EFFECT OF CORPORATE TAX POLICIES ON FOREIGN DIRECT INVESTMENT: A STUDY OF THE EAST AFRICA COMMUNITY PARTNER STATES

BY

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DECLARATION

Declaration by Candidate

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Declaration by the Supervisors

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DEDICATION

This research project is dedicated to everyone who believes that we can make this world a better place for the future generations. To you my unborn daughter. *Kwa Umoja wa Jumuiya ya Afrika Mashariki.*

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ABSTRACT

There has been high volatility to foreign direct investment flows in East African Countries. However, this has not played an important role in the economies despite the reforms that have been undertaken and the many incentives provided to foreign investors. The current study sought to investigate the effect of corporate tax on foreign direct investments. The specific objectives were to determine the effect of corporate withholding tax rate, investment deduction and double tax elimination on foreign direct investments. The study was anchored on the optimal tax theory and normative theory. It adopted the explanatory research design. The target population was all partner states of the East Africa Community who were members during the whole period of the study. These are; Kenya, Tanzania, Uganda, Rwanda and Burundi. All the partner states were included in the study; thus, no sampling was done. The study collected secondary data on corporate tax and foreign direct investment for the five state partners over the period 2002- 2019. Panel regression procedures were applied in analysing the data. The findings indicated that withholding tax rate had a negative and significant effect on foreign direct investments amongst East African Community partner states (β= -16.158, p=0.000). Double tax treaties had a positive and significant effect on foreign direct investments amongst East African Community partner states (β= 0.2539, p=0.000). Further, investment deduction had a negative and significant effect on foreign direct investments amongst East African Community partner states (β= -1.646, p=0.0007). The study concluded that there was a significant relationship between corporate tax policy and foreign direct investments amongst East African Community partner states. Based on the findings, the study recommended that the East African Community member states should adjust the corporate withholding tax rates on downwards in order to attract foreign investors, should strengthen the double tax treaties amongst themselves as well as with other countries, and should review their tax incentives policy, particularly, on investment deductions.

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ABBREVIATIONS AND ACRONYMS

AfDB: Africa Development Bank

CBK: Central Bank of Kenya

CIT: Corporate Income Tax

EAC: East Africa Community

EU: European Union

FDI: Foreign Direct Investments

IMF: International Monetary Fund

GDP: Gross Domestic Product

KRA: Kenya Revenue Authority

OECD: Organization for Economic Co-operation and Development

UNCTAD: United Nations Conference on Trade and Development

US$:   United States Dollars

WHT: Withholding Tax

DEFINITION OF KEY TERMS

Corporate Tax Policy: is the set of ideas or plans by a government as to what taxes to levy and in what amounts to corporations (Swank, 2016).

Corporate Tax: This is a domestic Tax applied by countries on the Revenue that a corporation or an entity derive or accrue within its borders. In this study only three elements of corporate tax will be considered: Corporate tax rate, Investment Deductions and Tax Treaties (Devereux & Sørensen, 2006).

Corporate Withholding Tax Rate: This is also referred to as the retention tax. This is a rate of Corporate Income Tax whereby the payer of certain incomes is responsible for deducting tax at source from payments made and remitting the deducted tax to jurisdictional Taxing Authority (KRA, 2020).

Double Tax Treaties: These are agreements entered between sovereign states conferring tax rights and obligations in order to facilitate cross-border trade and investment by eliminating the tax impediments to these cross-border flows. The number of DTA entered will be considered (Arnold, 2015).

Foreign Direct Investment: A category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an

economy other than that ofthe direct investor (OECD, 2008).

Investment Deductions: This is a tax incentive which is deducted from taxable income based on set percentage issued by the host countries to new investment before calculating the tax payable. (UNTAD, 2000). For example, the Kenya Income Tax Act places 150% as the investment deduction as against any taxable income for any new investment outside the three main cities; Nairobi , Mombasa and Kisumu (ITA, 2018)

Tax incentives: They are those special provisions that allow for exclusions, credits, preferential tax rates, or deferral of tax liability (Zolt, 2015).

CHAPTER ONE

INTRODUCTION

1.0 Chapter Overview

This chapter provides a background of the study, statement of the problem, the objectives, the hypotheses, significance of the study, and scope of the study.

1.1 Background of the Study

The East African Community (EAC) is taking steps towards political, economic, social and cultural integration to ensure an improvement in the quality of life of its people. EAC has identified foreign direct investment (FDI) as an important engine of economic growth (EAC, 2019). FDI is input capital for the acquisition of permanent management shares in companies operating in the economy other than investors (Ndolo, 2017).

Foreign direct investment is a critical component of the globalization movement that has driven most of the world's economic progress in recent decades. Countries are beginning to recognize the benefits of FDI and are taking initiatives to attract foreign capital. This may involve unilateral modifications to domestic laws and regulations, as well as the implementation of bilateral agreements with the legal system through which foreign direct investment can be generated. The latter include trade agreements to lower tariff rates, investment protection agreements and tax treaties (Barthel, Busse, Krever & Neumayer, 2010).

FDI is increasingly recognized as an important factor in the country's economic development. Not only does it bring in capital, it also enables the transfer of technology, practice and organizational and management skills. Countries are competing to create a promising trade climate for FDI as a political priority. This is done by reducing restrictions on FDI access and actively liberalizing FDI regulations. This effort to use

tax incentives to attract FDI is gaining momentum despite the questions of its efficiency in attracting FDI (UNCTAD, 2000).

(Aziza and Macaui, 2012) suggest that in a world where governments are increasingly competing to attract multinational companies, fiscal incentives have become a global phenomenon. Tax incentives have become a tool to encourage investment in rich countries through tax exemptions, while developed countries use investment grants or accelerated depreciation. This trend appears to have increased significantly since the early 1990s, as evidenced by the high levels of foreign investment currently fueling heated debate over whether governments have provided inappropriately high incentives to attract these companies to invest in their territories. The usefulness of tax breaks in attracting and retaining foreign direct investment has yet to be determined. There is a large theoretical and empirical literature that views taxation to be a significant influence in a country's professional attractiveness to investors (Egger, Larch, Pfaffermayr & Winner, 2006).

(Froot , 1993) notes that foreign direct investment as an important form of international money transfer has increased dramatically over the last few decades. Between 1980 and 1990, global FDI flows tripled, defined as the cross-border costs of acquiring or expanding a firm's control over a manufacturing facility. Developing, developing and transitional countries increasingly view foreign direct investment as a source of economic development and modernization, income and employment growth and an instrument for increasing inflows of funds and capital. Countries have liberalized their FDI regimes and adopted other policies to attract investment.

(Krishnakumar, Sethi and Chidambaran, 2014) showed that in Sub-Saharan Africa between 1970 and 2010 about US$ 814 billion was removed from the region. It is worth

noting that the amount of money that leaked out of the region was more than US $ 659 Billion which was the total aid received in the corresponding period. It was also more than the total FDI which the region which stood at a US $306 billion received over the same period. Kenya lost over US $4.9 billion in capital, ranking it 21st on the list despite having been among the region's top five economies.

According to UNCTAD (2018); Africa in 2017 received FDI amounting to US$ 85305 which was received from US$ 22704 from EU, US$ 10383 from Italy, UK$ 2287, USA$ 3901, African Countries US $1949, South Africa US $841, China US$ 8920, Saudi Arabia US$ 2023 and Transitional Countries US $ 31324. During the said year Africa FDI outflow stood at US$5796, received from EU US$ 1658, from USA at US$ 197, UKat US$ 83, from other Africa countries US$ 1949, China at US$ 224, United Emirates US$ 163, Saudi Arabia at 6, and from Transitional countries at US$ 6.

Table 1.1: Africa FDI Inflows

	AFRICA FDI INFLOW									**(US$ Million)**
	Developed Economies					Developing Economies				Transitional Economies
	EU	Italy	UK	USA	Africa	South Africa	China	Saudi Arabia	United Arab Emirates	
2016	11864	4006	2394	3640	8604	1618	36144	4057	10997	452
2017	22704	10383	2287	3901	1949	841	8920	3972	2023	31324

Source: (UNCTAD, 2018)

In 2018, the East African Community reported a 14% decline in FDI inflows. This is despite the fact that FDI flows into Africa are following global trends and increased by 6% in 2018. Most of these inflows went to North and South Africa. During the same period, global FDI inflows fell 19% to approximately $1.2 trillion from $1.47 trillion in 2017 (EAC, 2019).

FDI inflows to East Africa remained mostly steady in 2018, totaling $9 billion. In Kenya, FDI inflows increased by 27% to $1.6 billion. Manufacturing, chemicals, hospitality, and oil & gas are among the areas in which investments are made. The country is taking initiatives to make private enterprise and foreign investment more accessible, which is contributing to an increase in FDI. It has improved the Ease of Doing Business rating and has pushed Export Processing Zones (EPZs) and Special Economic Zones (SEZs) as appealing destinations for production-oriented foreign investment (UNCTAD, 2019).

FDI increased by 67 percent in Uganda and 18 percent in the Republic of Tanzania (to US$1.3 billion and US$1.1 billion, respectively). Uganda's FDI reached an all-time high in 2018, owing mostly to investments in the oil and gas sector, as well as manufacturing and hospitality. Domestic oil field development is being led by a consortium comprised of Total [France] and UNCTAD (2019).

Income earned in Tanzania is subject to a corporate income tax (CIT) of 30%. Companies that were recently listed on the Dar es Salaam Stock Exchange (DSE) enjoyed a 25% reduction in CIT rates for the third year in a row. To qualify, at least 30% of the company's shares must be publicly issued. In addition, the state allows for new manufacturers of vehicles, tractors and fishing boats to reduce the GMP level of 10% in the first five years of operation. New manufacturers of pharmaceuticals or leather products that have entered into efficiency agreements with the Tanzanian government for the first five years of operation benefit from a 20% reduction in DPT rates PWC (2018).

Tanzania enacted the Tanzania Investment Act of 1997, which established a central investment center to coordinate, promote, and facilitate investment in Tanzania, as well

as to advise the government on investment policy and associated matters. The Tanzanian Investment Center (TIC) aids all investors in getting any other local statutory permissions required to make and manage investments in Tanzania. Depending on the size of the investment, there are two types of investors: conventional investors and strategic investors. Strategic investors are rewarded more than the average investor. Investors who hold a Tanzania Investment Center (TIC) certificate are exempt from paying taxes on specific purchases. This is aimed at attracting FDI into the country. The Country has further established the EPZ and SEZ which enjoy specified tax incentives like tax holidays, investment deduction allowances and remissions on customs and excise duty. Tanzania allows an investment allowances and deductions at the rate of 100% on industrial buildings, plant and machinery and on agricultural expenditure PKF International Limited, (2017).

Rwanda is among the countries that have set out to reform their foreign investment policies and agree to trade liberalization. Baloyi (2015) created an empirical framework to investigate the impact of a better investment climate on the attraction of FDI. According to the study, the primary economic indicators that attract FDI inflows to Rwanda are GDP, GDP per capita, and secondary school enrollment. This study also discovers that the explanatory variables mentioned above are statistically significant as determinants of FDI entry into Rwanda.

