EFFECT OF TAX INCENTIVES ON FINANCIAL PERFORMANCE OF DOMESTIC AIRLINES IN KENYA

BY

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DECLARATION

Declaration by Candidate

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Declaration by the Supervisor

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DEDICATION

I dedicate this work to my friends and family

ABSTRACT

The profitability of the airlines in Kenya has been dismal over the years unlike their counterparts in the region. Studies relating to effect of tax incentives were done in developed and other developing countries other than Kenya. Similarly, some of these studies did not focus on domestic airlines. The current study sought to address the research gaps in literature by focusing on the effect of tax incentives on financial performance of domestic airline companies in Kenya. Therefore, the specific objectives of the study are: To establish the effect of capital allowances, export promotion incentives, tax holidays and VAT exemption on financial performance of domestic airlines in Kenya. The study results are expected to go a long way in benefitting various beneficiaries such as the government, researchers, researchers and academicians and corporate tax payers. The research was guided by Peacock Wiseman Theory of Public Expenditure, optimal tax theory, q theory of investment and Agency theory. The study adopted a descriptive research design where a census was used. The target population was the 15 Domestic airlines in Kenya. Data was collected from audited annual financial reports for individual firms found on the company's website and library. The study collected data for a period of 5 years 2014-2018. The study analyzed data by use of inferential and descriptive statistics that consist of mean, standard deviation, regression and measures of variations. The study concludes capital allowances incentives had a direct effect on the financial performance of domestic airline companies in Kenya. Some of the capital allowances enjoyed by domestic airline companies in Kenya include wear and tear allowances, and investment deduction. during the 5-year period (2014 to 2018) the capital allowance incentives to domestic airline companies has exhibited a dense volatility trend and wear and tear allowances are charged on capital expenditure on machinery and equipment led to positive financial performance of domestic airline companies in Kenya. The study concludes that provision of export promotion incentives promotes financial performance of domestic airline companies in Kenya, there exists a positive correlation coefficient between performance of domestic airline companies and export promotion. The study concludes that tax holidays had a direct significant influence on financial performance of domestic airline companies in Kenya, tax holidays by the current regime enables the domestic airlines to start and stabilize, tax holidays enable domestic airlines firms. The study concludes that VAT exemption incentives had a direct significance on financial performance of domestic airline companies in Kenya. The study recommends that the stakeholders in tax policy should reconsider the economic value of capital allowances incentives. The Government of Kenya should increase the capacity for it to incentives and negotiate for mutual and better benefits with the domestic airlines and other investors. The Government of Kenya should consider increasing the tax incentives granted to attract foreign direct investment, especially those provided to domestic airlines and other investors.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

OPERATIONAL DEFINITION OF TERMS

Capital Allowances	Is the practice of allowing a company to get tax relief on tangible capital expenditure by allowing it to be expensed against its annual pre-tax income.
Domestic Airlines	It is a form of commercial flight within civil aviation where the departure and the arrival take place in the same country.
Export Promotion	Incentive programs designed to attract more firms into exporting by offering help in product and market identification and development.
Financial Performance	It is the actual results of a firm measured against the projected output, goal or objective.
Tax Holidays	Is a temporary reduction or elimination of a tax.
Tax Incentive	Is a government measure that is intended to encourage individuals and businesses to spend money or to save money by reducing the amount of tax that they have to pay.
VAT Exemption	It means if a company sell goods or services the government does not charge Value Added Tax.

ACRONYMS AND ABBREVIATIONS

DWL : Deadweight Loss

EPZ : Export Processing Zones

FDI : Foreign Direct Investments

IBD : Industrial Building Deductions

ID : Investment Deductions

KRA : Kenya Revenue Authority

NGOs : Non-Governmental Organizations

NSE : Nairobi Securities Exchange

R & D : Research and Development

ROA : Return on Assets

ROE : Return on Equity

ROI : Return on Investment

TREO : Tax Remission for Export Office

UNCTAD: United Nations Conference on Trade and Development

VAT : Value Added Tax

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Governments in both developed and developing countries collect taxes to fund public services. Marina and Danijela (2012), argued that taxation is the only known practical manner for collecting resources in order to finance public expenditure for goods and services consumed by any citizenry. However, this is not strictly true as in the case of developing countries that get revenue from other sources besides taxation which including non-tax revenue such as user-fees and licenses charged for services rendered by ministries, department and agencies, as well as income from sale of government assets and privatization. Moreover, many developing countries are dependent on foreign aid as an external source of revenue (Barnett & Grown, 2014).

The form of tax incentives in developed countries varies from credits for those investing in assets, depreciation at high rates as well as exciting treatments for R & D expenditures while in developed countries, tax incentives can vary from quickened devaluation, venture duty credits as well as provision of positive expense for those companies that use innovative work. Domestic ly, for the Kenyan case, Tembur (2016) argues that tax incentives vary from tax holidays, allowances and subsidies on investments, special zones, accelerated depreciation, reduced tax rates as well exemptions on tax. Resident companies enjoy a corporate tax rate 30% while non-resident companies receive higher rate of 37.5%.

1.1.1 Global Perspective

Ohaka and Agundu (2012), argued that firms that are eligible for tax incentives normally have higher returns. Tax incentives also make investments more attractive

and in turn enhance financial performance of a firm. Tax incentive generate employment and encourage self-employed to incorporate into limited companies, this leads to improved financial performance of firms because limited companies perform better given the fact, they can assess external sources of capital as compared to sole-traders (Philips, 2011). Incentives lowers the cost of the firm especially where the government offer subsidies and other forms of incentives to firms such as low interest rates, grants, lowering the cost of labor, and improving transportation networks to make transportation cost low, with reduced costs, the net profit posted by firms will be high and hence leads to high financial performance.

Monetary growth aids in the measurement of performance of a company's policies and activities in terms of finances. The performance can be read from the amount of profit derived by a firm from its investments, its property as well as the worth gained over time (Barth, 2014). In addition, monetary growth enables us to examine if a firm is putting its resources to good use in order to make more returns. Well known examples of monetary growths are; income from operations, the gains prior to taxation and interest as well as the net worth of assets. It is important to take note of the fact that no single evaluation of monetary growth should be considered singularly (Adam, 2014). Keen evaluation of a firm's growth and performance incorporates examination of all the indicators of growth. Monetary growth is dependent on the evaluation of how good a firm is at using its property right from primary bases to derive good revenue. Monetary growth/Financial performance is indeed used in indicating general evaluations of company's financial wellbeing in a given duration and is of importance in contrasting similar companies that carry out their activities in one line of industry or even contrast aggregate companies, (Almazari, 2011).

For the airline companies to remain profitable in the long term, focus must remain on financial management and general economic environment so as to have an efficient and well-managed company operations. Financial performance of airline companies is crucial because it informs decisions in the short term and their strategic planning. Previous studies on airline performance have concentrated on operational performance and not financial performance (Barth, 2014). Operation performance has become popular since it measures metrics like available seat kilometers, load factor and revenue per kilometer. Feng & Wang maintain importance of measuring airline financial performance in terms of profitability, liquidity and solvency.

This study will adopt ROI as a measure of financial performance using the secondary data collected. ROI is considered to be the most important ratio in accounting literature in the set of financial performance.

1.1.2 Kenyan Perspective

Domestic airlines in Kenya are 15 in number and include the following: African Express Airways, Air Direct-Connect, Airkenya Express, Airlink (Kenya), AirTraffic Africa, Blue Bird Aviation (Kenya),Capital Airlines (Kenya),Fly540,Fly-SAX,Phoenix Aviation (Kenya),Queensway Air Services, Ribway Cargo Airlines, Safari Express Cargo, KQ and Skytrail Air Safaris. (World Airline Directory, 2017). Kenya Airways is a major domestic and international carrier. It offers numerous flights to other African countries. KQ as it is popularly known operates from Jomo Kenyatta International Airport (NBO). It has more than 39 airplanes most of which are modern Boeing aircraft (Okulo, 2012). African Safari Airways is base in Mombasa and offers international flights between Europe and Kenya. It mostly carries tourists with its Airbus A310. The company was launched in the mid 90’s and

provides freight services to NGOs, government ministries and neighboring countries such as Tanzania, Uganda and Ethiopia. Of late it has begun offering freight services to the private sector and ferrying passengers as well. 748 Air Services has 11 prop engine aircrafts (World Airline Directory, 2016). This is one of the pioneer Kenya airlines. It was formed after the merger of Sunbird Aviation and Air Kenya and has its hub at Wilson Airport in Nairobi. Air Kenya Express has a fleet of five aircrafts that fly domestic and regional flights. Most of its flights are to Tanzania's Kilimanjaro Airport (World Airline Directory, 2016).

This company offers domestic and regional flights. It is having its hub at Jomo Kenyatta International Airport. Africa Express Airways has one DC-9 jet aircraft and two Boeing 727s. They specialize in safaris and have daily scheduled flights from Mombasa to various tourist destinations e.g. Diani, Lamu, Samburu, Tsavo, Amboseli and Masai Mara. They have small modern turbo-prop aircrafts. Their hub is Jomo Kenyatta International Airport in Nairobi and they have regular scheduled domestic and regional flights. They also offer charter services. Their regional flights fly to Tanzania, Sudan, Rwanda, Burundi and the DRC. They have a Fokker 28 jet and two Canadair regional jets. They cater for tourists and offer scheduled flights to various Kenya tourist destinations. They offer chartered domestic flights in case their scheduled flights do not fit your timetable. Their fleets of aircrafts are all prop-driven (Okulo, 2012).

Fly540 was launched in 2006 and operate from Jomo Kenyatta International and Wilson Airports. They offer scheduled flights to Eldoret, Kisumu, Kitale, Lamu, Lodwar, Malindi, Mombasa and across the border to Juba and Zanzibar. Jambojet is a wholly-owned subsidiary of Kenya Airways (World Airline Directory 2017). It

launched flights on the 1st of April 2014 and has since then become one of Kenya's aviation success stories in terms of passengers uplifted. Jambojet operates a fleet of 3 Boeing 737-300s and offers regular flights to and from Nairobi, Mombasa, Kisumu and Eldoret (Hofmann, 2018).

Kenya airlines have continued to record dismal performance in the recent years epitomized by globalization, liberalization and consolidation of the African markets. The profitability of the airlines in Kenya has been dismal over the years unlike their counterparts in the region. The primary issues facing airline companies today and in particular domestic airlines in Kenya are challenges in relation to idle capacity, optimal asset use, heavy fixed costs, slow reaction to changes and revenues that are highly variable.

The airlines face challenges including diminishing market potential, high fuel prices, safety records and high taxes (Bosire, 2015). The government sometimes puts up measures and tax incentives to domestic airlines to encourage domestic tourism. Therefore, the current study aims at establishing the effect of tax incentives on financial performance of domestic airlines in Kenya.

A tax incentive is an aspect of a country's tax code designed to incentivize or encourage a particular economic activity. Tax incentives can have both, positive and negative impacts on an economy. According to Fletcher (2015), tax incentives are those special exclusions, exemptions, or deductions that provide special credits, preferential tax rates or deferral of tax liability. Tax incentives can take the form of tax holidays, investment allowances and tax credits, accelerated depreciation, special zones, investment subsidies, tax exemptions, reduction in tax rates and indirect tax incentives. Hence, tax incentives can be defined as fiscal measures that are used to

attract domestic or foreign investment capital to certain economic activities or particular areas in a country.

KRA offers a wide range of Tax incentives to encourage investments and to foster growth of companies. Some of the tax incentives offered by KRA include: Capital allowances which include wear and tear, investment deductions, industrial deductions and farm works. Others include Tax holidays mostly offered to Export processing Zones, preferential corporate tax rates on newly listed companies, incentives through Double Tax Agreement, insurance tax relief, mortgage relief, home ownership savings plan(HOSP), exemptions on VAT among others. The study will focus on tax incentives of capital allowances, export promotion, tax holidays and VAT exemptions. The current study choose domestic airlines because there are no studies done relating tax incentives to the performance of domestic airlines.

