) and Pham (2015), confirming that income tax incentives have a beneficial impact on the financial performance of small and medium firms. The research conducted by Githaiga (2013) about the impact of tax incentives on foreign direct investment in the Kenyan stock market further supports the existence of a favorable relationship between wear and tear allowances and foreign direct investments. In addition, Onyango's (2015) research on the influence of income tax incentives on the financial well-being of five-star hotels in Nairobi supports the present study by showing a positive relationship between wear and tear and financial performance. Nevertheless, it is important to highlight that the deduction in Onyango's research contradicts the results of Pham (2015), underscoring the need of taking into account industry-specific intricacies in the effect of tax incentives.

The study conducted by Assidi, Aliani, and Omri (2016) examines the effect of corporate income tax on the economic well-being of enterprises in Tunisia. The study's conclusions align with the current research, emphasizing the negative consequences of corporation tax on the economic welfare of businesses. This discovery strengthens the significance of reducing corporate tax rates in order to improve financial capacities, as shown by Olaleye's (2016) study on the impact of income tax incentives on foreign direct investment in Nigerian manufacturing companies. Furthermore, Tembur's (2016) research on the influence of income tax incentives on the financial well-being of EPZ enterprises in Kenya offers further evidence

supporting the beneficial impact of income tax incentives on the financial performance of businesses.

Thuita's (2017) research on the effect of tax incentives on foreign direct investment in Kenyan Export Processing Zones (EPZs) provides more evidence supporting the beneficial effects of tax holidays in attracting investments and enhancing the financial performance of firms. In their study conducted in the Dominican Republic, Amendo Boccia, Mele, and Sensini (2018) highlight the direct impact of tax exemptions on organizational performance. This finding supports the larger understanding of how tax incentives may influence financial well-being. The research conducted by Amendo Boccia et al. (2018) might be a relevant point of reference for the present investigation, given the probable variations in regional settings. The statistical results, based on existing empirical research, highlight the importance of corporate income tax incentives in influencing the financial performance of manufacturing companies. Although there is general consensus about the beneficial effects of these incentives, it is important to take into account industry-specific and geographical knowledge in order to have a thorough understanding of their impact on financial well-being.

Double Taxation Treaty Incentives

The fourth objective was to investigate how the incentives provided by double taxation treaties affected the financial performance of the manufacturing companies. Table 4 displays the respondents' results.

Table 4: Double Taxation Treaty Incentives

	M	SD
We receive Bilateral tax treaties incentives.	4.1123	.65780
We participate in bilateral trade.	3.9117	.54388
Revenues in my firm have improved due to Bilateral tax treaties.	4.1003	.44585
Operational cost in my firm have reduced because of Bilateral tax treaties.	4.1212	.65472
Assets in my firm have increased due to Bilateral tax treaties.	4.1105	.77480
We receive Multilateral tax treaties incentives.	4.1204	.54384
We participate in multilateral trade.	3.9883	.54305
Revenues in my firm have improved due to Multilateral tax treaties.	4.2203	.65485
Operational cost in my firm have reduced because of Multilateral tax treaties.	4.3202	.43587
Assets in my firm have increased due to Multilateral tax treaties.	3.9090	.54496
Our firm is protected from foreign competition.	3.8232	.54761
Aggregate Score	**4.0670**	**.57702**

Source: Researcher (2023)

The statistical findings from Table 4 indicate a generally positive perception among respondents regarding double taxation treaty incentives, with an aggregate mean of 4.03 and a standard deviation of 0.57702. The majority of respondents agree that double taxation treaties in Kenya have contributed to increased revenue (Mean=4.03) and decreased operational costs (Mean=4.1003) in manufacturing companies. The study also suggests that these treaties have contributed to an increase in assets (Mean=3.9090). Moreover, respondents express agreement that manufacturing firms are protected from foreign competition through these treaties (Mean=3.8232). The low standard deviation implies minimal variation in responses, reinforcing the consensus that double taxation treaty incentives significantly affect the financial performance of manufacturing firms in Kenya.

These findings resonate with the research by Bonanomi and Saithi (2013), supporting the idea that double taxation treaties influence foreign investment positively. However, there is a discrepancy with the findings of Davies et al. (2010) and Baker (2014), who concluded that double taxation treaty incentives have an insignificant

effect on the financial performance of manufacturing firms. Awasthi's (2012) study aligns with the latter perspective, suggesting that double taxation treaties do not attract investment in developing countries. This divergence in findings highlights the complexity and context-specific nature of the impact of double taxation treaties on financial performance.

The Organization for Economic Co-operation and Development (OECD) (2005) definition of double taxation emphasizes its potential burden on taxpayers and the need for bilateral tax treaties to prevent such scenarios. The literature review reinforces this perspective, noting that double taxation treaties aim to prevent businesses from being taxed twice on the same income, thus facilitating economic relations between nations (Mwangi, 2021; Lang, 2013).