Rwanda confronts unique obstacles in recruiting FDI for development due to its economic structure, limited human resource development, rural environment, and small size. These factors determine not just the volume and type of FDI that a country is likely to attract, but also the type of FDI that is expected to make the greatest contribution to national development and poverty alleviation goals. As a result, a good understanding of Rwanda's economic structure and present development is critical for assessing the

significance of FDI in economic development and developing strategies for recruiting and leveraging foreign investment. This section includes a comprehensive analysis of Rwanda's economic structure as well as the role of FDI in the United Nations (2006).

Burundi has embarked on an ambitious program of stabilization, national reconciliation, and economic transformation since the mid-2000s. With the 2005 elections and the signing of a ceasefire and peace deal with the remaining rebel group in 2008, the peace process made great headway. Attracting FDI is now part of Burundi's development strategy, and the country plans to use it to boost economic growth for the United Nations (2010).

Hartman (1984) found out that foreign investment in the United States was strongly affected by changes in domestic tax policy. Wijeweera, Dollery and Clark (2007) identified taxation policy as an important factor in determining foreign direct investment. Davies (2003) established that tax treaties were critical in influencing FDI. Corporate tax tends to reduce the profits or the gains that foreign direct investment makes from the ventures that they undertake. Several ideas have been proposed to explain the factors that influence FDI. These theories are a crucial first step toward creating a systematic framework for the formation of FDI. However, each individual's ability can be a separate general theory that can explain all sorts of FDI, both external and deep, at the business, industry, and government levels (Demirhan & Masca, 2008).

According to Dellis, Sondermann, and Vansteenkiste (2017), the quality of institutions and economic systems is critical for luring FDI inflows to developed countries. Property rights, corruption, general fiscal policy, government spending, business regulations, labor regulations, monetary policy, trade policies, investment policies, and financial regulations are all determinants of FDI. According to Demirhan and Maska (2008), the

function of taxation in deciding FDI is controversial, and the literature is divided on whether FDI is sensitive to tax incentives. Some studies claim that the host country's corporate tax has a major negative influence on FDI flows, while others claim that the tax has no effect on FDI.

(Skeie, 2017) postulates that taxes affect the gross position of FDI between OECD countries and their partner countries. When capital flows from the OECD, it flows to partner countries and vice versa. In this way, the OECD country's losses or gains can be compared with partner countries. Due to different tax rates, the gains for the host country are lower than the losses for the respective home countries. Skieie said OECD countries get income from high-tax countries and lose income from low-tax countries. The losses of tax-exempt and low-tax countries are high ($15-30 billion in 2005), even though these countries only account for about 0.3% of global GDP. The losses for countries with average tax rates (25-30%) are slightly higher, which partly reflects that these countries' share of world GDP is about 100 times higher than the share of countries with and without taxes.

Investment allowances are corporate tax incentives that reduce the tax burden on companies to encourage them to invest in certain projects or sectors. They are exceptions to the general tax regime (Alegana, 2014). The Company receives a reduced investment for the construction of buildings and for the purchase and installation of new machines used for production purposes or for the following additional purposes: generation, conversion and distribution of electricity; Purification and disposal of waste and other waste products; Reduce environmental damage; Water supply or discharge; and workshop maintenance technology for Alegana machines, (2014).

Other tax incentives, in addition to investment reductions, include reduced corporate income tax rates, tax exemptions, accounting regulations that allow for accelerated depreciation and tax loss compensation, as well as reduced tariffs on imported equipment, components, and raw materials, or increased protective tariffs in the domestic market for UNCTAD import substitution investment projects (2000).

Witholding Tax rates can be said to be determinant of FDI however as it determine the amount to be retained in the host countries when repatriating the profit. The statutory tax rate does not contain the different depreciation deductions or other special features of the national tax code and is therefore only a very incomplete measure of the multinational corporation's tax burden. If there are special tax breaks, accelerated depreciation regulations and similar tax incentives, the taxable profit can be well below the net economic profit, leading to differences in the size of the statutory tax rate on the one hand and the effective tax rate on the other (Haufler & Stowhase, 2003).

Although international tax issues are a growing business concern, less attention is paid to tax treaties. The majority of current research look at the theoretical impact of various tax systems on foreign investment flows. The double taxation of revenue generated overseas is one of the most evident hurdles to cross-border investment. When the same taxpayer's tax base is taxed in two or more countries, this is referred to as double taxation. The most essential technique to avoid double taxation of legal organizations is through bilateral tax treaties, which are reciprocal agreements to determine tax duties, transfer tax rights, or decide tax rates at the source (Egger, Larch, Pfaffermayr & Winner, 2006).

For decades, the merits of tax treaties for developing nations have been discussed in the legal literature, and studies on whether they attract foreign direct investment have

yielded less compelling results. These studies rarely go into detail into the components of a tax treaty in order to establish which one is most suited for each investment-boosting effect. (Hearson, 2016) is unable to give comparative data on the history and outcomes of talks because developing countries continue to negotiate, renegotiate, update, and terminate tax treaties.

Purchasing a double taxation treaty is a type of tax avoidance strategy used by multinational firms. This includes the diversion of foreign direct investment (FDI) through third nations in order to obtain lower tax deductions under advantageous tax treaties. Withholding taxes are levied by the majority of countries on dividends and interest payments made to foreign subsidiaries. Tax treaties reduce or eliminate these tax deductions bilaterally and thus benefit foreign investors from partner countries. When multinational companies make contract purchases, they can receive benefits that the host country will not provide (Weyzig, 2012). In order to seal the double tax issues that arise from corporation tax East Africa countries have entered into several tax treaties with a view of attracting trade between the partner countries.

1.2 Statement of the Problem

Partner countries in the East African Community, like most developing countries, are penniless and unable to generate sufficient income and budgetary requirements, but still offer various tax breaks to attract investors. Economics, (Alegana, 2014) The EAC has institutions and working groups in place to ensure that FDI inflows are sustainable, implying that these governments take large FDI inflows seriously. The conundrum for public-sector economists is that, even when nations adopt tax policies to promote FDI, there is little empirical agreement on the real impact of tax policies on FDI (Mudenda, 2014).

The EAC Trade Report (2015) shows that the level of FDI in the East African region rose 16 percent to 7.2 billion in subsidies. (Nduku, 2017) points out that, apart from the benefits of tax incentives, the main obstacles to FDI are political and economic problems, crime, factors such as corruption and licensing difficulties. FDI flows in EAC countries are highly volatile and, despite reforms implemented and many incentives for foreign investors, FDI does not play a significant role in the economy (Imbayi, 2013).

The several studies which have been undertaken on the relationship between FDI and corporate tax policies have not produced a conclusive finding due to the inconsistencies in the findings. In addition, no attempt was made to assess the impact of corporate tax policies on FDI in EAC countries. In addition, there is little regionally specific empirical research on this topic, particularly for Africa, which suggests a possible lack of academically applied research. Therefore, this study helps fill the gap by bringing empirical scientific research on this issue into the region, as well as providing an area for further research.

1.3 Objective of the Study

1.3.1 General Objective

The general objective of the study was to establish the effect of corporate tax policies on foreign direct investment within the EAC partner states.

1.3.2 Specific Objective

i. To examine the effect of corporate withholding tax rate on foreign direct investment amongst EAC partner states.

ii. To establish the effect of double tax elimination on foreign direct investment amongst EAC partner states.

iii.   To determine the effect of investment deduction on foreign direct investment amongst EAC partner states.

1.4 Research Hypotheses

H_{01}: Corporate withholding tax rate has no significant effect on foreign direct investment amongst EAC partner states.

H_{02}: Double tax elimination has no significant effect on foreign direct investment amongst EAC partner states.

H_{03}: Investment deduction has no significant effect on foreign direct investment amongst EAC partner states.

1.5 Significance of the Study

The study adds to the body of knowledge on tax policies drafting and in particular treaty drafting and implementation. This study may further serve as a guide when legislatures and policy makers within the EAC partner states coming up with tax legislations which are aimed at ensuring that positively influencing investment decisions by not just foreign investors but also Multi Nationals Enterprises looking at building their investment portfolios. Additionally, the regulators in the respective countries will have evidence as to what levels of tax incentives are present and profitable to the economy of the country in comparison with its East African counterparts.

The findings of this study is also useful to all agencies and stakeholders involved in Investment attraction and retention like Kenya Investment Authority, Department of industrialisation and investment within the EAC and Africa as a region as the circumstances of EAC countries are not only unique to it.

The findings of this study also guide government agencies including the government investment bodies and Boards of Multinationals Enterprises to make worthwhile investment decisions that will satisfy the interest of the country with regard to performance of the FDI in the near future and at the same time with the aim of achieving the United Nations- Sustainable Development Goals.

This study also contributes to theoretical developments of tax administration serving as a basis for academic discussions on Tax and Customs studies. It supplements to the vast body of knowledge which can be used as a reference material by future academic researchers.

1.6 Scope of the Study

The study sought to determine the effect of corporate tax policy on foreign direct investment within the EAC partner states. It specifically focused on corporate withholding tax rate, double tax treaties and investment deduction. The study was underpinned by the optimal tax theory and normative theory. It adopted an explanatory research design. The target population was partner states of the East Africa Community. These are; Kenya, Tanzania, Uganda, Rwanda and Burundi. All the partner states were included in the study; thus, no sampling was done. The study collected secondary data on corporate tax and foreign direct investment for the five state partners. The secondary data was sourced from several sources including the African Development Bank, United Nations Conference for Trade and Development, National Bureau of Statistics of the member states, Revenue Authorities of the EAC partner states, the National Treasury of the member states, the East Africa Community and the World Bank Data. The data was summarized using data template. Panel regression procedures were applied in analysing the data. The period under consideration was 18 years covering the period 2002 - 2019.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter provides information on the concepts of the study, theoretical framework, empirical review and conceptual framework.

2.1 Foreign Direct Investment

Foreign direct investment is described as a long-term investment that extends beyond the investor's physical or economic limits (Muema, 2013). Capital and technology flows will benefit FDI recipient countries' development. When one country decides to invest in another, the advantages far outweigh the risks. UNCTAD (2012) distinguishes three forms of FDI. These are: reinvested income, equity, and other capital, the majority of which is made up of inter-company loans. Because business creation entails the recruiting and training of local individuals in the host nation, the transfer of skills and technological knowledge, and the creation of new positions, FDI creates new jobs (Kinuthia, 2010). He noted that FDI is a long-term commitment for the host country.

Developing countries, such as Kenya, are keen on FDI as a source of capital because it is a long-term investment for the host country and contributes significantly to GDP capital formation (Calitz, Wallace & Burrows, 2013). It has shown to make a major impact to a country's economic prosperity. Governments in various host countries use policy incentives such as income taxes to attract FDI and keep it in their economies because the benefits associated with FDI inflows are beneficial (Calitz et al., 2013).