1.1.3 Tax Incentives

Tax incentives are defined by the UNCTAD (2016) as any measurable advantages accorded to specific enterprises or categories of business by (or at the direction of) a Government, in order to encourage them to behave in a certain manner, in Steven and Ana (2016), argument, tax incentives are any incentives that reduce the tax burden of enterprises in order to induce them to invest in a particular project or sector of the economy. Ifueko (2011), describes tax incentive as special arrangement in tax laws to: stimulate growth in specific areas, attract, retain or increase investment in a particular sector, assist companies or individuals carrying on identified activities. They include measures specifically designed either to increase the rate of return of a particular sector, or to reduce (or redistribute) its cost or risks.

According to Clark, Cebreiro, and Bohmer (2015), tax incentives are much easier to provide than to correct deficiencies in the system, for example, in infrastructure or skilled labor they do not require an actual expenditure of funds or cash subsidies to investors. They are therefore, politically easier to provide than funds. The grant of tax incentives, in whatever form, constitutes preferential taxation because of their selective nature of application (Philips, 2010). That is, they are tailored to only benefit a selected group of taxpayers such as capital investors who are considered more beneficial to a nation's economy than other taxpayers are, a move some have termed financial carrot dangling (Murray,2013). The idea is informed by the fiscal theory of compensatory expenditure, which downplays the classical challenges of shifts in the allocation of resources emerging from taxation to a change from the incidence of individual loses and benefits to the economy (Sunday, 2013).

Performance is defined as the actual results of a firm measured against the projected output, goal or objective. According to Richard (2011), organizational performance is comprised of three specific aspects of a company; shareholder return, firm outcome, product market performance and financial performance. Finance, firm development, legal aspects of the firm, operations, and strategic planners are used by scholars to define organizational performance in various fields. The main roles of organizational performance are; measuring of outputs of a specific operation, process modification and increasing of outputs desired and efficiency increase is ensured of the whole process. Performance of groups and individuals can use organizational performance concept (Barth, 2014).

The investments of a firm and the profits that are deprived from them and the worth the firm has gained over a period of time is what is used to measure performance.

Making of more returns is examined through monetary growth of the firm through its resources (Agarwal & Agarwal 2015). Operations income, gains without paying taxes, interests and what their assets are worth are the examples of monetary growths. All the monetary growths evaluations should be done all together rather than singularly.

1.2 Statement of the Problem

Many countries especially in the developing economies have come up with tax incentives to attract investment, create employment and as tools for international competition (Klemm &Van Parys, 2012). Government regimes institute such incentives as reduced corporate income tax rates, tax holidays, capital allowances, tax credits, accelerated depreciation, tax exemptions and so on. This enhances the firm's performance and hence economic growth. Firms that qualify enjoy tax incentives are able to save and investment their money leading to increased profitability

Kenya has continued to record dismal performance in the recent years epitomized by globalization, liberalization and consolidation of the African markets. The profitability of the airlines in Kenya has been dismal over the years unlike their counterparts in the region. The domestic Airline industry in Kenya is faced by several challenges. According to Mutema (2016), in the State of the Kenya Airline Industry, the challenges being faced include diminishing market potential, high fuel prices, safety records, lose of skilled human resources to other foreign airlines and high taxes. Companies like Kenya airways in last few years have been making losses.

In Kenya, previous studies done regarding the effect of tax incentives on financial performance of firms have largely been general in approach. Such generalizations may not be representative enough of the various sectors of the Kenyan economy

because each sector is distinct in several aspects in its own rights. Besides, findings from those studies regarding the topic under study is conflicting and mixed.

For instance, Kamau (2018), did a study on effect of tax incentives on financial performance of quoted agricultural firms in Kenya. The study concluded that there is very little if not no relationship between effective tax rate and firms 'financial performance. Gumo (2013), conducted a study on the effect of tax incentives on foreign direct investments (FDI) in Kenya but did not focus on financial performance. His study established that investments deductions and mining operation deductions incentives policy have a positive effect on FDI while industrial allowance has a negative influence.

In a study by Njuru, Ombuki, Wawire, and Okeri, (2013), on taxation and private investment, evidence for Kenya, found that VAT, income tax and establishment of Kenya Revenue Authority (KRA) had negative impact on private investment while excise tax, import tax and tax amnesty impacted positively on private investment. Muthari (2016), aimed at establishing tax incentives and performance of selected manufacturing firms in Kenya. The study found that custom duty incentives had a positive and significant effect on the performance of the firms even though their effect on performance was the least. The effect of excise tax incentives on the performance of the firms was also found to be positive and significant.

The critical literature gap related with this research is failure by management in the domestic airline companies in Kenya to link the effect of tax incentives on firms' financial performance. Empirical studies have shown that there is no ideal mix of tax incentives. Different countries face different economic challenges at different times hence varied mix of tax incentives apply to different circumstances. Therefore, the

current study aims at filling the gap by answering the question: What is the effect of tax incentives on financial performance of domestic airline companies in Kenya?

1.3 Objectives of the Study

1.3.1 General Objective

To determine the effect of tax incentives on financial performance of domestic airline companies in Kenya

1.3.2 Specific Objectives

i. To establish the effect of capital allowances on financial performance of domestic airline companies in Kenya.

ii. To establish the effect of export promotion on financial performance of domestic airline companies in Kenya.

iii. To determine the effect of tax holidays on financial performance of domestic airline companies in Kenya.

iv. To establish the effect of VAT exemption on financial performance of domestic airline companies in Kenya.

1.4 Research Hypotheses

The research hypotheses for the study are:

H_{01}: Capital allowances have no significant effect on financial performance of domestic airline companies in Kenya.

H_{02}: Export promotions have no significant effect on financial performance of domestic airline companies in Kenya.

H_{03}: Tax holidays have no significant effect on financial performance of domestic airline companies in Kenya.

H_{04}: VAT exemptions have no significant effect on financial performance of domestic airline companies in Kenya.

1.5 Significance of the Study

1.5.1 The government of Kenya

The research is aims at establishing effect of tax incentives on financial performance of domestic airlines in Kenya. The study results are expected to go a long way in benefitting various beneficiaries such as the government, researchers and corporate tax payers. On the other hand, it will enable government to know whether tax incentives can actually help to redirect investment pattern of individuals and corporate bodies towards the development of manufacturing firms.

1.5.2 Corporate Taxpayers

To the domestic airlines management, the findings will provide the corporate tax payers and especially those operating in the airline industry with an insight on available tax incentives and how to utilize them in order to increase their savings for future investments. Rise in level of investments in the country is likely to result to rise in level of revenue for the government through taxation.

1.5.3 Policy Makers

It forms the basis of reviewing the tax policies and carrying out an evaluation on their effectiveness. A review of the current tax policies can aid in carrying out a cost benefit analysis and guiding the policy makers on appropriate incentives. Government, through this research could evaluate the profitability of the tax

incentives, that is whether the revenue forfeited by way of tax incentives are justifiable or not.

1.5.4 The Future Research

The study will also be instrumental for researchers and academicians who will want to get information relating to tax incentives and financial performance of domestic airlines in Kenya. It will also be of great use for researchers and students who will want to review the literature on tax incentives and financial performance.

1.6 Scope of the Study

The study will focus on 15 Domestic airlines in Kenya namely; African Express Airways, Air Direct-Connect, Airkenya Express, Airlink (Kenya), AirTraffic Africa, Blue Bird Aviation (Kenya),Capital Airlines (Kenya),Fly540,Fly-SAX,Phoenix Aviation (Kenya),Queensway Air Services, Ribway Cargo Airlines, Safari Express Cargo, KQ and Skytrail Air Safaris. The research will collect secondary data for a period of 5 years 2014-2018. The dependent variable will be financial performance while the dependent variables will be capital allowances incentives, export promotion incentives, tax holidays and VAT exemption incentives.

1.7 Limitations of the Study

The major limitation the study faced when using secondary data was the availability of data sources and their accuracy. This largely is attributed by the fact that most of the information is private. However, the researcher overcame this challenge by using several sources to obtain and cross check the data, like Kenya Association of Air Operators reports, Kenya Civil Aviation Reports, International Air Travel Association (IATA), Kenya Airlines websites and information from journals. The study faced time

constrains since the study periods and schedules were limited. The researcher worked extra time to beat the deadline.

1.8 Chapter Summary

The chapter discusses the tax incentives and performance and notes that the form of tax incentives in developed countries varies from credits for those investing in assets, depreciation at high rates as well as exciting treatments for R & D expenditures while in developed countries, tax incentives can vary from quickened devaluation, venture duty credits as well as provision of positive expense for those companies that use innovative work. On the global view, tax incentives also make investments more attractive and in turn enhance financial performance of a firm. Financial performance of airline companies is crucial because it informs decisions in the short term and their strategic planning. Previous studies on airline performance have concentrated on operational performance and not financial performance. The objectives focuses on establishing effects of capital allowances, export promotion and VAT exemption on financial performance of domestic airline companies in Kenya. The study was significant to the government of Kenya, corporate taxpayers, policy makers and the future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a discussion of the reviewed literature on tax incentives on financial performance. It covers a theoretical framework for the study that gives a discussion of theories, general literature review, empirical literature, conceptual framework, and summary of literature review.

2.2 Theoretical Framework

The following section will discuss relevant theories concerning tax incentives and financial performance. The theories include: Peacock Wiseman Theory of Public Expenditure, Optimal Tax Theory, agency theory and the q theory of investment. Optimal tax theory is the main theory guiding the study because it explains how best to design a tax to minimize distortion and inefficiency subject to raising set revenues through distortionary taxation. The theory of optimal taxation looks for marginal deadweight losses, and can be used to evaluate the efficiency of tax reforms (Ohaka & Agundu, 2012). This theory forms the basis of the main objective in this study

2.2.1 Peacock Wiseman Theory of Public Expenditure

In 1961 Peacock and Wiseman developed Theory of Public Expenditure theory grounded on the public expenditure determination which affirms governments want to spend extra resources, it also needs to pay much attention to the aspirations of the people and citizens dislike paying more taxes (Cheeseman & Griffiths, 2005). Their theory is called the Displacement Hypothesis and is all about the experience of Great

Britain. Displacement hypothesis claims that government expenditure develops gradually.

This theory claimed that the government expenditure is majorly determined by taxation or government revenue. Peacock Wiseman theory argues that the revenue and income lead to economic growth, tax revenue will also increase allowing the government expenditures to rise in conjunction with the GNP (Baghebo, 2012). Accepting the existence of acceptable level of taxation which acts as a limitation to government behavior is dependable with Clark's "Catastrophe School" of taxation. Peacock Wiseman theory makes a terminus in government expenditure development between standard or peak time and war, disaster or social disturbance period.

The theory is relevant to the study because it explains at peak time, public expenditures have an upward trend despite of discrepancies between the required level of government expenditure and taxation. During famine, war or social disturbances, the standard and stable growth in the government expenditures would be interjected. This comes as an outcome of the displacement hypothesis as unproductive government expenditure during social disturbances interjected productive government spending which leads to more public spending. Government takes care of its high expenditure from high and tolerable taxation which does not come back to its original level. There are two scenarios which are likely to occur after war or any social disturbances. First, all the private expenditures will go back to their original growth path. Secondly, the government spending in the war times will continue to the post war periods with an increase of civilian government spending until the required growth is achieved (Baghebo, 2012).