Davies, Norback, and Teki-Koru's (2010) research on the consequences of double taxation agreements on multinational companies' financial performances in Sweden found no substantial evidence of how the treaties impacted overall sales. Their findings suggested a higher likelihood of businesses investing outside of these treaties. Similarly, Marques and Pinho's (2014) study on the effect of double taxation treaties on new foreign branches established by European multinationals found inconclusive evidence on the impact on FDI. These studies emphasize the need for a comprehensive examination beyond FDI when assessing the impact of double taxation treaties on financial performance. The research by Amondi (2017) on the influence of FDI on the financial achievement of real estates in Kenya contradicts the findings of Dong (2019) and Davies et al. (2010), asserting that double taxation agreements do not have a consequential impact on the financial performance of real estates in Kenya. Kariuki and Sang's (2018) study on how foreign direct investment influenced the financial welfare of commercial banks in Kenya aligns with the perspective that double taxation treaties have no substantial influence on FDI, further reinforcing the complexity of the relationship.

Erhirhie's (2018) research in Nigeria, indicating a positive correlation between foreign direct investments and double taxation treaties, highlights the potential positive impact of such treaties on FDI. However, Dong's (2019) study on how foreign direct investment is affected by double taxation treaties in ASEAN countries suggests a substantial negative influence on the number of direct foreign investments in nations under old treaties. This disparity underscores the importance of considering the age and reforms of double taxation treaties in evaluating their impact on financial performance.

The statistical findings on double taxation treaty incentives, coupled with extant empirical literature, showcase a complex landscape. While there is an overall consensus among respondents on the positive impact of these treaties on financial performance, conflicting findings in the literature highlight the need for nuanced and context-specific examinations. The differentiation between FDI and overall financial performance, as well as considerations of treaty age and reforms, adds layers of complexity to understanding the relationship between double taxation treaties and financial well-being.

Financial Performance of Manufacturing Companies

The result in this section presents the results on financial performance of manufacturing companies in Nairobi City County, Kenya.

Table 5: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Net Assets (KShs in Millions)	255	988.5634	1803.8107	1297.2285	586.9576
PAT (Kshs in Millions)	255	5.7895	362.3433	175.4113	977.6107
Return on Assets %	255	-.396	.318	.08988	.158322
Valid N (listwise)	255				

Source: Researcher (2023)

The result in Table 5 indicates that the minimum net assets was Kshs.988M and the maximum was Kshs.1,803.8107. The mean asset for the manufacturing companies tarted was Kshs. 1297.22 M. The standard deviation was huge (SDV=586.9576) indicating a huge variation in the value of Net assets of the manufacturing companies. The result in Table 5 indicates that the minimum PAT was Kshs.5.8M and the maximum was Kshs. 362.34. The mean PAT for the manufacturing companies targeted was Kshs. 175.41 M. The standard deviation was huge (SDV=977.61) indicating a huge variation in the value of PAT of the manufacturing companies. The return on assets value ranged from -39.6% to 31.8%, mean of 8.988% and a standard deviation of 0.158322.

Inferential Analysis

Correlation Analysis

The correlation presented data relating the study variables and interpreted based on 95% confidence interval.

Table 6: Correlation Analysis

		VATI	CDI	CITI	DTTI	FP
VATI	Pearson-Correlation	1				
	Sig(2-tailed)					
	N	255				
CDI	Pearson-Correlation	-.622**	1			
	Sig-(2-tailed)	.200				
	N	255	255			
CITI	Pearson-Correlation	-.500**	.412**	1		
	Sig(2-tailed)	.110	.090			
	N	255	255	255		
DTTI	Pearson-Correlation	.312**	.040	-.289**	1	
	Sig(2-tailed)	.234	.530	.820		
	N	255	255	255	255	
FP	Pearson-Correlation	.780**	.571**	.600**	.862**	1
	Sig(2-tailed)	.000	.000	.000	.000	
	N	255	255	255	255	255

Source: Field Data (2023)

The findings in Table 6 demonstrated a positive correlation between financial success and all the independent factors. The findings revealed a significant and high positive correlation coefficient of 0.780 between VAT incentives (VATI) and the outcome. The significance value was determined to be 0.000. The results corroborated Kuria's (2018) findings, which showed that VAT incentives had a substantial impact on the financial performance of manufacturing enterprises in Kenya. The findings also indicated a substantial positive association (r = 0.600, p = 0.000) between custom duty incentives (CDI) and the financial success of manufacturing enterprises. Therefore, it can be inferred that providing custom duty incentives has a beneficial impact on the financial performance of manufacturing companies in Kenya. These results are consistent with the conclusions of Ohaka and Dagogo (2015), who found that custom duty incentives had a substantial impact on the financial performance of manufacturing companies in Nigeria.