Several studies have found that foreign firms can positively influence production levels and growth rates in the industries they enter, exhibit skills, increase employment, and increase innovation. Githaiga, thank you (2013). However, it is also argued that FDI

can diminish or replace local assets and investments, transmit inferior or inappropriate technology to the host country, and even stymie local business development, limiting growth. Foreign enterprises that rely only on local labor, which is cheap and raw, are eventually ineffective in developing the host country's dynamic comparative advantage.

2.2 Corporate Tax Policy

Corporate tax policy is the set of plans or choice by a government as to what taxes to lev, how it is to be levied and in what amounts to corporations Swank, (2016). An ideal corporate tax policy should raise essential revenue to the government without excessive government borrowing, and do so without discouraging economic activity. It should not also not deviate too much from tax systems in other countries Vitto and Zii, (2001). European Union, (2015) has established an action plan for corporate tax policies which provides that corporate tax framework in the EU should be geared towards tackling tax abuse, ensure sustainable revenues and support a better business environment in the single market. Some of the corporate taxes polices include: Corporate tax rate, corporate withholding tax rate, double tax elimination, tax incentives and investment deduction. This study focused on Corporate Withholding tax rates, double tax treaties and investment deduction as the three directly affect the cross-border trading and investments.

2.2.1 Corporate Withholding Tax Rate

Corporate withholding tax rate or what is also called the retention tax is always charged on the investors as they repatriate the profit back to their home countries by the host countries. It therefore reduces the investors earning from the venture in foreign jurisdiction. The OECD (2008) finds that if investors wish to redistribute capital overseas, to harmonize after-tax returns, domestic and foreign profits must be subject

to the same effective tax rate. They can only be achieved if equivalent treatment of domestic and foreign profits is accorded hence full relief for repatriated profit should be accorded including waiver of withholding tax levied by the host country. Cela (2017) tries to analyze the main reasons for the instability of FDI in Albania in recent years, the lowest level of FDI compared to other countries in the region and the importance of such investment in developing countries like Albania. This study concludes that FDI is an important indicator of foreign investor confidence in the country. They are decreasing due to economic and political crises and growing due to an improving economic and political environment.

Mudenda (2015) investigates the relationship between corporation tax rates and foreign direct investment in South Africa. Botswana, the Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, and Zambia are among these countries. The findings indicate that corporation tax rates in the South African counties in question have a significant negative influence on FDI. A 10% rise in the corporate tax rate, in instance, is predicted to lower FDI by 45 percent, 46 percent, and 46 percent for the M1, M2, and M3 models, respectively. However, estimations based on dynamic panel analysis imply that corporate tax is not a factor in determining FDI. As a result, this suggests that, while the corporation tax rate may play a role in influencing FDI, it is not as stable as a determinant.

San, Cheng, and Heng (2013) investigated the relationship between corporation tax and FDI in developing nations and compared regional corporate tax rates to indicate asymmetry between developed and developing countries. This study employs several regression models to analyze the impact of taxation on FDI. The findings indicate that FDI in both categories of host nations, developing and developed, is strongly and

positively related to market size and trade openness. Furthermore, whereas FDI is inversely proportionate to the distance between developed countries of origin and host countries, there is no significant association between developing countries' countries of origin and host countries. Corporate tax rates in the host developing country have a negative impact on US multinational companies (MNPs).

From 2000 to 2012, Eshghi, and Li (2016) investigated the impact of corporation taxation as a driver of FDI in Central and Eastern Europe. This study measures the tax burden using forward-looking tax rates or legislation and discovers that corporate taxes have a considerable negative influence on foreign direct investment inflows to Central and Eastern European countries. According to the findings, forward-looking corporate tax rates have a significant detrimental influence on direct investment inflows into CEE countries. As a result, CEE governments can employ tax policy to attract foreign direct investment into their country.

Ahmad (2014) conducted study on the impact of corporate taxation on FDI in Nigeria. According to research, corporate tax rates have a detrimental impact on FDI. This analysis concludes that there is adequate statistical evidence to reject the statistical hypothesis that corporate tax has no meaningful association with FDI, and that the relationship is significant at the 5% significance level. As a result, corporation taxes has a substantial impact on FDI inflows into Nigeria. As a result, he advised the government to cut the corporation tax rate in order to attract and boost foreign direct investment into the country.

Imbayi (2013) investigated the impact of taxes on foreign direct investment in Kenya. The descriptive research design was used in this study. Based on the findings and discussions, the study concluded that taxes influence the volume of inflows and the

location of foreign direct investment. This study suggests that planners and policymakers develop efficient inflation-control systems, because inflation has a direct impact on FDI flows to Kenya. Which behavioral determinants influence FDI inflows into EAC nations should be identified.

2.2.2 Double Tax Elimination

Corporate tax is a domestic tax which is chargeable on worldwide income of person whether he is resident or a non-resident. Section 3 of the Income Tax Act which is the charging clause provided that corporation tax shall be chargeable to all income derived or accrued in Kenya. This provision is replicated in the Income Tax Act of all the partner states. The implication of the charging clauses is that an investor will have to bear tax in both the host and home country. Double Tax treaties are usually used to achieve double tax elimination. Through double tax treaties play an important role as one of the countries surrender its taxing rights to another. The investor will therefore be attracted to countries which have double tax treaties with the home country. Hong (2018) established the relationship between double taxation treaties and FDI: a network approach. The negotiated market arbitrage rate, defined as the difference between the foreign tax rate on the direct route and the tax avoidance route, is estimated to average around 3.57 percentage points. In bilateral FDI data, the average inventory of FDI entering through the direct tax minimization channel appears to be around 3.75 times higher than the average non-tax reduction direct channel. Empirical results confirm that the existence of a direct route to tax minimization is positive and has a significant relationship with FDI. By minimizing taxes on direct routes, countries can encourage foreign direct investment and reduce the use of indirect routes in wireline countries.

Castillo and Lopez (2018) assess the impact of these countries' double tax treaties and territorial tax systems on the entry and exit of Spanish FDI during the 1993-2013 period of their existence. These findings apply to both previous and new contracts, as well as a sub-sample of developed partner countries in Spain. Positive results for emerging countries, on the other hand, are only available for the sample. There is also an extra beneficial effect on investment for nations that utilize the territorial tax system for foreign income tax in the global sample and subsample of industrialized countries.

Lejour (2014) investigates how bilateral and multilateral tax treaties affect bilateral FDI stocks. Geographic methods are used in this work to account for the endogeneity of tax contracts. Contrary to what many documents claim, we find that this agreement considerably boosts bilateral FDI. The rise is around 16%, with new contracts accounting for an additional 21%. Furthermore, the EU Parent-Subsidiary Directive doubles bilateral FDI. This study also examines the influence of contract shopping on FDI by substituting the amount of tax treaties for a country's attraction to create a holding company. This variable was discovered to have a considerable impact on FDI: the inclusion of twenty extra tax treaties raised the stock of bilateral FDI by almost 50%. Lower dividend tax rates entice foreign direct investment as well. Furthermore, the tax treaty's low withholding tax rate on dividends has a positive influence on bilateral FDI holdings.

Rios-Morales, Gamberger, Ursprung & Schweizer (2014) examined the effects of bilateral investment agreements (BITs) on foreign direct investment (FDI) in Switzerland. This study also examines the role of BIT as a hedging instrument for Swiss investments. This study uses statistical and machine learning techniques to find a significant relationship between BIT and FDI flows. The results showed that the implementation of BIT had little impact on increasing FDI flows in Switzerland.

However, two interesting findings emerge from the study showing that the conclusions of the BIT can have an impact on strengthening political stability and the rule of law in partner countries.

2.2.3 Investment Deduction

Investment deduction tend to reduce the tax payable to the host country hence maximize the profit of the investor makes hence it is a major consideration when choosing an investment destination. Thuita (2017) examined tax incentives, exclusive tax breaks, and capital reductions, and how they affect the attractiveness and reluctance of FDI in export processing areas. This study finds that the use of tax exemptions significantly influences the interest and aversion to FDI. Manufacturing tends to profit the most from tax breaks when compared to other industries, owing to increasing capital allowances. The report suggests that tax advantages should be increased to stimulate foreign investment directors' growth and expansion, and that the government should be prepared to continue corporate tax cuts for another ten years based on long-term capital infusions.

Alegana (2014) investigated the impact of tax breaks on economic growth in Kenya. A descriptive research design is used in this study. The findings demonstrate that GDP growth rate and tax incentives have an inverse association with GDP growth rate and development stage, while GDP growth rate and investment level, GDP growth rate and productive population, and GDP growth rate and literacy level have a positive link. As a result, it is argued that the current tax incentive program must be tightened in order for the government to increase revenue collection in order to pay the ever-increasing budget and its development goals to encourage domestic economic growth. Available tax incentive programs should be considered as advantageous to the economy or as

encouraging economic growth in the country, and Kenya should therefore focus on optimal tax policies and measures to promote economic growth rather than tax avoidance.

Gumo (2013) examined the effect of tax incentives on FDI in Kenya. This study followed a descriptive research design. The study found that Kenya has a variety of tax incentives, including investment grants for resident businesses, such as the Industrial Buildings Supplement (IBA), which is granted to invest in the construction of industrial buildings, investment reductions to promote development in manufacturing. sector, etc. The study concludes that tax incentives will have a positive impact on FDI and recommends that the government evaluate its tax incentive policies and consider the benefits of investment incentives, including the implementation of evidence-based tax incentives that will result in minimal tax avoidance.

Githaiga (2013) conducted research to estimate the impact of tax breaks on FDI inflows from Nairobi Stock Exchange companies. This study employs a quantitative and descriptive method to evaluating available tax breaks based on their impact on the attractiveness of FDI flows. The findings reveal a robust relationship between wear rates and FDI inflows. Reductions in industrial building and investment are not significantly associated with inflows of foreign direct investment. Despite the substantial link between the attrition allowance and FDI, a closer look at the percentage change in FDI inflows during the study period reveals that the influence of tax breaks on FDI inflows is modest. This study recommends the need to analyze the costs and benefits of available tax incentives for different sectors of the economy. The benefits gained by increasing the level of investment must outweigh the lost state revenues through taxes and tax exemptions. Governments should also ensure that the investment

environment is favorable by ensuring security and political stability, as well as improving infrastructure.

2.3 Theoretical Framework

This section provides theoretical review of theories that are related to the study. The theories are optimal tax theory and normative theory.

2.3.1 Optimal Tax Theory

The optimal tax theory was developed by Ramsey (1927) and describes the best way to design taxes to minimize distortions and inefficiencies that depend on increasing income from distorting taxes. A neutral tax is a theoretical tax that completely avoids distortion and inefficiency. If the taxpayer is between two mutually exclusive economic projects.