2.2.2 Optimal Tax Theory

Optimal tax theory was propagated by Mirrlees (1976). Optimal tax theory is the study of how best to design a tax to minimize distortion and inefficiency subject to raising set revenues through distortionary taxation (Mirrlees, 1976). A neutral tax is a theoretical tax which avoids distortion and inefficiency completely. Other things being equal, if a tax-payer must choose between two mutually exclusive economic projects (say investments) that face the same pre-tax risk and returns, the one with the lower tax or with a tax break would be chosen by the rational actor (Philips, 2010).

With that insight, economists argue that generally taxes distort behavior. For example, since only economic actors who engage in market activity of "entering the labor market" get an income tax liability on their wages, people who are able to consume leisure or engage in household production outside the market by say providing housewife services in line of hiring a maid are not taxed or are taxed lightly (Saunders, Lewis, & Thornhill, 2009).

The incidence of sales taxes on commodities also leads to distortion if say food prepared in restaurants are taxed but supermarket bought food to be prepared at home are not taxed at purchase. This differential taxation of commodities may cause inefficiency (by discouraging work in the market in favor of work in the household). Philips, (2010). developed a theory for optimal commodity sales taxes. The intersection on downward sloping demand curve and upward sloping supply curves implies that there is producer surplus and consumer surplus. Any sales tax reduces output and imposes a deadweight loss (DWL). If we assume non-varying demand and supply elasticity's, then a single uniform rate of tax on all commodities would seem to minimize the sum area of all such deadweight loss triangles. Ramsey

proposed that we assume suppliers were all perfectly elastic in their responses to price changes from tax and then concluded that taxes on goods with more inelastic consumer demand response would have smaller deadweight loss distortions. The deadweight loss triangles are now called Harberger triangles (Arnold Harberger). Modern theory of optimal taxation looks for marginal deadweight losses, and can be used to evaluate the efficiency of tax reforms (Ohaka & Agundu, 2012). This theory forms the basis of the main objective in this study

Optimal tax theory is relevant to this study since it informs Tax Incentives. Domestic airlines that are eligible for VAT incentives and other tax incentives pay less tax and hence post higher return on assets (ROA) and return on equity (ROE) which is derived from profit from tax (Ohaka & Agundu, 2012). Tax incentives also make investments more attractive and in turn enhance financial performance of a firm.

2.2.3 The q Theory of Investment

This model was developed by Summers (1984) based on investment equations involving Tobin's. The theory was developed to estimate the impact caused by tax policies on the stock market investment. The main insight in the development of Tobin's theory is the fact that a world is tax-less will have a major effect on the business world because firms will invest for so long because each shilling will be spent in purchasing the capital will contribute to rise in the market value by over one shilling. Further, Tobin assumption is that for a good estimate, the value of the market is an additional component of capitals equals to the average market value of the capital stock in the firm (Tobin, 1969). The assumption made by Tobin meant that the average well approximated the marginal 'q' value on an additional dollar of investment. This was the market value capital stock value to the cost of replacement.

Therefore, the investment rate is the increasing function of the marginal returns as approximated by q.

According to Blanchard and Summers (2010), the Tobin theory can be classified as an economic theory of investment behavior. They further indicated that 'q' is a representation of the fraction of market value of existing shares in a given firm with the ability to represent the cost of the firms' physical assets. According to the theory, if q is greater than one, it means that extra investment in the company will have great meaning simply because the firm's assets will be exceeded by the profit generated. Additionally, for the cases where q is less than one, the corporate will have a better chance when they sell their assets rather than trying to use them. Therefore, the most ideal state is when q is roughly equivalent to one denoting hence the company is in equilibrium. (Bond, 2009).

In equilibrium, Tobin's model posits that businesses determine their net marginal product of capital using the cost of capital. Therefore, based on this concept, whenever there is a change in the corporate tax there will be a major impact on the steady-state because the changes may fail to influence the cost of firms when acquiring new capital goods (Salinger & Summers, 1983). Due to the accumulation of capital, the product margin of the product tends to fall, and the system tends to converge to where it is equivalent to the equilibrium value. One of the most common assumptions by the theory is the fact that investors will always have a perfect insight and also take account of the losses in the form of capital that are as a result of capital accumulation (Bond, 2009).

The theory is in line with the study since it explains ways to go when domestic airlines in Kenya need money for investment. The money needed can be raised by

either selling shares, equity or by borrowing. Whenever airline firms sell its shares, the buyers will buy so that they can have gained capital due to increased value of the shares in the market. This means that the share purchasers will buy whenever they predict high capital gains. According to the theory, the underlined firms in the airline industry which are the firms with a ratio less than one would be the most attractive to the potential buyers because instead of creating a new company, they might find it easy to buy an already established firm. The purchased firms will have increased stock price which will eventually increase firms Tobin Q ratio (Goolsbee, 2008). On the other hand, the theory indicated that the overvalued firms will always encounter competition in their operations. For firms that have a ratio that is higher than one, it means that the cost of replacement is lower than its rate. This may result in individuals or other companies creating similar types of businesses so that they can create the profits just like companies in this sector. This will result in reduction of the firm's current market shares, its market price, and it will result to reduction in Tobin's Q ratio.

2.2.4 Agency Theory

Agency theory was propagated by Jensen and Meckling (1976). The theory argues that in the modern business environment where the ownership of shares is emphasized the actions of managers are not always aligned to ensuring maximization of shareholders' returns. In the terms of the theory, proprietors are principals and managers are agents/operators and there exists an organization misfortune (Jensen and Meckling 1976). The theory determines systems which reduce the agency loss. These are incentives for management which compensate them monetarily to boost the interests of shareholders. Such designs customarily consolidate plans that allow senior

directors get shares, possibly lower charges, thus, aligning funds related premiums of managers to those of financial investors.

The separation of possession and control in current business makes irreconcilable circumstances among shareholders and managers. Following this contention between the agent and principal, organizations must utilize control instruments to lessen institutional expenses and data asymmetry such as audit committees. Additionally, Pincus (2009), contends that audit committees are utilized fundamentally in circumstances where costs of the agency are high to enhance the nature of data streams to the principal from the agent. As indicated by the agency theory, managers are urged to get ready financial statements sufficiently and to determine the profits or returns made by the organizations to guarantee the viability of an audit committee. According to Rutherford and Springer (2005), agency theory accommodates the presence of a positive and critical connection between the financial statement's reliability and availability of audit committees. Similarly, Charles (2003), in perspective of the agency theory, distinguishes a positive correlation between dependability of monetary proclamations and audit committee's existence. The agency theory communicates that the existence of audit committees inside the top managerial staff is satisfactory to ensure financial proclamations unwavering quality. In any case, Nikkinen, (2004), induced that the irrelevant presence of audit committees does not by any stretch of the imagination suggest that this board is reasonable in playing out its oversight work.

2.3 Empirical Review

Alhulail and Takeuchi (2014) examined the effects of tax incentives on sales of eco-friendly vehicles in Japan. The study used a sample of 10 vehicles in Japan that fall under eco-friendly cars for the period April 2006 to March 2013. The study obtained secondary data and analyzed using regression analysis. The study found that the tax incentives have a significant positive effect on sales of ecofriendly vehicles. However the study focused on sales of eco-friendly vehicles in Japan. The current study will focus on domestic airline companies. The study majorly focused on sales performance while the current study will focus on financial performance.

Sharkey (2012), carried out a study to establish the impact of tax incentives on economic development in Nigeria from years 2004 to 2014. The population of the study involved 51 respondents from management, tax payers and staff of selected manufacturing firms in the South-South political zones of Nigeria. The study found that sufficient tax incentives enhanced industrial growth and economic development and recommended the government waive certain taxes on corporate bodies to help them mature especially at their early stage. However, the study focused on economic development in Nigeria. The current study will focus on domestic airlines in Kenya.

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

effect of tax incentives on economic development while the current study will focus on effect of tax incentives on financial performance.

Onyango (2015), carried out a research to establish the effect of tax incentives on financial performance of five-star hotels in Nairobi County. The population comprised of all the seven 5-star hotels in the city. Census approach was used and primary data collected using questionnaires. Data collected was then analyzed using regression model to establish the relationship between tax incentives and financial performance. The study found that there was strong relationship between ID and IBD incentives and financial performance of the five-Star hotel in Nairobi City County and recommended the government to review policies that guide the provision of ID and IBD. However, the study focused on five-star hotels. The current study will focus on domestic airline companies. The study used tobin's q method to measure performance, the current study will use return on investment.

Githaiga (2013), carried out a research to establish the impact of tax incentives on FDI inflows of firms listed at the NSE. His focus was on the impact of ID, IBD, and wear and tear towards attracting FDI inflows. The population included 60 firms listed at NSE while the sample included10 firms selected using simple random method. The study adopted secondary data where data relating to FDI and incentives were collected from annual reports and audited financial statements covering a period of 2008-2011. For data analysis, Microsoft excel sheets was used to analyze quantitative data while SPSS was used to analyze qualitative data with an aid of conceptual model. Correlation analysis carried out on FDI and tax incentives variables showed that tax incentives impacted on FDI inflows of firms listed at NSE. Wear and tear had a strong relationship with FDI. However, the study focusses of FDI

while the current study will focus on financial performance. The study did not focus on financial performance and only focused on FDI inflows.

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

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

The study did not incorporate the effect of tax incentives on performance. However, the study focused on avoidance scheme by Kenya Airways. The current study will focus on financial performance of domestic airline companies.

2.3.1 Effect of Capital Allowances on Financial Performance

Capital allowances incentives are tax incentives offered for capital expenditures. They include wear and tear allowances, industrial building deduction, investment deduction and farm-works deductions. In Kenya companies including those operating airline industry benefit from major tax incentives especially capital allowances such as, investment deduction and wear and tear allowances by claiming deductions from their corporate tax liability. Incentives lowers the cost of the firm especially where the government offer subsidies and other forms of incentives to firms such as low interest rates, grants, lowering the cost of labor, and improving transportation networks to make transportation cost low, with reduced costs, the net profit posted by firms will be high and hence leads to high financial performance.

Governments through capital allowances attempt to influence physical and financial capital. The Income Tax Act provides for various tax incentives through capital deductions. The government has allowed a claim of 150% for companies who invest outside the 3 cities and incur expenditures of more than 200 million. It has further been proposed in the Amendments to the Income Tax Act in the 2015/16 Budget statement 100% for ships from the initial allowance of 40% and capital deduction for buildings used for educational and training services to be increased from 50% to 100%.

Trela and Whalley, (2013), noted that depreciation and capital allowances were generally preferable to tax holidays, as they specifically encouraged new investment.

On the other hand, Hall and Jorgenson, (2016), regarded capital allowance as a relief that was 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 a trade at the end of a basis period. Lall (2016), discovered that, in Ghana, investment allowances and tax-deductible research and development expenditures failed to evoke a significant response from the business community. Trela and Whailey (2013), in the application of equilibrium model examine the impact of rebates of direct and indirect taxes on exports, investment allowance, tax holidays and investment tax credits on Korean growth performance.

2.3.2 Effect of Export Promotion on Financial Performance

According to Adam (2014), export incentives are regulatory, legal, monetary or tax programs designed to encourage businesses to export certain types of goods or services. They are a form of assistance that governments provide to firms or industries within the national economy, in order to help them secure foreign markets. A government providing export incentives often does so in order to keep domestic products competitive in the global market. Types of export incentives include export subsidies, direct payments, low-cost loans, tax exemption on profits made from exports and government financed international advertising (Hall & Jorgenson, 2016).

Export incentives make domestic exports competitive by providing a sort of kickback to the exporter. The government collects less tax in order to deflate the exported good's price, so the increased competitiveness of the product in the global market ensures that domestic goods have a wider reach (Barth, 2014). Generally, this means that domestic consumers pay more than foreign consumers. Sometimes, governments encourage export when internal price supports (measures used to keep the price of a

good higher than the equilibrium level), generate surplus production of a good. Instead of wasting the good, governments will often offer export incentives (Agarwal, & Agarwal 2015).