The findings further demonstrated a substantial correlation (r = 0.600, p = 0.000) between the provision of corporate income tax benefits and the financial success of manufacturing companies in Kenya. This finding aligns with the research conducted by Onyango (2015), which determined that there exists a significant correlation between income tax benefits and the financial success of

luxury hotels. These findings corroborate the earlier research done by Tembur (2016), which shown that manufacturing enterprises benefiting from corporate income tax advantages have a strong financial performance, as evaluated by return on assets (ROA). The study's findings revealed a strong correlation (r = 0.862, p = 0.000) between the incentives provided by double taxation treaties and the financial performance of manufacturing enterprises in Kenya. The results contradicted the conclusions of Norbäck and Tekin-Koru (2010) and Dong (2019), who found that double taxation treaty incentives did not have a substantial impact on foreign direct investment (FDI) and, thus, the financial performance of manufacturing enterprises.

Regression analysis

The regression section presented the linear relationship between variables.

Model Summary

The research aimed to ascertain the extent to which the independent variable may account for the variance seen in the dependent variable. The results of the corrected determination coefficient (R 2) were shown in table 7.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.880[a]	.775	.772	1.48850

a. Predictors: (Constant), VATI, CDI,CITI,DTTI

Source: Field Data (2023)

The coefficient of determination of adjusted (R2) is 0.772, which corresponds to 77.2%. These findings suggest that 77.2% of the variation in financial performance can be accounted for by changes in VAT incentives, corporate income tax incentives, custom duty incentives, and double taxation treaty incentives. The remaining 22.8% of the variation in financial performance is attributable to variables not included in the research model.

Analysis of Variance

The researcher aimed to ascertain the significance of the overall regression model for the study using the F-test. The regression analysis was conducted at a significance level of 5%. The alpha value was compared to the p-value in order to assess the significance of the model. The salient test findings were succinctly reported in table 8.

Table 8: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1910.503	4	477.626	215.572	.000[b]
	Residual	553.905	250	2.216		
	Total	2464.408	254			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), VATI, CDI,CITI,DTTI

The p-value is 0.000b, which is lower than the significance level of 0.05. Therefore, the statistical analysis indicates that the model is significant in predicting the impact of VAT incentives, corporate income tax incentives, custom duty incentives, and double taxation treaty incentives on the financial performance of manufacturing firms in Nairobi City County, Kenya. The computed F-value at a significance level of 5% was 215.572. Given that the computed F value is higher than the crucial F value (with a p-value of 2.762), it may be concluded that the entire model is statistically significant.

Coefficients

The linear relationship between variables was presented in the Table 9.

Table 9: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	13.834	1.700		8.136	.000
	VATI	.784	.083	.320	9.455	.000
	CITI	1.261	.070	.631	18.051	.000
	CDI	.781	.111	.397	7.011	.000
	DTTI	1.215	.191	.740	6.364	.000

a. Dependent Variable: Financial Performance

Source: Field Data (2023)

$$Y= 13.834 + 0.784X_1 +1.261X_2 +0.781X_3 +1.215X_4 + \varepsilon$$

The regression analysis results in Table 9 revealed a beta coefficient of 0.784, which was statistically significant with a p-value of 0.000. There was a clear and strong correlation seen between VAT incentives and the financial performance of manufacturing enterprises in Kenya. The results corroborated the conclusions made by Kuria (2018) that VAT incentives had a substantial impact on the financial performance of manufacturing enterprises in Kenya.

The research in Table 9 revealed a statistically significant positive correlation between business income tax incentives and financial performance. The coefficient was 1.261, and the p-value was 0.000. Onyango's (2015) research also found a significant correlation between income tax benefits and the financial success of luxury hotels. The findings of this study are consistent with the earlier research done by Tembur (2016), which showed that manufacturing enterprises that get corporate income tax incentives are capable of achieving strong financial performance, as evaluated by return on assets (ROA).

The regression analysis results in Table 9 indicated a beta coefficient of 0.781, which was statistically significant with a p-value of 0.000. The data indicated a strong correlation between custom duty incentives and the financial success of manufacturing enterprises in Kenya. According to Ohaka and Dagogo (2015), it was determined that custom duty incentives had a substantial impact on the financial performance of manufacturing companies in Nigeria.

The study under Table 9 revealed a statistically significant positive correlation between double taxation treaty incentives and financial performance. The β coefficient was 1.215, and the p-value was 0.000. The results contradicted the conclusions of Norbäck and Tekin-Koru (2010) and Dong (2019), who found that double taxation treaty incentives did not have a substantial impact on foreign direct investment (FDI) and, thus, the financial performance of manufacturing enterprises.