With these findings, economists argue that taxes in general distort behavior (Kopczuk & Slemrod, 2006). For example, because only economic actors engaged in market activities to "enter the labor market" are subject to income taxes on their wages, people who can spend their free time or carry out domestic production outside the market can claim to provide services to mothers. household instead. Hiring a maid is taxed little or no. The spread of taxes on the sale of goods also causes distortion when, for example, food prepared in a restaurant is taxed and food purchased at a supermarket must be prepared at home but not taxed when purchased. The taxation of these different goods can lead to inefficiencies (Saez & Stantcheva, 2016).

Ramsey (1927) pioneered the optimal tax theory for the sale of goods. The junction of the downward demand curve and the upward supply curve indicates the existence of a production surplus and a consumer surplus. Each sales tax has a negative impact on performance and results in weight loss (DWL). If we assume constant supply and

demand elasticity, a single uniform tax rate on all items reduces the total area of all DWL triangles. Ramsey suggests that all vendors should be fully flexible in reacting to changes in tax prices, and then concludes that taxes on goods with a less elastic response to consumer demand will have less DWL bias.

In this study, optimal tax theory is significant because it describes the optimum approach to implement taxes in order to reduce the biases and inefficiencies that tax biases increase a given income. This study focuses on the effect of corporate tax on FDI among EAC partner countries. Based on the theory, the respective countries have to ensure that the corporate tax policies in place have minimal distortions. Therefore, tax policies including withholding tax rate, double tax elimination and investment deduction should be efficient to guarantee FDI inflows into the host countries. The theory thus provides a prediction that optimal corporate taxes would result to increase in foreign direct investments.

2.3.2 Normative Theory

Tversky (1969) created this theory, which explains how the evolution of government institutional structure provides the many incentives and limitations under which governments and other players work. These incentives affect development routes, and various governments can develop in a variety of inefficient ways. As a result, tax policy innovations and tax administration evolve in tandem and in symbiosis. The institutional theory provided here provides a broad framework that we believe can be utilized to better understand the evolution of tax policy and administration over time and between cultures. It provides a compelling model for description, explanation, and prediction.

In theory, each incentive has advantages and disadvantages, making it difficult to define a combination of incentives that will work for a wide range of economies facing a

variety of difficulties and conditions. Most decisions about what works will be influenced by the state of the economy, tax administration skills, the type of investment required, and government budget constraints, with the goal of stimulating investment in the desired sector or location while minimizing revenue outflows and tax planning opportunities (Chua, Roth & Lemoine, 2015).

Brun and El Khdari (2016) believe that any benefits, such as incentives shared by government officials or politicians, have the potential to be misused and corrupted. As a result, there is a compelling case to be made those rewards should be made available to all investors who meet a set of open and transparent requirements. However, another argument is that enterprises should only be sufficiently incentivized to invest. As a result, each potential investment should be provided incentives tailored to its unique circumstances. It is apparent that the government would pick between these two options based on the level of governance inside their separate institutions. If officials and politicians retain the authority to decide how incentives are dispersed, the process and outcome must be as open as feasible.

According to Maxwell (2015), mild tax incentives focused at new investments in machinery, equipment, and research and development give more cost-effective ex ante incentives if they motivate the desired investment. They can have a strong signaling effect without causing significant revenue loss. Investment tax credits and breaks are specialized, targeted policy measures for accomplishing this goal. Lowering business taxes to levels equivalent to those in other countries in the region is an excellent tax incentive. Cuts beyond the level of capital-exporting countries, on the other hand, show that cuts of less than 20-30% frequently result in a higher loss of income than an increase in investment (Ocheni, 2018).

The normative theory is critical to this subject because it explains how the evolution of a government's institutional framework provides a set of incentives within which governments and other actors function. These incentives shape the development course. In this study, the focus is on the effect of corporate taxes on FDI inflows into EAC partner states. Based on the theoretical argument, governments create a set of incentives aimed at propelling development. The withholding tax rate, double tax elimination and investment deduction can be considered as forms of incentives that governments use to attract FDI inflows. The normative theory therefore provides a prediction that corporate tax policies influence FDI inflows.

2.4 Empirical Review

2.4.1 Corporate Withholding Tax Rate and Foreign Direct Investment

Abdioğlu, binis and Arslan (2016) examined the effect of corporate taxes on the external level of direct investment in OECD countries. This study aims to reflect the reduction in corporate tax rates on foreign direct investment. This study uses a fixed regression panel to examine the relationship between the tax rate and the level of FDI. The results showed a negative correlation between the tax rate and the level of FDI. The study concludes that countries that lower their tax rates attract more FDI. However, this study does not focus on FDI within EAS members.

Mudenda (2015) examined the effects of a foreign direct investment business tax in twelve South African countries using a data analysis panel. We used the evaluation model, the fixed effect model, the random effect model, and the dynamic data panel model. According to the findings, the corporate tax rate has a significant negative impact on FDI. This study, however, was conducted in South Africa, not in the EAC countries.

Using a geographic dynamic Durbin model with fixed factors, Boly, Coulibaly, and Kere (2019) empirically examine the impact of taxes as corporate income on net FDI inflows to Africa. According to the study, lowering corporate WHT enhances net FDI inflows to the host country and surrounding countries in the short and long term. The results remain constant until a different spatial weight matrix is utilized and additional controls are added to the basic specification. They also discover strategic complementarity between the sample nations' FDI inflows, implying that increasing FDI inflows to the host country are likely to stimulate FDI inflows to its neighbors.

San, Cheng and Hen (2013) analyze the relationship between corporate tax and FDI in developing countries and contrast differences in local corporate tax rates to reveal asymmetry between industrialized and developing countries. This study used a number of regression models to analyze the influence of taxation on FDI. The findings indicate that FDI is significant and beneficial in terms of market size and open trade in both the host country and emerging and developed countries. The distance between sending and receiving developed countries is likewise inversely proportional to FDI, but not the more substantial link between sending and receiving underdeveloped countries. The obligatory corporate tax rates in host developing nations have a negative impact on US multinational companies (MNPs).

San, Cheng and Heng (2013) and Boly *et al*. (2019) are however faulted as they failed to consider that the Corporate Tax Rate does not exist alone as the same countries may have issued other tax concessions through investment deductions and tax treaties which may have resulted to a different tax liability. It also fails to take into account that through treaties certain jurisdictions have either reduced the WHT rates or given away its right to tax altogether.

Mandinga (2015) examines the effect of corporate tax rates on FDI in small island developing countries. They want to investigate whether the effective corporate tax rate on corporate profits, GDP per capita, market size and growth, level of openness, availability of natural resources, growth of the financial sector as well as macroeconomic and political stability are FDI behavior. in 22 surveyed SIDS countries affecting 2004 to 2013. Data from the World Bank's, UNCTAD's, and PWC's annual reports are used to generate empirical evidence. The findings of the partial adjustment model with panel data demonstrate that FDI has a negative association with both corporate taxation, demonstrating the initial importance of fiscal policy in attracting FDI, and financial sector growth, indicating domestic financial inefficiencies. The study, however, did not concentrate on foreign direct investment within the EAC states.

Slemrod (2016) examines the effect of taxes on FDI in the US. The results of this new empirical approach generally support the negative impact of the effective US tax rate on total foreign direct investment and new cash transfers, but not on retained earnings. However, the disaggregated analysis does not provide much support for some of the suggestions about the impact of foreign tax rates and tax regimes from foreign sources on FDI in the United States. The study was done in USA and it's a developed country with developed economic environment thus making it necessary to do such study in EAC.

Cassou (2016) demonstrates a link between tax rates and FDI. Panel data is a more appealing alternative to individual time series data since it provides better statistical power and flexibility in terms of explanatory variables. This study finds a number of critical elements that influence remittances, which are a component of FDI. It should be emphasized that, in addition to corporate income taxes in the host and home countries, which have a considerable impact on investment flows, income taxes in the

home and host countries are equally crucial. This study, however, did not concentrate on FDI in EAC countries.

Voget (2015) examines the effect of taxes on FDI: an empirical study in Ireland. This is a desktop computer review study. Tax cuts, according to empirical studies, are a realistic policy option for attracting additional investment from multinational corporations, particularly in green investment. Lowering the corporate tax rate by one percentage point increases the number of multinational businesses located in the United States by around 2.5 percent, with a 95 percent confidence range ranging from 0.6 percent to 4.4 percent. The study did, however, reveal a methodological gap because it used a desktop review methodology, whereas the current study used an explanatory research approach.

Gyu Jeong (2013) conducted research on corporate taxation and capital investment. The authors examine the current evidence on the influence of corporation taxation on four categories of investment: FDI inflows, net investment inflows, and total investment and outflows, using panel data for 22 OECD countries from 1985 to 2010 and 1970 to 2010. As FDI is dominated by corporations, these findings suggest that investment from the corporate sector will shift to the local non-corporate sector to offset the actual returns in the corporate and non-corporate sectors, whereas domestic investment is more evenly distributed between corporations and non-corporations.

2.4.2 Double Tax Elimination and Foreign Direct Investment

Hong (2018) investigates the relationship between double taxation treaties and foreign direct investment. They devised a calculating algorithm to assess the structure of tax reduction pathways (direct or indirect) in a multiple tax treaty network and produced a tax rate matrix to simulate a genuine network of double taxation treaties between 70

nations. They also investigate the relationship between FDI and the structure of the tax-avoidance pathway. Empirical findings indicate that the presence of a direct route to tax minimization is beneficial and has a substantial association with FDI. By minimizing taxes on the direct route, parties can promote FDI on the direct route and reduce contract purchases. The study however fails to consider elements of corporate tax like withholding tax rate and investment deductions which affect the actual tax liability which may have had the effect on the FDI inflows.

Barthel, Busse, Krever, and Neumayer (2014) investigated the relationship between double taxation treaties and FDI and discovered that there was a positive relationship between the two. This study discovered a strong link between the presence of a tax treaty and an increase in FDI. If the host country's court has a double taxation treaty with the capital exporter, it is more likely to attract FDI from the capital exporter than if it does not have a contract with the court. The study however revealed inconclusive result as it states that as to whether there was prove that tax treaties lead to increased FDI, will depend on whether the link between treaties and FDI is one of cause and effect or whether they are both effects of a separate independent variable, commonly labelled in regression analysis of the sort carried out in the study as an "endogenous" factor.

Shah and Qayyum (2015) examined the effect of double taxation treaties on foreign direct investment inflows to 15 developing countries in Latin America and the Caribbean from 1983 to 2013. This study examines two objectives of double taxation treaties, namely eliminating global double taxation and preventing tax avoidance. international. Avoiding international taxes is simply known as double non-tax. Using other determinants of conventional FDI, such as market size, sophistication, trade openness, and human capital, this study finds that DTT has no impact on FDI inflows.

Instead of DTT, these countries appear to be more dependent on several other factors of interest for FDI locations, such as attract foreign direct investment.

Blonigen and Davies (2015) investigated how bilateral tax treaties promote foreign direct investment. They looked at the influence of bilateral tax treaties on FDI using data from OECD nations from 1982 to 1992. They found that contrary to popular belief, recent agreement conclusions do not appear to encourage new investment. To some extent, they find that entering into contracts can actually reduce investment, as arguably showing that contracts are more likely to aim at reducing tax avoidance than encouraging foreign investment. The study however was done in OECD countries which are developed and have different economic laws and economic environment thus making it necessary to do such research in East African State.