2.3.3 Effect of Tax Holidays on Financial Performance

A tax holiday is a government incentive program that offers a tax reduction or elimination to businesses. Tax holidays are often used to reduce sales taxes by domestic governments, but they are also commonly used by governments in developing countries to help stimulate foreign investment (Baghebo, 2012). When a government body wants to encourage the purchase of certain items or bolster participation in certain activities, it may issue a tax holiday, a temporary period during which the tax rate applied to certain products or services is reduced or removed. For instance, many domestic governments have a sales tax holiday the weekend before school resumes in the fall to reduce the cost burden that parents carry when shopping for their children's school supplies or clothing. Sales tax holidays, like the back-to-school one described, are a common type of tax holiday administered by state governments (Philips, 2010). Effiok, Tapang, and Eton (2011), argued that tax incentives can take the form of tax holidays for a limited duration, current deductibility for certain types of expenditures, or reduced import tariffs or customs duties which leads to increase in financial performance of firms.

A tax holiday is also implemented for businesses to encourage economic activity and foster growth. It is used in the hopes of increasing the gross domestic product (GDP) in developing countries, tax holidays are a way in which governments attract foreign investors or foreign companies that establish base in the host country. Tax holidays are often put in place in particular industries to help promote growth, develop, or

diversify domestic industries. In some cases, new businesses are given tax holidays which helps the business reduce some of its costs of operation, while it focuses on increasing revenue and growing. This fiscal policy measure may also serve as an incentive for more people to start businesses. In a study by Ohaka, and Agundu (2012), findings show that firms with tax holidays incentives perform better in terms of gross sales and value added than their counterparts. According to a study by Ifueko (2015), government fiscal policy such as high tax rates among others as key factor that influence firm growth. The survey also found out that taxation was one of the main obstacles to firm's growth. This justifies the role of tax incentives in improving firm's output.

2.3.4 Effect of VAT Exemption on Financial Performance

Tax exemption refers to monetary exemption which reduces taxable income. The tax-exempt status can provide complete relief from taxes, reduced rates, or tax on only a portion of items. Zero rating on the other hand refers to a case where the tax rate applicable for the good or service is Zero. The Vat Act has exempted or Zero-rated certain goods while the ITA has exempted certain classes of income of specific bodies from corporation tax. The exemptions include: import duties on machinery, raw materials, and inputs; stamp duty and VAT on raw materials, machinery and other inputs and the products from export taxes and levies. The Tax Remission for export office (TREO) encourages domestic manufacturers to export, and offers remission of import duty and Vat on raw materials used in the manufacture of export goods and remission of excise duty on fuel oil and kerosene.

According to Klemm and Van Parys (2012), a higher level of income per capita in an economy will translate to an increase in the income that is generated from VAT in

that particular economy. The performance of VAT has far reaching consequences on macroeconomic stability, mobilization of the fiscal tool as well as economic development. In terms of revenue collection, the VAT has proven to be the most efficient tool and therefore an improvement in VAT will mean overall increase in the level of revenue collected (Lall, 2016).

2.4 Critique of Existing Literature

Empirical scrutiny of previous studies' outcome on effect of tax incentives on financial performance has been empirically inconclusive. Previous studies have produced mixed outcomes regarding the effect of tax incentives on financial performance. Alhulail and Takeuchi (2014) examined the effects of tax incentives on sales of eco-friendly vehicles in Japan. The study found that the tax incentives have a significant positive effect on sales of ecofriendly vehicles. A study by Olabisi (2009) sought to establish the catalyst effect of tax incentives on economic development in Nigeria. The study established catalyst effect of tax incentives on economic development while the current study will focus on effect of tax incentives on financial performance. Githaiga (2013), carried out a research to establish the impact of tax incentives on FDI inflows of firms listed at the NSE. However, the study focusses of FDI while the current study will focus on financial performance. The study did not focus on financial performance and only focused on FDI inflows.

Murage (2012), conducted a research on the effect of tax incentives on investment of EPZ firms in Kenya. However, the influence of tax incentives on investments by EPZ firms is insignificant. However, the study focused on EPZ while the current study will focus on domestic airline companies. A study by Wachira (2011) sought to establish effectiveness of tax incentives as an avoidance scheme by Kenya Airways and to

modify the financial situation and make investments accordingly. The study did not incorporate the effect of tax incentives on performance. However, the study focused on avoidance scheme by Kenya Airways.

2.5 Research Gaps

From the review of literature, a number of studies have been carried out on tax incentives. However, most of these studies relating to tax incentives were done in developed and other developing countries other than Kenya. Similarly, some of these studies focused on other sectors and not domestic airlines in Kenya.

The current study seeks to address the contextual and conceptual gaps in literature by focusing on the effect of tax incentives on financial performance of domestic airline companies in Kenya.

2.6 Conceptual Framework

The conceptual framework describes the relationship shared between the independent and dependent variables in the study. The dependent variable will be financial performance while the independent variables will be capital allowances incentives, export promotion incentives, tax holidays and VAT exemption incentives.

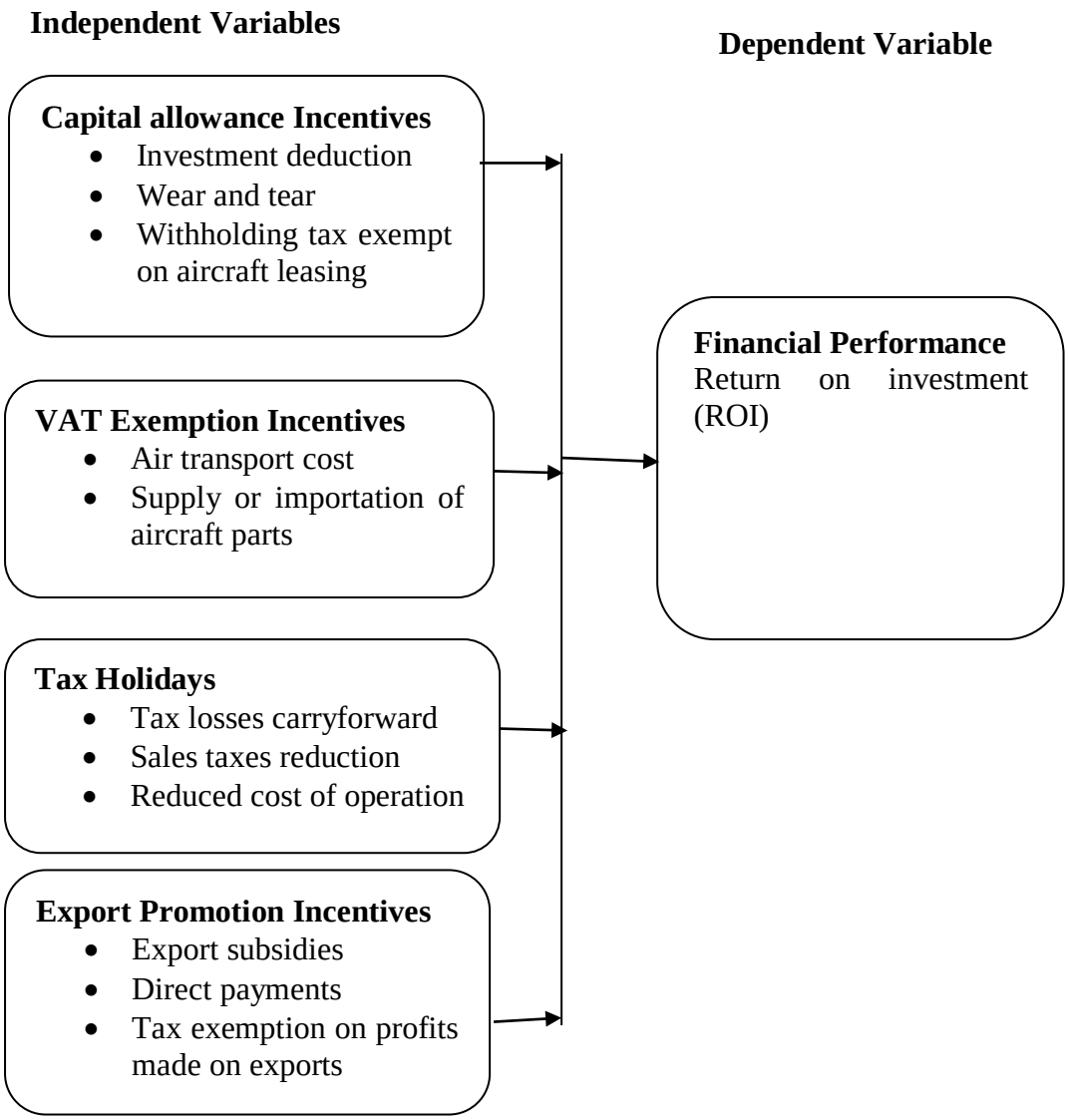

Figure 2.1: Conceptual Framework

Source: Research Data (2019)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter brings forward information on the research methodology that was used for this particular study. The areas to be covered are: research design, techniques used to collect data, data analysis and data presentation methods that was used.

3.2 Research Design

A research design is used to make sure that collected data is appropriate and adequate in answering questions derived from a given study (Creswell & Clark, 2007). A good research has to produce maximum findings and provide openings for other aspects related to the problem (Kothari, 2004). Context and nature of the research study determines the type of research design the researcher utilized.

The study adopted a descriptive research design in analyzing effect of tax incentives on financial performance of domestic airlines in Kenya. Descriptive research is used to describe characteristics of a population or phenomenon being studied. It does not answer questions about how/when/why the characteristics occurred. Descriptive research is on most occasions used as a pre-cursor to other quantitative research designs with an overall outlook on important pointers; on which variables are worth measuring quantitatively. Thus, it is justified to have descriptive design as the best option for this study.

3.3 Target Population

According to Kothari (2004), target population is all members of hypothetical or real set of events, objects, or people researchers wish to generalize the findings. The study

target population was 15 Domestic airlines in Kenya ((World Airline Directory, 2017).

Table 3.1: Target Population

No	Name of Airline
1.	African Express Airways
2.	KQ
3.	Air Direct-Connect
4.	Airkenya Express
5.	Airlink (Kenya)
6.	AirTraffic Africa
7.	Blue Bird Aviation (Kenya)
8.	Capital Airlines (Kenya)
9.	Fly540
10.	Fly-SAX
11.	Phoenix Aviation (Kenya)
12.	Queensway Air Services
13.	Ribway Cargo Airlines
14.	Safari Express Cargo
15.	Skytrail Air Safaris

3.4 Sample and Sampling Technique

The sampling design describes the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the sample is selected (Cooper & Schindler, 2006).

The research conducted a census study where all 15 domestic airlines in Kenya were used. A census is a study of every unit, everyone or everything, in a population. It is known as a complete enumeration, which means a complete count.

3.5 Data Collection Methods

The study adopted secondary data collection method for capital allowances incentives, export promotion incentives, tax holidays and VAT exemption incentives

and performance of domestic airlines in Kenya for the period 2014-2018 (5 years). See the data collection sheet in appendix I.

3.6 Data Collection Procedure

Data was collected from audited annual financial reports for individual firms found on the company's website and library. The study collected data for a period of 5 years 2014-2018. The data was collected quarterly.

3.7 Model Specification

Data collected was checked for completeness and consistency. It was later coded and tabulated. The research yielded quantitative data which was analyzed using descriptive and inferential statistics (measure of central tendency, regression and measures of variations) by use of frequency tables and charts. The regression equation estimation was employed to analyze the independent variable affected the dependent variable.