CONCLUSIONS AND RECOMMENDATIONS

To summarize, the results of this research emphasize the crucial significance of government-provided incentives for manufacturing companies in Nairobi City County, Kenya. The strong positive association between financial success and Value Added Tax (VAT) incentives underscores the need for manufacturing enterprises to take full advantage of these advantages, namely by providing zero-rated and exempt products and services. The study's finding that expedited VAT refunds enhance financial stability underscores the significance of streamlined administrative procedures in optimizing the advantages of these incentives.

Furthermore, the research highlights the significant impact of corporate income tax incentives on improving the financial performance of manufacturing enterprises in Nairobi City County. The robust correlation shown indicates that management should proactively use these incentives, which include disparate tax rates, tax holidays, and other allowances such as

depreciation, investment deduction, and industrial construction. Manufacturing organizations may achieve improved financial results by carefully integrating these incentives into their financial strategy.

Moreover, the research promotes the use of double taxation treaty incentives, highlighting their direct relationship with the financial performance of industrial firms in Nairobi City County. The finding that tax cuts, import duty exemptions, and export duty waivers enhance financial performance underscores the need for manufacturers to actively pursue and endorse these incentives. Both bilateral and multilateral tax treaties are considered advantageous, as they promote the notion that these agreements should be actively supported to improve the financial performance of manufacturing enterprises. Furthermore, the research emphasizes the beneficial influence of safeguarding foreign investments and the significance of the duration of double taxation agreements in strengthening the financial outcomes of Kenyan manufacturing firms.

Essentially, this report strongly recommends that manufacturing enterprises in Nairobi City County actively participate in government-provided incentives. Manufacturing firms can enhance their financial performance and contribute to regional economic development by strategically aligning their operations with VAT incentives, corporate income tax incentives, and double taxation treaty incentives.

Considering the favorable influence of VAT incentives on the financial outcomes of manufacturing companies, it is advisable for policymakers (such as Members of Parliament, CBK, Ministry of Trade and Industry) who are responsible for VAT to review the existing VAT policy. Increasing and broadening value-added tax (VAT) benefits for manufacturing firms has the potential to foster more economic expansion within the industry. It is important to carefully improve current incentives and implement new initiatives to enhance the financial stability of manufacturing businesses.

The research emphasizes the substantial impact of corporate income tax incentives on the financial performance of manufacturing enterprises. Tax administration authorities should proactively investigate methods to use corporate income tax benefits for the advantage of the manufacturing business. This may include considering longer tax breaks, possible decreases in corporate tax rates, and the implementation of variable tax rates to encourage more investment in the industry.

In light of the beneficial influence that custom duty incentives have on the financial performance of manufacturing firms, authorities in charge of customs and trade legislation should reassess the current tax rules pertaining to custom duties. By aligning custom duty incentives with the specific demands and difficulties of the manufacturing sector, not only will the financial performance be improved, but also the connection between the government and stakeholders in the manufacturing business will be strengthened.

The research highlights the beneficial impact of double taxation treaties on the financial performance of manufacturing businesses. Tax authorities should consider the additional value generated by incentives included in these treaties. Policymakers are advised to provide supplementary incentives for both multilateral and bilateral tax treaties. In addition, using steps to augment the safeguarding of foreign investors might also amplify the financial performance of the manufacturing industry.

Manufacturing enterprises are advised to take use of the recognized tax advantages, such as those pertaining to VAT, income tax, custom duty, and double taxation treaties. Management should proactively interact with tax regulations and incentives in order to maximize financial success. This entails engaging in partnerships with government agencies, remaining updated on policy modifications, and harmonizing corporate strategy with the accessible tax advantages to optimize overall economic results.

Areas for Further Research

The study specifically considered four tax incentive indicators: VAT incentives, corporate income tax incentives, custom duty incentives, and double taxation treaty incentives. Further research could explore additional tax incentive indicators that may impact the financial performance of manufacturing companies. The research focused on manufacturing firms in Nairobi City County, Kenya. To enhance the breadth and applicability of the findings, future studies could expand their scope to include other sectors such as agriculture, energy, the commercial sector, and the transport sector. This would provide a more comprehensive understanding of the impact of tax incentives across various industries.

Future research could engage in a comparative analysis across different regions or countries to examine variations in the effectiveness of tax incentives on financial performance. This approach would contribute to a more nuanced understanding of the role of tax incentives in different economic contexts. Given the reliance on secondary data in the original study, further research could delve deeper into the validation and reliability of various secondary data sources. This would help address potential limitations associated with the quality of the data used in the study. To capture the dynamic nature of tax incentives and their impact on financial performance, future research could adopt a longitudinal approach. This would involve studying the trends and changes in tax incentives over an extended period, providing insights into their evolving effects on companies.

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