Dong (2019) investigated the impact of double taxation treaties on FDI in ASEAN nations from 1989 to 2016. Treaties to avoid double taxation have two functions. The first is to address the issue of worldwide double taxation, which has the effect of encouraging FDI. The second goal is for countries to communicate information in order to avoid tax evasion and thereby discourage foreign direct investment. The findings indicate that new double taxation treaties have a positive but not statistically significant influence on FDI inflows to Southeast Asia. However, this study does not show a direct relationship between tax treaties and FDI.

Castillo-Mursiego and Lopez-Laborda (2019) investigate the influence of the double taxation treaty and the territorial tax system on foreign direct investment: Evidence from Spain. This report examines the impact of double taxation treaties and nations' territorial tax regimes on FDI inflows and outflows in Spain from 1993 to 2013. Using a simple binary variable to evaluate the effect of their presence, the estimates show a

positive and statistically significant effect of agreement for both samples. These findings apply to both previous and new contracts, as well as a sub-sample of developed partner countries in Spain. Positive results for emerging countries, on the other hand, are only available for the sample. There is also an extra beneficial effect on investment for nations that utilize the territorial tax system for foreign income tax in the global sample and subsample of industrialized countries. However, the study was done in Spain this a developed country and operates under different economic environment from that of Kenya, and therefore, it would be impractical to draw comparisons or generalize the findings. As such, there was need to conduct a similar study EAC states.

Erhirhie and Osemwegie-Ero (2017) investigate Nigerian double taxation treaties and foreign direct investment. The secondary data sources studied ranged from 1976 to 2016 editions of the Central Bank of Nigeria (CBN) statistical bulletin. To establish the steady state of the variables in the model, which were estimated using the least squares method, the single root test was performed. The data revealed a positive association between the double taxation agreement and FDI, but it was not statistically significant. However, the study was conducted in Nigeria, which is not the same as the EAC countries.

Bhasin and Manocha (2016) investigate how bilateral investment treaties boost foreign direct investment. This research use panel data regression on a high gravity model (both static and dynamic) to determine the determinants of FDI inflows to India, with a special emphasis on the influence of BIT. The panel data spans the years 2001 to 2012 and includes the nations with the highest investments in India, which account for around 92 percent of overall FDI inflows to India. The size of the expanding market, vertical FDI inflows, distance, colonial connections, shared language, political stability, financial openness, and population growth rate are the explanatory variables employed.

If there is a BIT between India and the investor countries in a particular year, it is recorded as a dummy variable with the value 1, otherwise it is 0. The results for fixed securities and the two-stage common moment approach are shown below (GMM). The specifications confirm BIT's beneficial influence in luring FDI inflows into India. Bilateral investment treaties have contributed to increased FDI inflows by offering international investors considering investing in India with protection and exposure. Other factors that promote FDI, such as the size of the economy and a more liberal FDI legislation, are also supported by the model.

Saidu (2015) conducted research on corporation taxation and foreign direct investment. This study looks at the relationship between corporation taxation and foreign direct investment in Nigeria from 1970 to 1980. The annual reports are based on CBN, NBS, and World Bank statistical bulletins and are analyzed using descriptive statistics, correlation, and regression. The independent variable corporate tax is expressed as the corporate tax rate (CTR), whilst the dependent variable FDI is expressed as net FDI inflows (percent of GDP). Control variables included GDP, the exchange rate, and inflation. The results revealed a strong negative association between CTR and FDI, but an insignificant negative relationship between the exchange rate and FDI. GDP, on the other hand, is favorably associated to FDI, but inflation is positively related to FDI. Based on these findings, the report suggests that the government reduce the corporate tax rate in order to encourage foreign direct investment into the country. The research was carried out in Nigeria, which has a distinct economic situation than the rest of East Africa.

Cevik (2015) investigates the impact of a double taxation treaty on foreign direct investment: This article examines Turkey's outbound FDI stocks in 71 host countries between 2001 and 2012 to determine whether DDT has a major impact on FDI. As the

dependent variable, we use Turkish FDI - Shares for the country host. They also looked at a variety of control variables, such as the impact of DTT and the contract's age. To tackle heteroscedasticity and autocorrelation, we primarily use fixed effect estimates and panel-corrected standard error (PCSE) regression for stability considerations. The findings reveal that DTT has a favorable connection with foreign investment in host nation Turkey after studying several drivers of bilateral FDI stocks. However, the research was conducted in Turkey, an industrialized country, and operates in a different economic and legal environment than in Kenya and therefore it would be realistic to make comparisons or summarize the results. As such, it was necessary to do similar research in EAC states.

Azémar and Dharmapala (2019) examine tax treaties, territorial tax reform, and foreign direct investment. Based on panel data on the bilateral FDI shares of 23 OECD countries in 113 developing and transitional countries between 2002 and 2012, they examined the influence of tax savings provisions and coded tax savings provisions of all bilateral tax authorities. Tax savings agreements connected with foreign direct investment were found to be up to 97 percent greater. The predicted effect is concentrated in the year following the tax savings treaty's enactment, has no influence on earlier years, and so conforms to the causal interpretation. Four nations, Norway in 2004, the United Kingdom, Japan, and New Zealand in 2009, implemented tax reforms that changed them from global to territorial taxation, potentially altering the value of existing tax savings treaties. However, there is no discernible effect of these policies on bilateral direct investment in tax-saving countries vs non-tax-saving countries.

Satrio and Lestari (2018) investigate the impact of double taxation agreements on foreign direct investment in Indonesia. They investigate the impact of Double Taxation Avoidance Agreements (P3B) on FDI inflows. In the short, medium, and long term,

Indonesia They only work with 51 of the 67 nations that have a P3B with Indonesia because the P3B no longer exists or the data is lost. Using panel data from 51 countries from 2000 to 2015 and a fixed-effects model, we find that P3B is not associated with short-term FDI inflows. However, in the medium and long term, the tax treaty has a positive relationship with the entry of foreign direct investment into Indonesia. The study was, however, carried out Indonesia, which is a developed country compared to the EAC states.

Rădulescu and Druica (2014) investigate the impact of fiscal policy on foreign direct investment. Using linear regression, this research examines the impact of fiscal and monetary policies on the attractiveness of foreign direct investment (FDI) in Romania from 2000 to 2010. Economic recovery and expansion Empirical evidence in Romania indicates that monetary factors such as higher interest rates and higher inflation promote FDI. Fiscal considerations (particularly direct taxes) appear to play a lesser effect because they are only relevant in the long run. As a result, Romania should also focus on strengthening non-financial elements that have a significant impact on the investment climate in the country (infrastructure, legal and political stability). Only then can tax incentives be effective in attracting foreign direct investment while at the same time supporting economic growth. The article begins with some evidence from the business literature on taxes and FDI, is followed by a Romanian empirical analysis, and ends with conclusions and some questions for further study.

2.4.3 Investment Deduction and Foreign Direct Investment

Olaleye (2016) investigates the impact of tax breaks on FDI in listed Nigerian manufacturing enterprises. This study investigates the impact of company tax incentives, such as capital reduction incentives, VAT incentives, tax breaks for capital

gains, and investment tax breaks, on the level of foreign direct investment. The descriptive research design was used in this study. This study makes use of both primary and secondary data. The findings indicate that tax breaks have a strong positive influence on FDI in listed Nigerian manufacturing firms. The positive and statistically significant association between various tax breaks and FDI suggests that foreign investors can optimize their investment by taking advantage of available government-approved tax breaks to create a favorable investment climate. However, the study was conducted in Nigeria, which is not the same as the EAC countries.

Gumo (2013) examines the effect of tax incentives on FDI in Kenya. Using a descriptive research design and accounting for investment grants offered to resident companies as Industrial Construction Allowances (IBA), minus investments granted on investment by FDI. The study indicates that tax incentives will have a favorable influence on FDI and advises that governments analyze tax incentive policies and assess the benefits of investment incentives, including the implementation of evidence-based tax incentives to reduce tax evasion. However, they do not take into account the origin of FDI which will be influenced by other tax factors such as tariffs and the existence of a tax treaty.

Githaiga (2013) conducted a study to determine the effect of tax incentives on FDI inflows from companies listed on the Nairobi Stock Exchange. This study takes a quantitative and descriptive approach to assessing available tax incentives based on their impact on the attractiveness of FDI flows. The findings reveal a robust relationship between wear rates and FDI inflows. Reductions in industrial building and investment are not significantly associated with inflows of foreign direct investment. Despite the substantial link between the attrition allowance and FDI, a closer look at the percentage change in FDI inflows during the study period reveals that the influence of tax breaks

on FDI inflows is modest. This study recommends the need to analyze the costs and benefits of available tax incentives for different sectors of the economy. The benefits gained by increasing the level of investment must outweigh the lost state revenues through taxes and tax exemptions. Governments should also ensure that the investment environment is favorable by ensuring security and political stability, as well as improving infrastructure.

As noted in the literature review, the impact of corporate taxes on FDI can vary significantly depending on the type of tax, the measurement of FDI activity, and the tax treatment in the host country and in the home country. The fact that FDI sees a tax liability ultimately causes tax treaties and tax incentives to be considered a deduction from investment, adds to the complexity of the expected impact of corporate taxes on FDI.

Easson (2020) investigates tax benefits for FDI in poor nations. He evaluated a pooled quantile regression model with fixed effects that described net FDI flows as a function of bilateral effective average tax rate and other control variables. This technique considers the skewed distribution of FDI and provides a comprehensive picture of tax sensitivity in the distribution of FDI, accounting for unobserved characteristics in country pairs as well as general shocks over time. He stated that taxation is crucial in luring FDI to the regions. Tax has a negative and statistically significant impact on the distribution of FDI flows. However, the dispersion is not uniform. According to the findings, the effect of taxes is considerably lower for couples with countries with high investment flows where investors are already familiar with the host country (eg Indonesia-Singapore and Thailand-Japan).

Tapang, Onodi, and Amaraihu (2018) focus on the effect of tax incentives on FDI in the Nigerian oil industry. In the oil industry, tax incentives have not received positive attention because people believe the sector is rich enough to pay all taxes. While there is little tax incentive in the oil sector, it is not comparable to what we have in the private sector. The ability to sustain and grow the oil industry faces problems of high tax rates, double taxation, complex tax regulations and lack of adequate education or training in tax matters. This has led to an increasing shortage of the oil industry in Nigeria. An ex post facto research project was decided. The results show that tax incentives, which replace tax incentives for investment, unproductive rent and capital allowances, have a significant impact on FDI. Based on the study's findings, it is possible to conclude that companies that employ tax breaks produce more job chances than enterprises in high-tax areas. A favorable investment climate is a strong requirement for an economy to maintain a steady flow of physical investment. Tax breaks improve living standards and capital income while also broadening the choice of items available to customers. The study however researched more on relationship between tax incentive and living standard thus neglecting the linkage between tax incentive and foreign tax investment.