The study applied the following regression model

$$\mathbf{Y_t = \beta o + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + Ɛ}$$

Where Y = Financial Performance (measured by return on investment (ROI)

X_I = Capital allowances incentives (measured by amount of investment deduction granted)

X_2 = Export promotion incentives (measured by Tax exemption on profits made on exports)

X_3 = Tax holidays (measured by amount of eliminated tax)

X_4 = VAT exemption incentives (measured by Air transport cost)

t = time period during the study

β_0 = Value of performance when all the other predictor variables (X_1, X_2 X_3 and X_4) are zero.

β_1- β_4 are the regression co-efficient or change introduced in Y by each independent variable

Ɛ is the random error term accounting for all other variables that affect performance but not captured in the model.

This study will apply ANOVA to test the significant level of the independent variables on the dependent variable at 95% level of significance; the ANOVA tested whether there is any significant change or variance between the variables.

Table 3.2: Operationalization of Variables

Variable	**Indicator**	**Measurement scale**	**Type of Analysis**	**Tool of analysis**
Capital Allowance	investment deduction granted	Nominal	Descriptive	Mean
Export promotion incentives	Tax exemption on profits made on exports	Ordinal	Descriptive	Mean percentage
Tax holidays	Amount of eliminated tax	Ratio	Descriptive	Mean
VAT exemption incentives	Air transport cost	Nominal	Descriptive	Percentage
Financial Performance	Return on investment	Ordinal	Descriptive	Mean

3.8 Diagnostic Tests

The researcher performed tests on statistical assumptions i.e. test of regression assumption and statistics used. The regression assumptions were met through by ensuring that a diagnostic is conducted. The diagnostic tests that were conducted include multicollinearity, heteroscedasticity and normality test.

3.8.1 Multicollinearity

There exists a multicollinearity if the relationship between the two variables being tested in the study related moderately or highly in the multiple regression model. The multiple regression model results are skewed by the multicollinearity. The Variance Inflation Factor (VIF) will be used in determining the multicollinearity's severity. If the independent variables have a correlation with the dependent variable the variance of the coefficient's estimates is measured through the Variance Inflation Factor (VIF). There will be a 1 Variance Inflation Factor (VIF) if no multicollinearity is found. There is a moderate correlation showed by independent variables if the VIF indication is above 1 while a problematic multicollinearity is seen where there is an indication of between 5 and 10 VIF.

3.8.2 Heteroscedasticity

Levene test was employed to assess the equality of variances for the four variables calculated (Capital Allowance, Export promotion incentive, Tax Holidays incentive and Vat Exemption incentives). When all observations do not have the same variation of the error term, they are implied as Heteroscedasticity. The error term variation is meant to be similar in all observation in the multiple regression analysis. The variance's equality is required in the assumption that is violated by residuals which makes the minimum variance of the model coefficients unbiased. The Breusch-Pagan test will be used by the study to ensure that all observations have a constant variation of residuals when the null hypothesis is tested. A less than 0.05 level of significant p-value, will make the study variance to be violated in the assumption of the inference.

3.8.3 Normality Test

The level of significance in the study was compared to the computed significant value using both skewness and kurtosis so as to make effective conclusions using the test. Residuals indicated to be normally distributed if the level of significance is lower than that of the computed significant value. The data was said to depart form the normal distribution if its level of significance was lower than the computed significant value.

3.9 Ethical Considerations

Prior to collection of data, first the researcher applied for a research permit from National Commission for Science Technology and Innovation (NACOSTI). The permit showed that the researcher has been cleared to carry research in the various airline firms Rights and privacy of the data were put into consideration by the researcher.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the research. The objective of this study was to establish the effect of tax incentives on financial performance of domestic airline companies in Kenya.

4.2 Descriptive Statistics

4.2.1 Capital Allowance Incentives

Table 4.3: Descriptive Statistics on Capital Allowance Incentives

Year	**Minimum**	**Maximum**	**Mean**	**Std deviation**
2014	5.69	6.9	6.83	0.46
2015	7.01	8.32	7.12	0.13
2016	6.32	7.85	7.46	0.84
2017	5.32	7.25	6.19	0.38
2018	9.63	11.36	10.4	0.22

Source; Research findings, (2019)

From the findings, it can be noted that the year 2018 recorded the highest value in Capital allowance incentives as shown by a mean of value 10.40 of while the year 2014 recorded the lowest value for capital allowance incentives at 6.83 in addition, values for stardard deviation depicts variability in Capital allowance incentives during the 5 year period with the highest deviation of 0.84 in the year 2016 and the lowest 0.13 in the year 2015. the findings revealed that there have been a increase capital allowance incentives in capital allowance incentives the five-year period.

4.2.2 Export Promotion Incentive

Table 4.4: Descriptive Statistics on Export promotion **incentive**

Year	**Minimum**	**Maximum**	**Mean**	**Std deviation**
2014	34.36	39.37	36.93	0.24
2015	41.63	46.44	44.46	1.24
2016	49.51	58.04	51.51	0.65
2017	50.37	57.58	53.27	1.02
2018	56.36	59.41	57.91	0.31

Source; Research findings, (2019)

From the findings, it can be noted that the year 2018 recorded the highest value in Export promotion incentive as shown by a mean of value of 57.91 while the year 2014 recorded the lowest value for Export promotion incentive at 36.93 in addition, values for stardard deviation depicts variability in Export promotion incentive during the 5 – year period with the highest deviation 1.24 in the year 2015 and the lowest deviation value 0.24 in the year 2014. the findings revealed that there have been a significant increase in Export promotion incentive during the 5-year period.

4.2.3 Tax holidays

Table 4.5: Descriptive Statistics on Tax holidays

Year	**Minimum**	**Maximum**	**Mean**	**Std deviation**
2014	10.82	11.37	11.20	0.39
2015	11.99	12.88	12.75	0.40
2016	10.34	10.67	10.46	0.44
2017	10.83	11.15	10.89	0.59
2018	11.28	12.02	11.85	0.41

Source; Research findings, (2019)

From the findings, it can be noted that the year 2015 recorded the highest value in Tax holidays as shown by a mean of value of 12.75 while the year 2014 recorded the lowest value for Tax holidays at 10.20 in addition, values for stardard deviation depicts variability in Tax holidays during the 5 –year period with the highest deviation 0.59 in the year 2017 and the lowest 0.39 in the year 2014. the findings

revealed that there have been a slight increase in Tax holidays during the 5-year period.

4.2.4 VAT exemption incentives

Table 4.6: Descriptive Statistics on VAT exemption incentives

Year	Minimum	Maximum	Mean	Std deviation
2014	9.54	9.96	9.69	0.160
2015	5.83	6.03	5.69	0.940
2016	7.97	9.08	9.29	0.730
2017	8.01	8.42	8.29	0.570
2018	6.38	7.74	7.30	1.810

Source; Research findings, (2019)

VAT exemption incentives has been fluctuating, under the period of study, it can be noted that the year 2014 recorded the highest value in VAT exemption incentives as shown by a mean of value of 9.69 while the year 2015 recorded the lowest value for VAT exemption incentives at 5.69 in addition, values for stardard deviation depicts variability in VAT exemption incentives during the 5 – Year period with the highest deviation 1.810 in the year 2018 and the lowerst 0.160 in the year 2014. the findings revealed that during the 5-year period the VAT exemption incentives exhibited dense volatility trend.

4.2.5 Financial Performance

Table 4.7: Descriptive Statistics on Financial Performance

Year	Minimum	Maximum	Mean	Std deviation
2014	85.37	89.14	81.11	0.332
2015	86.15	92.75	87.95	0.947
2016	95.33	99.87	98.24	0.206
2017	100.45	142.11	101.51	0.144
2018	103.20	124.78	104.31	0.194

Source; Research findings, (2019)

From the findings, it can be noted that the year 2018 recorded the highest value in Return on Investment as shown by a mean of value of 104.31 while the year 2014 recorded the lowest value Return on Investment at 81.11 in addition, values for stardard deviation depicts variability in Return on Investment during the 5 year period with the highest deviation 0.947 in the year 2015 and the 0.144 in the year 2017. the findings revealed that there have been a significant increase Return on Investment during the 5 -year period.

4.3 Inferential Statistics

4.3.1 Correlation

Table 4.8: Correlations

		Financial performance (Y)	Capital allowance incentives (X1)	VAT exemption incentives (x2)	Tax holidays (x3)	export promotion incentive (X4)
Financial Performance (Y)	Pearson Correlation	1	.430**	.701**	.616**	.424**
	Sig. (2-tailed)		.000	.000	.000	.000
Capital allowance incentives (X1)	Pearson Correlation	.430**	1	.314**	.265**	.102
	Sig. (2-tailed)	.000		.000	.002	.243
VAT exemption incentives (x2)	Pearson Correlation	.701**	.314**	1	.408**	.182*
	Sig. (2-tailed)	.000	.000		.000	.036
Tax holidays x3	Pearson Correlation	.616**	.265**	.408**	1	.344**
	Sig. (2-tailed)	.000	.002	.000		.000
export promotion incentive (X4)	Pearson Correlation	.424**	.102	.182*	.344**	1
	Sig. (2-tailed)	.000	.243	.036	.000	

Source; Research findings, (2019)

On the correlation of the study variable, the researcher conducted a Pearson moment correlation. From the finding in the table above, the study found that there was positive correlation coefficient between performance of domestic airline companies and capital allowance incentives as shown by correlation factor of 0.430, this strong

relationship was found to be statistically significant as the significant value was 0.000 which is less than 0.05, These findings goes hand in hand with the Trela and Whalley, (2013), Capital Allowances remains one of the key ways to obtain a significant tax saving against

The study found positive correlation between performance of domestic airline companies and VAT exemption incentives as shown by correlation coefficient of 0.701, the significant value was 0.000 which is less 5%. These findings are in support of the with the study findings by Murage (2012), who found out that strong positive correlation between the VAT exemption incentives and organizational profitability

The study found positive correlation between performance of domestic airline companies and the Tax holidays as shown by correlation coefficient of 0.616, this weak relationship was found to be statistically significant as the significant value was 0.012 which is less than 0.05, and finally the study found strong positive correlation between performance of domestic airline companies and export promotion incentive in Kenya as shown by correlation coefficient of 0.424, this relationship was found to be statistically significant as the significant value was 0.003 which is less than 0.05 . The findings concur with Flamini *et.al* (2009) who found out that strong positive correlation between the export promotion incentive and organizational profitability.

4.3.2 ANOVA

The study further tested the significance of the model by use of ANOVA technique. The findings are tabulated in table 4.24 below.

Table 4.9: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3091.32	4	772.83	37.503	.000[b]
	Residual	1133.39	55	20.607		
	Total	4224.71	59			

Source; Research findings, (2019)

From the ANOVA statics, the study established the regression model had a significance level of 0.1% which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value (37.503>2.70) an indication that capital allowance incentives, VAT exemption incentives, tax holidays and export promotion incentives all have a significant influence on financial performance of domestic airline companies in Kenya. The significance value was less than 0.05 indicating that the model was significant.

4.3.3 Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions. The model summary is presented in the table 4.23 below.

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.786[a]	.617	.601	4.53948

Source; Research findings, (2019)

The study used coefficient of determination to evaluate the model fit. The adjusted $R^{2,}$ also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. The model

had an average coefficient of determination (R^2) of 0.601 and which implied that 60.1% of the variations on financial performance of domestic airline companies in Kenya are caused by the independent variables understudy (capital allowance incentives, VAT exemption incentives, tax holidays and export promotion incentive).

In addition, the study used the coefficients which help in establishing the regression line. The findings are presented in the table below.