Kamau (2020) examines the effect of tax incentives on foreign direct investment inflows to Kenya. The survey is conducted at the macro level and therefore examines tax incentives and FDI inflows into the country annually. Secondary data was collected annually over a 10 year period (2008 to 2017). This study uses an explanatory research design. Researchers also perform statistical inference, especially correlation and regression analysis. Multiple linear regression models were used to analyze the relationship between tax incentives and FDI inflows. From these results, an R-square value of 0.633 means that 63.3% of the variation in FDI in Kenya is caused by the four selected independent variables, and the remaining 36.7% is due to other factors that are

outside the scope of this study. However, new research is being conducted at the macro level and needs to be done at the micro level.

Mutisya, Muturi, and Kemboi (2019) investigate the impact of tax breaks on FDI in Kenya. The goal of this study was to determine the impact of tax breaks on FDI in Kenya's oil and gas sector. This study is based on three theories: innovation diffusion theory, social exchange theory, and stakeholder theory. In this study, an explanatory research design was adopted. Five oil and gas businesses are among the target audience. The intended participants are 136 executives from five Kenyan oil and gas businesses. All managers' names have been compiled into a list. A systematic questionnaire was used to obtain primary data. For data analysis in this work, quantitative methodologies are used. Descriptive data are included (percentage, mean, and frequency). Furthermore, derived statistics (correlation and Pearson regression) were used to investigate the relationship between tax breaks and FDI. Capital withdrawal, income tax, VAT incentives, and import tax incentives all had a favorable and significant effect on foreign direct investment, according to the findings. The study shows that tax breaks contribute significantly to FDI in the oil and gas sector. Based on the study's findings, the government should improve the aspect of tax incentives.

Morisset and Pirnia (2013) conduct empirical research to determine how tax and incentive policies effect FDI. In general, incentives neither compensate for nor achieve the anticipated external consequences in the investing environment. Tax policies have a direct impact on the volume and location of FDI since, all else being equal, higher tax rates diminish after-tax income. Of course, the other factors are rarely equal. As a result, advisors frequently advise on long-term strategies to strengthen human and physical infrastructure, as well as, when appropriate, streamline government regulations and procedures, thereby enhancing actual long-term investment prospects.

Kassahun (2015) identified the effect of tax incentives in attracting FDI to Ethiopia. This study investigates the impact of tax breaks for attracting foreign direct investment in Ethiopia from 1992 to 2013. The goal of this study was to look at contradictory empirical evidence on the use of tax breaks to attract FDI. In this work, a mixed-methods approach was employed to acquire primary data using unstructured interviews. Based on time series analysis, this study discovers that corporation tax rates have a negative and significant impact on FDI in Ethiopia, whereas the inflation control variable has a negative and significant impact on FDI, but not GDP growth, political stability, or openness. Trade should be neglected when it comes to luring FDI to Ethiopia. According to the random effect model, tax exemption has a positive and significant effect on FDI (at the sector level), while tariff is not significant. The control variables, FDI lag and currency rate, have a large and positive effect on FDI at the sector level in Ethiopia, although transportation services and reserves as a proportion of GDP are unimportant determinants in attracting FDI at the sector level. Therefore, the study suggests lowering corporate tax rates and providing tax exemptions without additional tariff incentives. However, the study was conducted in Ethiopia, a different setting than in the EAC countries.

2.4.4 Inflation Rate and Foreign Direct investment

According to Allen (2017), while control variables are not of main interest to the researcher, they are necessary for a thorough understanding of the relationship between independent and dependent variables. Demirhan and Maska (2008) investigated the determinants of foreign direct investment (FDI) entry into developing countries and discovered that per capita growth rates and openness levels were both positive and statistically significant factors of FDI entry. They also discover that the inflation rate and the tax rate are both statistically significant.

Nonnember and Mendonça (2014) investigate the factors that influence foreign direct investment (FDI) in developing nations. For 38 developing nations, they used an econometric model based on panel data analysis (including economies in transition). They discover that the size of the economy, as measured by GDP and the average growth rate in prior years, has a considerable positive impact on FDI inflows. Inflation appears as a macroeconomic stability indicator, with a negative sign in the larger sample. There is evidence of a causal relationship between GDP and FDI, but not the other way around. This appears to support the case for China, whose economy, as the world's largest emerging market, has had one of the fastest growth rates in recent years and has undoubtedly contributed to the country's status as one of the world's top recipients of international trade.

Elar (2018) investigated the influence of inflation on FDI in Kenya. The study's findings yield an R-squared value of 0.650, indicating that the four selected independent variables may explain 65 percent of the variation in FDI inflows in Kenya, while the remaining 35 percent is due to other factors unrelated to the study. The independent variable was similarly shown to be substantially linked with FDI inflows (R = 0.806) in this study. The F-statistics were significant at the 5% level, according to the ANOVA results, with an F-statistics of 16,260. Therefore, the model is suitable for explaining FDI inflows to Kenya. Therefore, it was found that inflation is the main contributor to FDI in Kenya.

Cung (2019) investigates GDP and foreign direct investment: empirical data from Vietnam. FDI stimulates long-term economic growth in every country, but economic growth is critical in attracting FDI. The empirical method is applied in a secondary time series data set for the period 2003-2018 to assess the impact of GDP at current prices on FDI in Vietnam using a linear approach. The empirical findings indicate that the

connection between GDP and foreign direct investment is positive. Furthermore, the study finds that the Business Freedom Index and the Investment Freedom Index both have a beneficial impact on FDI.

Tsaurai (2018) investigated the impact of inflation on FDI and if financial developments are a channel through which the impact of inflation on FDI in South Africa can be mitigated using panel data analysis. In the case of fixed effects, inflation has a negligible positive effect on FDI; in the case of random effects, inflation has a negative but not significant effect on FDI; and in the case of pooled OLS, inflation has a substantial negative effect on FDI in South Africa. The fixed effect and pooled OLS frameworks both show that the synergy between inflation and financial developments has a small negative impact on FDI, whereas the random effects framework shows that the synergy between inflation and financial developments in South Africa has a positive but slight impact on FDI. South African countries should take actions to reduce inflation as a result of the policy research in order to attract FDI. The purpose of this research is to investigate the influence of inflation on FDI between EAC countries.

Using a non-linear autoregressive distributed lag model, Safarzadeh and Khodavaisi (2020) assessed the short-term and long-term asymmetric effects of rising and declining inflation on FDI in Iran over the annual data period (1970-2016). (NARDL). The findings indicate that increasing and falling inflation have a detrimental or positive effect on the attractiveness of foreign direct investment in the short and long run. In addition, the impact of a decrease in inflation shocks on an increase in FDI is greater than the impact of an increase in an inflation shock on a decrease in FDI.

Allen (2017) shows that although the control variables are not the focus of the researchers' attention. The fact that they are very important for a proper understanding

of the relationship between the independent and dependent variables. If external variables are not controlled in the research project, they can change the results of the research. As such Inflation and Gross Domestic Product were treated as control variables in the study herein.

2.5 Critique of the Literature Review

The review of literature on previous studies on the effect of corporate tax policies on foreign direct investment have shown inconsistency on the relation between the corporate tax elements of corporate withholding tax rate, double tax elimination and investment deduction and FDI. The studies on FDI have not specifically focused on corporate tax policy as determinant of FDI. Some of the studies are based in geographical areas, different from the local context thus making it impractical to adopt their findings to fit the local situation. Further, most of the studies were based on data from single countries and hence there was need to focus on corporate tax policy and FDI using data from several countries.

2.6 Research Gaps

Research gaps from the literature review are summarized in the Table 2.1.

Table 2.1: Summary of Literature Review

Author	Focus of the study	Findings	Knowledge gaps	Focus on the current study
Cela (2017)	The main reason for the insecurity of foreign direct investments in Albania in recent years, their lowest level of FDI when compared to other nations in the region, and the relevance of these investments in emerging countries like Albania.	According to the report, foreign direct investments are an essential sign of foreign investors' confidence in the country. They are downgraded in terms of economic and political crises, and they improve in terms of economic and political environment improvement.	Conceptual gap. The study focused on the major causes of instability in FDI	Current study will focus in the effect of corporate tax policies on foreign direct investment amongst EAC
Mudenda (2015)	The relationship between corporate income tax rate and foreign direct investment in Southern African countries	According to the study's findings, the corporate tax rate has a considerable negative influence on FDI in the Southern African countries under consideration. A 10% rise in the corporate income tax rate, for example, is predicted to lower FDI by 45 percent, 46 percent, and 46 percent for models M1, M2, and M3, respectively.	Geographical gap. The study was based in Southern African countries	Current study will be based on EAC countries
San, Cheng and Heng (2013)	The relationship between corporate taxation and foreign direct investment in developing nations, as well as the variances in regional corporation tax rates, to demonstrate an asymmetry between developed and developing countries.	According to the findings, FDI is highly and positively connected with market size as well as trade openness in both categories of host nations, developing and developed. Furthermore, the distance between home and host developed nations is inversely associated to FDI, whereas there is no significant association between home and host underdeveloped countries.	Scope gap. The study focused on the performance of FDI in Developing countries	Current study will be more specific to EAC countries.

Author	Focus of the study	Findings	Knowledge gaps	Focus on the current study
Eshghi, Eshghi and Li (2016)	Effect of corporate income tax as a determinant of foreign direct investment in Central and Eastern Europe from 2000 to 2012	The findings indicated that forward-looking corporation tax rates have a significant detrimental influence on FDI inflows into Central and Eastern European countries.	Geographical gap. The study was conducted in Central and Eastern Europe	Current study will focus on EAC countries
Imbayi (2013)	The effect of taxation on foreign direct investment in Kenya	According to the study's findings and discussion, taxes influences the level of inflow and the location of foreign direct investment.	Conceptual gap. The study was on the effect of taxation on foreign direct	Current study will focus on EAC countries. It will try to see whether the tax factors employed by the various countries actually attract FDIs
Hong (2018)	To establish the relationship between tax treaties and foreign direct investment	Empirical evidence suggests that the availability of a tax-free direct route is positively and significantly associated to FDI. Countries can stimulate FDI via the direct route and discourage the usage of indirect routes through conduit countries by making the direct route tax-efficient.	Conceptual gap. The study focused on the relationship between tax treaties and foreign direct investment	Current study will seek to establish whether the treaties signed by the EAC countries as one of the variables
Castillo-Murciego and López Laborda (2018)	the impact of countries' territorial tax systems and double taxation treaties on Spain's inward and outward FDI from 1993 to 2013.	The study revealed that there is an additional positive effect on investments for countries applying the Territorial Tax System for taxing foreign income.	Geographical gap. The study was based in Spain	Current study will be based in EAC
Lejour (2014)	The impact of bilateral and multilateral tax treaties on bilateral FDI stocks.	This factor was discovered to have a considerable impact on FDI: twenty additional tax treaties raise bilateral FDI stocks by around 50%. Lower dividend withholding tax rates also entice FDI.	Methodological gap. The study used geographic instruments	Current study will use descriptive research design
Rios-Morales, Gamberger, Ursprung & Schweizer (2014)	The impact of bilateral investment treaties (BITs) on Swiss foreign direct investment (FDI).	The findings revealed that the implementation of BITs have an insignificant impact on the increase of Swiss FDI flows.	Methodological gap. This study used statistical and machine learning techniques	Current study will use explanatory research design