4.3.4 Regression Coefficients

Table 4.11: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	14.323	4.162		3.441	.001
	Capital allowance Incentives (X1)	.322	.115	.189	2.800	.006
	VAT Exemption Incentives (X2)	.875	.127	.481	6.873	.000
	Tax Holidays (X3)	.454	.124	.265	3.644	.000
	Export promotion Incentives (X4)	.391	.122	.217	3.195	.002

Source; Research findings, (2019)

The established regression equation was

$$Y = 14.323 + 0.322 X_1 + 0.875 X_2 + 0.454 X_3 + 0.391 X_4$$

The study established that a unit increase in Capital allowance Incentives while holding other factors constant will positively enhance the financial performance of domestic airline companies in Kenya by a factor of 0.322, a unit increase in VAT Exemption Incentives will enhance the financial performance of domestic airline companies in Kenya by a factor of 0.875, unit increase in Tax Holidays will enhance the financial performance of domestic airline companies in Kenya by a factor of 0.454 and that unit increase in Export promotion Incentives will enhance financial performance of domestic airline companies in Kenya by a factor of 0.391.

The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the obtained probability value and α=0.05. If the probability value was less than α, then the predictor variable was significant otherwise it wasn't. All the predictor variables were significant in the model as their probability values were less than α=0.05.

4.4 Hypothesis Testing

4.4.1 Capital Allowances

The focus of test hypothesis one was to determine capital allowances have a significant effect on financial performance of domestic airline companies in Kenya. The null hypothesis stated as follows;

***Ho*$_1$**: *Capital allowances have no significant effect on financial performance of domestic airline companies in Kenya.*

To test the first hypothesis, the index of capital allowances as index of dependent variable was regressed upon the identified sub measures of financial performance of domestic airline companies in Kenya as a composite of independent variable.

Table 4.12: Capital Allowances and Financial Performance of Domestic Airline Companies

(a) Model summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.651[a]	.424	.323	.1164

a. Predictors: (constant) Capital allowances
b. Dependent: Variable: Financial Performance Of Domestic Airline Companies

(b) ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.979	1	5.979	16.33607	.002[b]
	Residual	20.862	57	0.366		
	Total	26.841	58			

a. Dependent Variable: Financial Performance Of Domestic Airline Companies

(c) Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
1		B	Std. Error	Beta		
	Constant	3.628	.102		35.545	.000
	Capital allowances	.619	.065	.352	9.536	.001

b. Dependent: Variable: financial performance of domestic airline companies

The regression equation obtained from this output was:

Financial performance of domestic airline companies = 3.628 + 0.619 capital allowances+ Ɛ …….. (1)

Test regression results in the table above, shows that adjusted R square value for the regression of capital allowances and financial performance of domestic airline companies is 0. 323 which mean that capital allowances explains 32.3% of variation in financial performance of domestic airline companies.

From the ANOVA statistics, the study established the regression model had a significance level of 0.002 which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was

less than 5%. The calculated value was greater than the critical value (16.33607> 4.49) an indication that, capital allowances has a significant impact on financial performance of domestic airline companies. The significance value of 0.002 was less than 0.05 indicating that the model was significant.

The Beta un-standardized coefficient for indication that, capital allowances is 0.619 is significant at P value < 0.001, which implies that when capital allowances changes by one unit in the assessment scale, financial performance of domestic airline companies as will also change by 0.619 units.

The constant term value is 3.628, implying that when capital allowances is at zero; financial performance of domestic airline companies would have a default value of 3.628 therefore, the null hypothesis one, which stated that capital allowances have no significant effect on financial performance of domestic airline companies in Kenya, is therefore rejected and the alternative hypothesis which states that 'capital allowances have a significant effect on financial performance of domestic airline companies in Kenya is adopted.

4.4.2 Export Promotions

The focus of test hypothesis one was to determine whether export promotions have a significant effect on financial performance of domestic airline companies in Kenya. The null hypothesis stated as follows;

Ho2: *Export promotions have no significant effect on financial performance of domestic airline companies in Kenya.*

To test the first hypothesis, the index of export promotions as index of dependent variable was regressed upon the identified sub measures of financial performance of domestic airline companies in Kenya as a composite of independent variable.

Table 4.13: Export promotions and financial performance of domestic airline companies

(a) Model summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.597[a]	.356	.355	.21983

a. Predictors: (constant) Export promotions
b. Dependent: Variable: financial performance of domestic airline companies

(b) ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.361	1	8.361	12.923	.004[b]
	Residual	36.879	57	0.647		
	Total	45.24	58			

a. Dependent Variable: *financial performance of domestic airline companies*

(c) Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
1		B	Std. Error	Beta		
	Constant	2.966	.094		31.392	.000
	export promotions	.965	.055	.568	17.484	.000

b. Dependent: Variable: financial performance of domestic airline companies

The regression equation obtained from this output was:

Financial performance of domestic airline companies = 2.966 + 0.965 export promotions + Ɛ …….. (2)

Test regression results in the table above, shows that adjusted R square value for the regression of export promotions and financial performance of domestic airline companies is 0.355 which mean that export promotions explains 3.55% of variation in financial performance of domestic airline companies.

From the ANOVA statistics, the study established the regression model had a significance level of 0.004 which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value (12.923> 4.49) an indication that, export promotions has a significant impact on financial performance of domestic airline companies. The significance value was less than 0.05 indicating that the model was significant.

The Beta un-standardized coefficient for indication that, export promotions is 0.965 is significant at P value < 0.000, which implies that when export promotions changes by one unit in the assessment scale, financial performance of domestic airline companies as will also change by 0.965 units. The constant term value is 2.966, implying that when export promotions is at zero; financial performance of domestic airline companies would have a default value of 2.966 therefore, the null hypothesis one, which stated that export promotions have no significant effect on financial performance of domestic airline companies in Kenya, is therefore rejected and the alternative hypothesis which states that 'export promotions have a significant effect on financial performance of domestic airline companies in Kenya is adopted.

4.4.3 Tax Holidays

The focus of test hypothesis one was to determine whether Tax holidays have a significant effect on financial performance of domestic airline companies in Kenya. The null hypothesis stated as follows;

***Ho3**: Tax holidays have no significant effect on financial performance of domestic airline companies in Kenya.*

To test the first hypothesis, the index of Tax holidays as index of dependent variable was regressed upon the identified sub measures of financial performance of domestic airline companies in Kenya as a composite of independent variable.

Table 4.14: Tax holidays and financial performance of domestic airline companies

(a) Model summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.546[a]	.299	.297	.22945

a. Predictors: (constant) Tax holidays
b. Dependent: Variable: financial performance of domestic airline companies

(b) ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.361	1	4.361	13.418	.001[b]
	Residual	18.525	57	.325		
	Total	22.886	58			

a. Dependent Variable: *financial performance of domestic airline companies*

(c) Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
1		B	Std. Error	Beta		
	Constant	2.980	.498		5.984	0.023
	Tax holidays	.368	.109	.146	3.376	0.01

b. Dependent: Variable: financial performance of domestic airline companies

The regression equation obtained from this output was:

Financial performance of domestic airline companies = 2.980 + 0.368 Tax holidays + Ɛ …….. (3)

Test regression results in the table above, shows that adjusted R square value for the regression of Tax holidays and financial performance of domestic airline companies is 0.297 which mean that Tax holidays explains 29.7% of variation in financial performance of domestic airline companies.

From the ANOVA statistics, the study established the regression model had a significance level of 0.001 which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value (13.418 > 4.49) an indication that, Tax holidays have a significant impact on financial performance of domestic airline companies. The significance value was less than 0.05 indicating that the model was significant.

The Beta un-standardized coefficient for indication that, Tax holidays is 0.619 is significant at P value < 0.001, which implies that when Tax holidays changes by one unit in the assessment scale, financial performance of domestic airline companies as will also change by 0.619 units.

The constant term value is 2.980, implying that when Tax holidays is at zero; financial performance of domestic airline companies would have a default value of 2.980 therefore, the null hypothesis one, which stated that Tax holidays have no significant effect on financial performance of domestic airline companies in Kenya, is therefore rejected and the alternative hypothesis which states that Tax holidays have a significant effect on financial performance of domestic airline companies in Kenya is adopted.

4.4.4 VAT Exemptions

The focus of test hypothesis one was to determine whether VAT exemptions have a significant effect on financial performance of domestic airline companies in Kenya. The null hypothesis stated as follows;

Ho4: VAT exemptions *have no significant effect on financial performance of domestic airline companies in Kenya.*

To test the first hypothesis, the index of VAT exemptions as index of dependent variable was regressed upon the identified sub measures of financial performance of domestic airline companies in Kenya as a composite of independent variable.

Table 4.15: VAT exemptions and financial performance of domestic airline companies

(a) Model summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.745	.555	.301	.039

a. Predictors: (constant) VAT exemptions
b. Dependent: Variable: financial performance of domestic airline companies

(b) ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.325	1	6.325	14.847	.003[b]
	Residual	24.282	57	.426		
	Total	30.607	58			

a. Dependent Variable: *financial performance of domestic airline companies*

(c) Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
1		B	Std. Error	Beta		
	Constant	1.361	.221		6.158	.003
	VAT exemptions	.331	.128	.136	2.586	.001

b. Dependent: Variable: financial performance of domestic airline companies

The regression equation obtained from this output was:

Financial performance of domestic airline companies = 1.361 + 0.331 VAT exemptions + Ɛ …….. (4)

Test regression results in the table above, shows that adjusted R square value for the regression of VAT exemptions and financial performance of domestic airline companies is 0.301 which mean that VAT exemptions explains 30.1% of variation in financial performance of domestic airline companies.

From the ANOVA statistics, the study established the regression model had a significance level of 0.000 which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value (14.847 > 4.49) an indication that, VAT exemptions have a significant impact on financial performance of domestic airline companies. The significance value was less than 0.05 indicating that the model was significant.

The Beta un-standardized coefficient for indication that, VAT exemptions is 0.331 is significant at P value < 0.001, which implies that when VAT exemptions changes by one unit in the assessment scale, financial performance of domestic airline companies as will also change by 0.331units.

The constant term value is 1.361, implying that when VAT exemptions is at zero; financial performance of domestic airline companies would have a default value of 1.361 therefore, the null hypothesis one, which stated that VAT exemptions have no significant effect on financial performance of domestic airline companies in Kenya, is therefore rejected and the alternative hypothesis which states that VAT exemptions have a significant effect on financial performance of domestic airline companies in Kenya is adopted.

4.5 Discussion of the Findings

The study found a positive correlation coefficient between performance of domestic airline companies and capital allowance incentives (correlation coefficient = 0.430 p – value =0.00), test regression results show that a unit increase in capital allowance Incentives while holding other factors constant will positively enhance the financial performance of domestic airline companies in Kenya by a factor of 0.322. Descriptive results show that there have been an increase capital allowance incentives for airline players the last five-year period. the year 2018 recorded the highest value in capital allowance incentives as shown by a mean of value 10.40 of while the year 2014 recorded the lowest value for capital allowance incentives n at 6.83 in addition. These findings are in support of Trela and Whalley, (2013) that capital incentives lowers the cost incurred on purchase of capital assets, in turn with reduced costs, the net profit posted by firms goes high and hence leads to high financial performance.

The study also established that capital allowances permit the costs of capital assets to be written off against taxable profits. Capital allowances given for expenditure on capital assets to domestic airlines firms helped in reducing taxable profits and thus saving money. Capital allowances claimed a proportion of the cost of the expenditure back against the company's taxable income or profits. In turn, this reduces airlines tax bill and allows firm to write off the cost of capital expenditure over time. These findings goes hand in hand with the Trela and Whalley, (2013), Capital Allowances remains one of the key ways to obtain a significant tax saving against

Correlation Test results show that a positive correlation coefficient between performance of domestic airline companies and export promotion (correlation coefficient = 0.424 P – value =0.000), Test regression results show that a unit increase

in export promotion Incentives will enhance financial performance of domestic airline companies in Kenya by a factor of 0.391 the findings also revealed that there have been a significant increase in Export promotion incentive during the 5-year period. The year 2018 recorded the highest value in Export promotion incentive as shown by a mean of value of 57.91 while the year 2014 recorded the lowest value for Export promotion incentive at 36.93. These findings concurs Klemm and Van Parys (2012) providing export incentives boosted firm's performance by keeping domestic products competitive in the global market.

Evidence from the research revealed that export promotion Incentives leads to expansion of airline services for the foreign market. These goods earn foreign exchange that can be used to facilitate development. Providing export incentives helped to reduce the overall tax burden on export incomes, thereby enabling Kenyan domestic airline to lower prices without reducing their net profits. These findings concurs with the study findings by Wachira (2011) lower tariffs on imported equipment, related components and raw materials, and increased tariffs to protect the domestic market and promote investment in import-substituting projects.

The study established that was positive correlation coefficient between performance of domestic airline companies and Tax holiday (correlation coefficient = 0.616 p – value =0.000), Test regression results show that a unit increase in Tax Holidays will enhance the financial performance of domestic airline companies in Kenya by a factor of 0.454. Descriptives results also revealed a slight increase in Tax holidays during the 5-year period with the year 2015 recording the highest value of value of 12.75 while the year 2014 recorded the lowest value for Tax holidays at 10.20. These findings goes hand in hand with the study findings by Fletcher (2015), Tax holiday

create competitive advantage to new investment company and threatening old company.

The current offer on tax holidays by the current regime on domestic airlines has helped the investors business start to stabilize, tax holiday encourage short-run business projects and fast profit generation. During the short period of investment duration, the domestic airlines firms can generate maximum profit without paying high tax. When the project is completed and matured, the domestic airlines will plan to move to other place to enjoy tax holidays for its "new business" again. These findings concurs with the study findings by Ifueko (2011), domestic airlines firms can take advantage on tax holiday offer through indefinite extension of holidays to avoid tax. That is done by creative redesign the existing investment become new investment which qualified for tax holidays again

The study found that there was positive correlation coefficient between performance of domestic airline companies and VAT exemption incentives (correlation coefficient = 0.701 p – value =0.000), Test regression results show that a unit increase in a unit increase in VAT Exemption Incentives will enhance the financial performance of domestic airline companies in Kenya by a factor of 0.875. Descriptive results show that during the 5-year period the VAT exemption incentives exhibited to domestic airline companies exhibited dense volatility trend. The year 2014 recorded the highest value in VAT exemption incentives at a mean of value of 9.69 while the year 2015 recorded the lowest value for VAT exemption incentives at 5.69 . These findings are in support of the with the study findings by Ifueko (2015), who identify VAT exemption policy as key factor that influence firm growth.

Results also show that the relative advantage gained through the VAT Exemption Incentives and resource allocation can be the abundance (cheapness) of either primary or intermediate inputs production on a larger scale), or any combination of these sources. The profits earned at the level of the individual exporter and industry reflect these sources of advantage, while export incentives can raise profitability and/or enable exporters to offer foreign buyers better prices, thereby increasing the volume of exports. These findings are in support of the with the study findings by Murage (2012), identifies strong taxation was one of the main obstacles to firm's growth and thus justifying the role of tax incentives in improving firm's output.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the study findings, conclusion and recommendations. The chapter is presented in line with the objective of the study which was to establish effect of tax incentives on financial performance of domestic airline companies in Kenya specifically the study sought to establish the effect of capital allowances incentives on financial performance of domestic airline companies in Kenya, to establish the influence of export promotion incentives on financial performance of domestic airline companies in Kenya, to determine the effect of tax holidays on financial performance of domestic airline companies in Kenya and to establish the effect of VAT exemption incentives on financial performance of domestic airline companies in Kenya

5.2 Summary of the Findings

5.2.1 Capital allowance Incentives

Assessment the effect of capital allowances incentives on financial performance of domestic airline companies in Kenya show a was positive correlation coefficient between performance of domestic airline companies and capital allowance incentives test regression results predict that a unit increase in capital allowance Incentives while holding other factors constant will positively enhance the financial performance of domestic airline companies in Kenya, These findings are in support of Trela and Whalley, (2013) that capital incentives lowers the cost incurred on purchase of capital assets, in turn with reduced costs, the net profit posted by firms goes high and hence leads to high financial performance.

Results show that there have been an increase capital allowance incentives for airline players the last five-year period. The study also established that capital allowances permit the costs of capital assets to be written off against taxable profits. Capital allowances given for expenditure on capital assets to domestic airlines firms helped in reducing taxable profits and thus saving money. Capital allowances claimed a proportion of the cost of the expenditure back against the company's taxable income or profits. In turn, this reduces airlines tax bill and allows firm to write off the cost of capital expenditure over time. These findings goes hand in hand with the Trela and Whalley, (2013), Capital Allowances remains one of the key ways to obtain a significant tax saving against

5.2.2 Export Promotion Incentives

Evidence from the assessment on influence of export promotion incentives on financial performance of domestic airline companies in Kenya showed that a positive correlation coefficient between performance of domestic airline companies and export promotion, Test regression results predict that unit increase in export promotion incentives will enhance financial performance of domestic airline companies in Kenya. The findings also revealed that there have been a significant increase in Export promotion incentive during the 5-year period. These findings concurs with the study findings by Wachira (2011) lower tariffs on imported equipment, related components and raw materials, and increased tariffs to protect the domestic market and promote investment in import-substituting projects.

Evidence from the research revealed that export promotion Incentives leads to expansion of airline services for the foreign market. These goods earn foreign exchange that can be used to facilitate development. Providing export incentives

helped to reduce the overall tax burden on export incomes, thereby enabling Kenyan domestic airline to lower prices without reducing their net profits. These findings concurs Klemm and Van Parys (2012) providing export incentives boosted firm's performance by keeping domestic products competitive in the global market.

5.2.3 Tax Holidays

The study established that was positive correlation coefficient between performance of domestic airline companies and Tax holiday. Descriptives results also revealed a slight increase in Tax holidays during the 5-year period with the year 2015 recording the highest value of value of 12.75. These findings goes hand in hand with the study findings by Fletcher (2015), Tax holiday create competitive advantage to new investment company and threatening old company.

Evidence further suggest that the current offer on tax holidays by the current kenyan regime on domestic airlines has helped the investors business start to stabilize, tax holiday encourage short-run business projects and fast profit generation. During the short period of investment duration, the domestic airlines firms can generate maximum profit without paying high tax. When the project is completed and matured, the domestic airlines will plan to move to other place to enjoy tax holidays for its "new business" again. These findings concurs with the study findings by Ifueko (2011), domestic airlines firms can take advantage on tax holiday offer through indefinite extension of holidays to avoid tax. That is done by creative redesign the existing investment become new investment which qualified for tax holidays again

5.2.4 VAT Exemption Incentives

Assessment on the influence of VAT exemption incentives on financial performance of domestic airline companies in Kenya showed a positive correlation coefficient between performance of domestic airline companies and VAT exemption incentives, Test regression results predict that a unit increase in a unit increase in VAT Exemption Incentives will enhance the financial performance of domestic airline companies in Kenya. Descriptive results show that during the 5-year period the VAT exemption incentives exhibited to domestic airline companies exhibited dense volatility trend. These findings are in support of the with the study findings by Murage (2012), identifies strong taxation was one of the main obstacles to firm's growth and thus justifying the role of tax incentives in improving firm's output.

Further, results also show that the relative advantage gained through the VAT Exemption Incentives and resource allocation can be the abundance (cheapness) of either primary or intermediate inputs production on a larger scale, or any combination of these sources. The profits earned at the level of the individual exporter and industry reflect these sources of advantage, while export incentives can raise profitability and/or enable exporters to offer foreign buyers better prices, thereby increasing the volume of exports. These findings are in support of the with the study findings by Ifueko (2015), who identify VAT exemption policy as key factor that influence firm growth.

5.3 Conclusions

The study concludes capital allowances incentives had a direct effect on n financial performance of domestic airline companies in Kenya. Some of the capital allowances enjoyed by domestic airline companies in Kenya include wear and tear allowances,

building deduction, investment deduction and formworks deductions. during the 5-year period (2014 to 2018) the capital allowance incentives to domestic airline companies has exhibited a dense volatility trend and wear and tear allowances are charged on capital expenditure on machinery and equipment led to positive financial performance of domestic airline companies in Kenya.

The concludes that provision of export promotion incentives proposes financial performance of domestic airline companies in Kenya, there exists a positive correlation coefficient between performance of domestic airline companies and export promotion. Export promotion Incentives leads to expansion of airline services for the foreign market and that providing export incentives boosted firm's performance by keeping domestic products competitive in the global market.

The study concludes that tax holidays had a direct significant influence on financial performance of domestic airline companies in Kenya, tax holidays by the current regime enables the domestic airlines to start and stabilize, tax holidays enable domestic airlines firms can generate maximum profit without paying high tax and that Tax holiday create competitive advantage to new investment company and market competitors.

The study concludes that VAT exemption incentives had a direct significant on financial performance of domestic airline companies in Kenya. the relative advantage gained through the VAT Exemption Incentives and resource allocation led to cheap abundance (cheapness) of either primary or intermediate inputs production on a larger scale), profits earned at the level of the individual exporter and industry reflect these sources of advantage. And that export incentives can raise profitability enabling

domestic airlines firms to offer to buyer's better prices thus increasing volume of sales.

5.4 Recommendations

In order to ensure that domestic airlines and other investors reap maximum benefits, the stakeholders in tax policy should reconsider the economic value of capital allowances incentives. The various incentives and how to benefit from them should be given adequate publicity.

The Government of Kenya should consider increasing the tax incentives granted to attract foreign direct investment, especially those provided to domestic airlines and other investors. This would entail undertaking a review, to be made public, of all tax incentives with a view to reducing, or removing many of them, especially those that involve the exercise of discretionary powers by the relevant authorities. Those incentives that remain must be simple to administer and shown by the government to be economically beneficial, Stakeholders in the domestic airlines and other investors should provide on an annual basis, during the budget ' process, a publicly available tax expenditure analysis, showing annual figures on the cost to the government of tax incentives and showing who the beneficiaries off such tax expenditure are.

The Government of Kenya should increase the capacity for it to incentives and negotiate for mutual and better benefits with the domestic airlines and other investors. Given the fact that Lack of information and knowledge is an issue for domestic airlines and other investors, there should be a widespread dissemination of knowledge among businesses, for the various commitments and mechanisms that promote fiscal benefits.

5.5 Areas for Further Research

Study recommended that future studies should aim to broaden the causes of low performance of domestic airline companies in Kenya not identified in this study. Study also suggested that a study on the remedies to the low performance of domestic airline companies in Kenya should be conducted. This would assist in improving airline companies in Kenya and to encourage more investors.