Author	Focus of the study	Findings	Knowledge gaps	Focus on the current study
Thuita (2017)	To look into tax breaks, namely tax holidays and capital deductions, and how they affect the attraction and retention of foreign direct investments in export processing zones.	The study stated that tax incentives should be increased to encourage the growth and expansion of foreign direct investors, and that the government should be willing to extend the tax vacation beyond ten years for enterprises based on long-term capital injection.	Scope gap. The study focused on tax incentives, exclusively tax holiday and capital deductions	Current stay will focus on the effect of corporate tax policies focusing on investment deduction in investment in EAC
Alegana (2014)	To find out the effect of tax incentives on economic growth in Kenya.	The findings revealed an inverse relationship between GDP growth rate and tax incentives, as well as an inverse relationship between GDP growth rate and development stage, while there was a positive relationship between GDP growth rate and investment levels, GDP growth rate and productive population levels, and GDP growth rate and literacy levels.	Conceptual gap. The study was focused on the effect of tax incentives on economic growth	Current stay will focus on the effect of corporate tax policies on foreign direct investment
Githaiga (2013)	To establish the impact of tax incentives on foreign direct investments inflows of firms listed at the Nairobi Securities Exchange	The results of the study revealed a strong relationship between wear and tear allowances and	Scope gap. The study focused on FDI at the Nairobi Securities Exchange	Current stay will focus on the effect of corporate tax policies on foreign direct investment
Mandinga (2015)	Effect of corporate income tax rate on foreign direct investment in small Island developing states	FDI is negatively related to both the corporate income tax rate	Contextual gap Did not focus on foreign direct investment within the EAC states.	Current study will focus on EAC states.
Slemrod (2016)	The impact of taxes on foreign direct investment in the United States	Tax has a negative effect on FDI	Contextual gap: Study was done in USA and it's a developed country with developed economic environment thus making it	Current study focuses on EAC states.

Author	Focus of the study	Findings	Knowledge gaps	Focus on the current study
			necessary to do such study in EAC.	
Cassou (2016)	link between tax rates and foreign direct investment	Significant factors influencing the transfer of funds component of foreign direct investment.	Study did not focus on foreign direct investment within the EAC states.	Current study focus on FDI among EAC states.
Voget (2015)	Effect of taxes on foreign direct investment: a survey of the empirical evidence in Ireland.	lowering taxes is a viable policy option to attract more investment	Methodological gap study adopted desktop review design	current study utilizes the explanatory research design
Blonigen and Davies (2015)	How bilateral tax treaties promote foreign direct investment.	Contrary to popular belief, recent treaty development does not appear to encourage new investment.	Scope gap: Study was done in OECD countries, which are developed and have different economic laws and economic environment thus making it necessary to do such research in East African State.	current study concentrates on EAC states
Dong (2019)	Impact of double tax treaties on inward FDI in ASEAN countries from 1989 to 2016.	New double taxation treaties have a small but positive impact on FDI inflows into Southeast Asia.	Conceptual gap Did not show the direct linkage between taxation treaties and foreign direct investment.	Current study provides linkage between taxation treaties and foreign direct investment.
Erhirhie and Osemwegie-Ero (2017)	Double Taxation Treaty and Foreign Direct Investment in Nigeria.	Double Taxation Treaty is positively related with FDI, but not statistically significant	Contextual gap The study was carried out Nigeria, which is a different	current study concentrates on EAC states

Author	Focus of the study	Findings	Knowledge gaps	Focus on the current study
			environment from the EAC states	
Satrio and Lestari (2018)	effect of tax treaty on foreign direct investment in Indonesia	Tax treaty, both in middle and long term, have a positive relationship on Indonesia's foreign direct investment inflow.	Contextual gap The study was done in Indonesia, which is a developed country compared to the EAC states.	current study focuses on EAC states
Cevik (2015)	Impact of Double Tax Treaties on Foreign Direct Investments	DTTs are positively associated with Turkish foreign investment in the host nation.	Contextual gap Research was done in Turkey, a developed country and works under different economic environment and laws from that of Kenya,	current study focuses on EAC states
Tapang, Onodi and Amaraihu (2018)	effect of tax incentives on foreign direct investment in the petroleum industry in Nigeria	Foreign direct investment is significantly influenced by tax advantages such as investment tax allowance, non-productive rent, and capital allowance.	Conceptual gap The study researched more on relationship between tax incentive and living standard thus neglecting the linkage between tax incentive and foreign tax investment.	Current study provides linkage between taxation treaties and foreign direct investment.
Kassahun (2015)	Effect of tax incentives on foreign direct investments inflows in Kenya.	Impacts of tax incentives in attracting foreign direct investment in Ethiopia	Contextual gap It was done in Ethiopia, which is a different	current study concentrates on EAC states

Author	Focus of the study	Findings	Knowledge gaps	Focus on the current study
			environment from the EAC states.	
(Seth Nana Kwame Appiah-Kubi, 2020)	Impact of Tax Incentives on Foreign Direct Investment: Evidence from Africa	The study found that that FDI responded to lower corporate income tax (CTR), longer tax holidays and withholding tax. However, tax concession were insignificant to the inflows of FDIs in Africa.	Contextual gap The study focused more on relationship of tax incentives and FDI. Tax incentive is just one of the tax policy areas of focus, it failed to consider WHT and DTT.	Current study concentrates on different elements of tax not just tax incentives
(Abdioglu, 2016)	**The Effect of Corporate Tax Rate on Foreign Direct Investment: A Panel Study for OECD Countries**	FDI level increases significantly following tax rate reductions at univariate level	Geographical gap The study focused on OECD countries which are mostly developed	The current study will focus of EAC countries which are developing countries
(Ong Tze San, 2012)	**Corporate Tax and Foreign Direct Investment in** Developing Countries	The level of statutory corporate tax rates has no impact on the FDI location decisions of U.S. MNEs in the host developed countries	Geographical Gap The study focused on US and Developing Countries	The current study focus on EAC partner state with FDI from all over the world

Source: (Researcher, 2021)

2.7 Conceptual Framework

In this study, the independent variable is corporate tax policy and the dependent variable is foreign direct investment.

Independent Variables   **Dependent Variable**

Withholding Tax Rate

- Annual WHT   rate (%)

Foreign Direct Investment

- FDI net inflows as % of GDP

Double Tax Elimination

- Number of DTA entered

Investment Deductions
- Investment Deduction allowance (%)

Control Variable

- Inflation Rate (%)
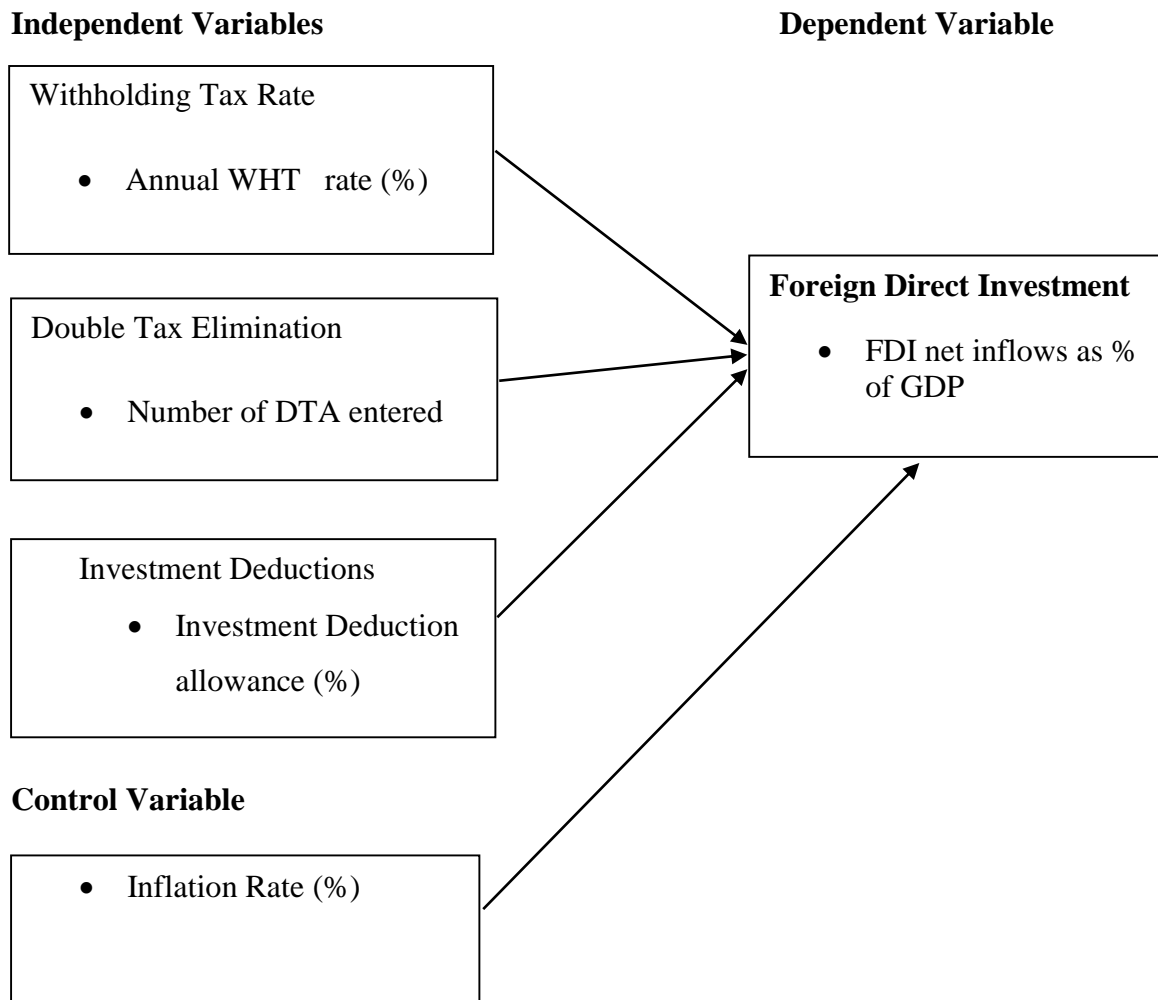
Figure 2.1: Conceptual Framework
Source: (Researcher, 2021)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter identifies the procedures and techniques used in conducting the study. It presents the research design, the data collection method and the data analysis tools adopted.