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APPENDICES

Appendix I: Data Collection Sheet

Variable	**Measure**	**2014**	**2015**	**2016**	**2017**	**2018**
Financial Performance	Return on investment (ROI)					
Capital allowances incentives	Amount of investment deduction granted					
Export promotion incentives	Tax exemption on profits made on exports					
Tax holidays	Amount of eliminated tax					
VAT exemption incentives	Air transport cost					

Appendix II: Work Plan

ACTIVITIES	**April 2020**	**May 2020**	**June 2020**	**July 2020**	**August 2020**	**September 2020**
Writing of Research Proposal						
Developing and piloting Research tools						
Data Collection and methodology						
Data Analysis and interpretation						
Editing, report writing and submission						

Appendix III: Budget

ACTIVITIES	**AMOUNT IN Ksh**
Typing	10,000
Stationeries: Printing papers	15,000
Printing	5,000
Travelling	10,000
Binding	10,000
Total	**50,000**

Appendix IV: List of Airline Companies

No	Name of Airline	Location
1.	African Express Airways	Embakasi – Airport North Road, P.O BOX 19202-00501 Nairobi, Kenya.
2.	KQ	Airport North Road, Embakasi. P.O. Box: 19002 – 00501.
3.	Air Direct-Connect	P. O. Box 19252-00501. Nairobi. Kenya.
4.	Airkenya Express	Wilson Airport- Head Office P.O. Box 30357 Nairobi - 00100
5.	Airlink (Kenya)	P.O.Box 26314 - 00100, Nairobi, Kenya
6.	AirTraffic Africa	Lengai House, Mezzanine Floor Wilson Airport P.O. Box 989 00606 Nairobi
7.	Blue Bird Aviation (Kenya)	Wilson Airport, Lang'ata Road, Nairobi.
8.	Capital Airlines (Kenya)	AIS Bldg, Wilson Airport, 2nd Flr, Nairobi, PO Box 49232 00100 Nairobi
9.	Fly540	The Watermark Business Park Ndege Rd, Karen P.O. BOX 10293 – 00100 Nairobi
10.	Fly-SAX	Baobab Suite Green Suites, Riverside Drive PO Box 10293-00100 Nairobi
11.	Phoenix Aviation (Kenya)	Wilson Airport Langata Rd, P.O. BOX 49493. Nairobi,
12.	Queensway Air Services	Blue Ocean Safaris. 2905-00100, Nairobi.
13.	Ribway Cargo Airlines	Langata Rd, P.O. BOX 9493. Nairobi,
14.	Safari Express Cargo	Airport North Rd, Embakasi, Box 9189-00100, Nairobi, Kenya
15.	Skytrail Air Safaris	Box 81443-80100, Mombasa, Kenya

Appendix IV: Data

Capital Allowance Incentives					
Company	**Year_2014**	**Year_2015**	**Year_2016**	**Year_2017**	**Year_2018**
African Express Airways	6.730	7.360	7.397	5.860	7.426
Air Direct-Connect	7.120	5.258	7.361	6.265	11.326
Airkenya Express	8.460	7.682	7.369	5.847	10.215
Airlink (Kenya)	6.190	8.362	6.450	6.265	10.682
AirTraffic Africa	7.400	8.620	6.523	6.287	11.659
Blue Bird Aviation (Kenya)	6.060	7.400	7.812	6.378	10.300
Capital Airlines (Kenya)	9.258	6.250	8.641	5.679	12.360
Fly540	6.990	5.690	9.641	6.642	11.362
Fly-SAX	8.256	7.025	6.392	6.328	13.650
Phoenix Aviation (Kenya)	6.163	6.853	7.358	6.582	9.740
Queensway Air Services	5.362	6.148	7.285	8.392	6.190
Ribway Cargo Airlines	6.360	7.058	8.152	6.268	10.320
Safari Express Cargo	5.236	8.969	7.625	4.369	10.650
Skytrail Air Safaris	6.013	6.940	6.394	5.462	10.300
Mean	**6.83**	**7.12**	**7.46**	**6.19**	**10.44**

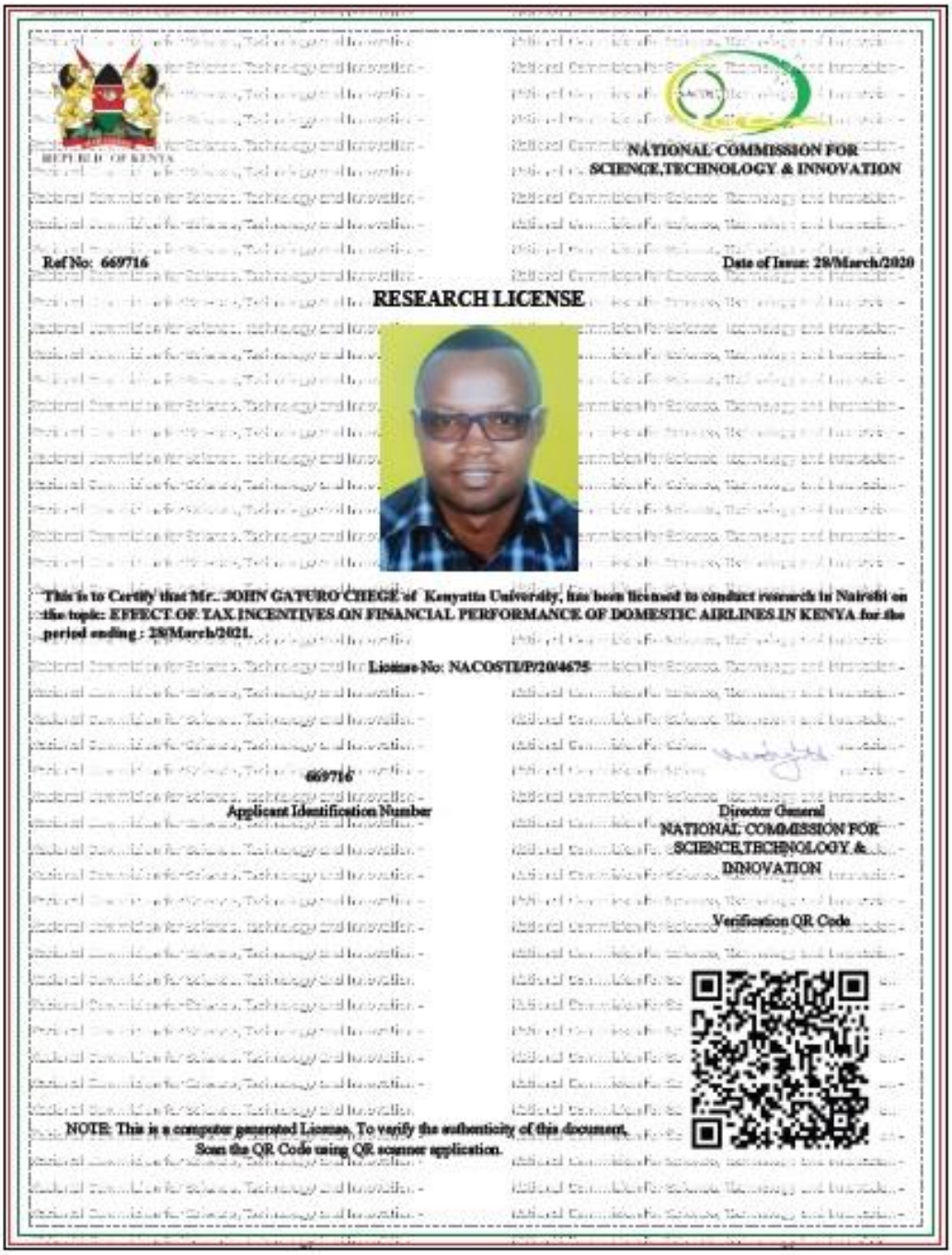
Export Promotion Incentive					
	Year_2014	**Year_2015**	**Year_2016**	**Year_2017**	**Year_2018**
African Express Airways	36.93	39.654	50.561	50.252	58.360
KQ	39.251	43.256	49.256	52.361	57.91
Air Direct-Connect	39.125	44.257	48.561	58.293	59.312
Airkenya Express	33.152	45.268	51.51	51.700	56.213
Airlink (Kenya)	31.857	46.352	56.153	54.258	59.230
AirTraffic Africa	33.527	45.258	58.124	53.27	58.160
Blue Bird Aviation (Kenya)	39.256	41.256	53.861	52.224	57.030
Capital Airlines (Kenya)	37.258	44.159	51.321	53.367	59.924
Fly540	36.425	45.952	53.369	54.225	57.123
Fly-SAX	38.960	47.358	50.696	51.136	58.789
Phoenix Aviation (Kenya)	39.350	46.256	52.282	53.271	57.938
Queensway Air Services	39.720	44.153	49.553	53.217	59.345
Ribway Cargo Airlines	36.256	42.169	49.525	54.860	59.569
Safari Express Cargo	35.960	47.068	46.366	53.396	51.869
	36.930	**44.458**	**51.510**	**53.274**	**57.912**

Tax holidays					
	Year_2014	**Year_2015**	**Year_2016**	**Year_2017**	**Year_2018**
African Express Airways	8.236	11.235	10.340	10.362	10.830
KQ	10.251	12.120	9.362	8.789	9.360
Air Direct-Connect	13.260	11.190	11.250	9.986	12.950
Airkenya Express	25.390	12.881	10.670	10.852	10.890
Airlink (Kenya)	9.060	12.650	9.362	14.595	13.369
AirTraffic Africa	9.362	12.080	10.360	11.890	12.385
Blue Bird Aviation (Kenya)	10.250	14.312	10.160	10.251	12.380
Capital Airlines (Kenya)	10.000	13.251	11.520	10.864	12.340
Fly540	10.320	13.110	10.460	11.896	9.978
Fly-SAX	8.369	12.350	10.510	9.123	12.871
Phoenix Aviation (Kenya)	10.258	13.758	11.362	12.020	12.632
Queensway Air Services	11.250	13.031	9.362	9.705	13.251
Ribway Cargo Airlines	10.052	14.462	10.993	12.283	11.745
Safari Express Cargo	10.096	12.070	10.676	9.850	10.854
	11.154	**12.750**	**10.456**	**10.890**	**11.845**

VAT exemption incentives					
	Year 2014	**Year 2015**	**Year 2016**	**Year 2017**	**Year 2018**
African Express Airways	9.356	5.830	9.070	7.263	6.380
KQ	9.310	6.030	8.935	7.362	8.290
Air Direct-Connect	9.860	5.690	9.280	8.010	7.040
Airkenya Express	12.360	5.391	9.612	7.253	5.142
Airlink (Kenya)	8.479	6.561	9.480	8.694	7.352
AirTraffic Africa	9.360	5.360	8.561	8.562	7.056
Blue Bird Aviation (Kenya)	10.620	5.365	9.290	8.612	7.265
Capital Airlines (Kenya)	11.362	4.897	10.322	8.420	6.313
Fly540	8.789	5.826	9.561	9.312	9.389
Fly-SAX	9.990	5.671	8.256	7.654	6.328
Phoenix Aviation (Kenya)	9.650	5.312	10.164	8.290	7.152
Queensway Air Services	9.880	6.856	8.468	8.362	7.096
Ribway Cargo Airlines	8.895	5.897	9.266	9.981	10.261
Safari Express Cargo	7.680	4.989	9.752	8.312	7.153
	9.685	**5.691**	**9.287**	**8.292**	**7.301**

Return on Investment					
	2014	**2015**	**2016**	**2017**	**2018**
African Express Airways	85.969	84.2560	97.36	102.3600	104.256
KQ	87.462	89.2400	101.56	95.1250	105.32
Air Direct-Connect	86.32	87.4950	99.158	98.1560	102.364
Airkenya Express	84.069	89.6600	98.125	98.2500	101.056
Airlink (Kenya)	78.355	87.5200	99.36	96.2300	98.365
AirTraffic Africa	80.356	88.9500	98.12	97.3600	104.5025
Blue Bird Aviation (Kenya)	56.026	89.9620	98.564	105.3210	105.66
Capital Airlines (Kenya)	84.2561	89.1400	98.24	102.3200	108.362
Fly540	89.312	89.3645	97.36	89.2360	109.169
Fly-SAX	78.564	86.9650	96.45	101.2580	109.25
Phoenix Aviation (Kenya)	77.326	88.8790	99.36	97.8690	101.36
Queensway Air Services	78.923	85.5910	97.258	103.1560	104.362
Ribway Cargo Airlines	81.2568	87.9400	99.236	98.3690	102.3256
Safari Express Cargo	87.362	86.3210	95.168	136.1210	103.923
	81.11	**87.95**	**98.24**	**101.51**	**104.31**

Appendix V: Research Permit



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