3.1 Research Design

Rajendra (2008) describes research design as the relationship and organization of circumstances for the collection and evaluation of information relevant to the research objectives. Rajendra also argues that the research design focuses on the scope of the research, thereby minimizing the possibility of extracting information from false random conclusions. This study adopts an explanatory research design because the purpose of this study is to collect raw data and create data and information structures that allow two or more variables to model causal relationships. According to McDaniel and Gates (2013), explanatory research design is appropriate when estimating the relationship between two or more variables using quantitative data.

This study is a time series and cross section with FDI scores as the dependent variable, while the independent variables are corporate tax rates on sources, investment allowances, and the number of existing DBAs analyzed for 2002-2019. Panel data regression analysis was used to find the relationship between FDI and the independent variable (corporate tax) because the expected relationship was linear (Imbayi, 2013).

3.2 Target Population

Target population refers to any group of institutions, people or objects that have common characteristics (Nekesa, 2018). The unit of analysis included five EAC

countries including Kenya, Tanzania, Uganda, Rwanda and Burundi. Further, the unit of observation was a period of 18 years from 2002 to 2019. The period for the study was preferred based on the willingness and the ability of the variables to supply the relevant information which is sufficient to meet the purpose of the study Mugenda and Mugenda, (2003). EAC,(2020) The East African Community Treaty which formed the East Africa Community came to force in 2000 but it thereafter in 2002 embarked on coming up with policies which would encourage Foreign Investment into the region hence the year 2002 is preferred as the stating year for the study, EAC,(2020). The year 2002 was also preferred as the stating year for the study as the relevant information need for the purpose of this study was not available for the period prior to that period. Further countries are yet to post their FDI reports for the period after 2019 at the time of the study. Mugenda and Mugenda (2003) state that research must have some observable characteristics that the researcher wants to summarize the results of his research.

The study analysed the dependent and independent variables from the five partner states which were members of the EAC during the period under consideration. The Republic of South Sudan was formed in the 2011 after ceded from the Sudan. The South Sudan not being in existent during the whole period under consideration was exempted from the study. Therefore, the study targeted five partner states which were in existence during the period under consideration. Due to the small size of the study population, census of all the EAC partner states was conducted. The census is a place where data is collected from all members of the population (Hair, Celsi, Money, Samouel & Page, 2011).

3.3 Data Collection Method

Considering the objectives of the study and in order to achieve it, this study used quantitative secondary panel data. Panel data is data which contain repeated measures of the same variable, taken from the same set of units overtime. Panel data was used as it allows control over variables which we cannot observe or measure (Berrington, Smith & Sturgis, 2006). Secondary data was sourced from several sources including the African Development Bank, United Nations Conference for Trade and Development, National Bureau of Statistics of the member states, Revenue Authorities of the EAC partner states, the National Treasury of the member states, the East Africa Community and the World Bank Data.

3.4 Data Collection Procedure

The research used secondary panel data covering EAC partner states for a period of 18 years ranging from 2002 to 2019. The quantitative data was collected on the main study variables, that is, corporate tax rate, percentage Investment Deduction allowed, Number of double taxation agreement ratified by the partner states and FDI as percentage of GDP. The secondary data was collected and summarized using data template (see appendix I).

3.5 Measurement of Variables

Variable measurement refers to how certain research variables are defined and measured according to the research context (Kothari, 2008). The dependent variable was foreign direct investment, which was measured using FDI net inflows as a percent of GDP. (UNCTAD, 2018) and (Kimonye, 2014) in their study used the FDI inflow as the preferred means of measuring new investment into a country. The independent variables were corporate withholding tax Rate measured in terms of annual WHT rate (%). WHT is imposed under different domestic Income Tax Act for each partner state

and each partner state provide the rate applicable hence it's the only way for measuring the same, ITA; Double Tax Elimination measured using number of DTA entered; and investment deduction measured using investment deduction allowance (%). The control variables were gross domestic product measured in terms of growth in GDP; and inflation rate measured using inflation rate (%). Table 3.2 provides details on measurement of variables.

Table 3.1: Measurement of Variables

Variable	Type	Indicates	Standardization	Measurement Level
Foreign Direct Investment	Dependent	FDI net inflows as % of GDP	Percent to decimal	Ratio
Corporate Withholding Tax Rate	Independent	Annual WHT rate (%)	Percent to decimal	Ratio
Double Tax Elimination	Independent	Number of DTA entered.	-	Nominal
Investment Deduction	Independent	Investment Deduction allowance (%)	Percent to decimal	Ratio
Inflation Rate	Control	Inflation rate (%)	Percent to decimal	Ratio

3.6 Data Analysis and Presentation

Mugenda and Mugenda (2003) suggest that data analysis is a process in which order, structure, and meaning are introduced into most of the information collected. Descriptive and inferential analysis were used in this study. Descriptive analysis provides statistics that represent the mean, minimum, and maximum number of observations and standard deviations of the survey data. Outcome statistics are based on correlation analysis and panel regression, which are used to draw conclusions about the population based on information collected by Monsen (2018). The data analysis was conducted using STATA vs 14 software.

3.6.1 Panel Regression Model

The study used a panel regression model based on a panel data. The model took the following form:

$$FDI_{it} = \beta_0 + \beta_1 WTR_{it} + \beta_2 TT_{2it} + \beta_3 ID_{3it} + \beta_4 INFL_{4it} + \epsilon_{it}\ldots\ldots\ldots\ldots3.1$$

Where:

FDI_{it} – Foreign Direct Investment for Country i at time t

WTR_{it} – Withholding Tax Rate for Country i at time t

TT_{it} – Double Tax Elimination for Country i at time t

ID_{it} – Investment Deductions for Country i at time t

$INFL_{it}$ – Inflation Rate for Country i at time t

i-denotes country

t- Denotes time (years)

β_0 - Constant

$\beta_1 – \beta_5$= Regression coefficients

ϵ_{it}= Error term

3.6.2 Hypotheses Testing

Table 3.2: Hypothesis Testing

Hypothesis	Criterion	Decision
H$_{01}$: Corporate withholding tax rate has no significant effect on foreign direct investment amongst EAC partner states.	P value <0.05 P value >0.05	Reject Fail to reject
H$_{02}$: Double Tax Elimination has no significant effect on foreign direct investment amongst EAC partner states.	P value <0.05 P value >0.05	Reject Fail to reject
H$_{03}$: Investment deduction has no significant effect on foreign direct investment amongst EAC partner states.	P value <0.05 P value >0.05	Reject Fail to reject

3.6.3 Regression Assumptions

Statistical tests refer to pre-analytic tests that are performed on a data set to ensure that it meets the expected threshold (Kothari, 2008). Several statistical tests were carried out in this study, including multicollinearity test, normality test, heteroscedasticity test, automatic correlation test, stationarity test, and Hausman test to determine the regression method according to the characteristics of the data.

a. Hausman Test

Hausman's test is used to assess whether a fixed or random effect model should be utilized. The Hausman test primarily determines whether or not the apparent error (ui) is related to the regression (Raharjo et al., 2014). A significance value greater than the customary value of 0.05 leads to the null hypothesis assumption that the apparent error (ui) is unrelated to the regression and so the random effects model is more appropriate.

b. Stationarity Test

Non-stationarity is regarded as a concern when evaluating panel data. Transient data leads to incorrect regression due to inconsistencies in mean and variance (Dimitrova, 2005). Using the differentiation operator, certain observations are produced by differentiating a sequence. Composite I (0) or order 0 refers to a series that is stationary without differentiation. The order is established, however, after the first difference contains I (1) or row 1. The Levin, Lin, and Chu (2002) test was performed to determine the panel data series' stationarity.

c. Multicollinearity Test

Multicollinearity refers to situations in which regressors influence each other; the independent variable acts as a surrogate (Field, 2009), in this case the parameter is still the best linear undistorted estimator, but the standard error and variance is an increasing tolerance analysis. As a rule of thumb, a VIF value of less than 10 and a tolerance value of more than 0.1 indicates a lack of multicollinearity.

d. Normality Test

The first step is to check if the variable follows a normal distribution. This study uses the Jacque-Bera test, which tests the null hypothesis for the normal distribution against the alternative hypothesis for the abnormal distribution. The solution is to accept the null hypothesis if the probability value is greater than 0.05.

e. Heteroskedasticity Test

The OLS hypothesis states that the residue must be homoscedastic. In this study, a modified Wald's test was used to check for constant error variance (that is, it must be homoscedastic). A p value of more than 5% indicates a lack of heteroscedasticity

f. Autocorrelation Test

Autocorrelation test was performed to determine whether the residuals were correlated over time. If the probability value is greater than 0.05, the null hypothesis that there is no autocorrelation is accepted, according to Field (2009). Wooldridge autocorrelation test was used.

3.6.4 Data Presentation

Kombo and Tromp (2009) note that data can be presented using statistical techniques, graphical techniques, or a combination of both to draw broad conclusions. In this study, a combination of both is used and data presentation using tables and graphs is used to produce a complete report.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Overview

This chapter deals with the analysis of data. The aim of the study was to determine the effect of corporate tax policy on foreign direct investment within the EAC partner states. Data analysis, interpretation and discussion of the findings are done as per the study objectives. Secondary data collection method was employed in the research where data was retrieved from several sources including the African Development Bank, United Nations Conference for Trade and Development, National Bureau of Statistics of the member states, Revenue Authorities of the EAC partner states, the National Treasury of the member states, the East Africa Community and the World Bank Data. Panel data covering five EAC partner states for a period of 18 years ranging from 2002 to 2019 was used.

4.2 Descriptive Analysis

This section provides statistical summary results in terms of means, minimum, maximum, standard deviation for the study variables: FDI, withholding tax rate, double tax elimination and investment deduction. Table 4.1 shows a descriptive statistics summary of the results from the five East African partner states from 2002 to 2019.

Table 4.1: Summary of Descriptive Statistics

	Observations	Mean	Std. Dev.	Min	Max
FDI (% of GDP)	90	2.201301	1.747605	0	6.479821
WITHHOLDING TAX RATE (% per annum)	90	0.145222	0.04084	0.05	0.2
Double Tax elimination (No. of DTAs)	90	5.877778	4.46919	0	14
INVESTMENT DEDUCTIONS (%)	90	0.734556	0.377363	0	1.38
INFL (%)	90	7.612024	5.033466	-2.8147	26.23982

The aggregated statistics for the five nations reveal that FDI inflows averaged 2.2. The minimum and maximum values were 0 and 6.47, indicating that some countries received no FDI throughout the study period. The average annual withholding tax rate was 15%. The statistics also show that the average number of tax treaties signed each year was six. The statistics also show that the average rate of investment deduction for the five partner countries was 73 percent, with the lowest and highest values being 0 and 138 percent, respectively. Finally, the five partner countries' average inflation rate was 7.6 percent, with minimum and maximum values of -2.8 percent and 26.2 percent, respectively.

4.3 Trends of the variables

This section provides trends of each variable throughout the study period (2002-2019). The Trends of each variable was analysed the same is contained in **Appendix 2**. The trend of FDI, which was characterised by upward and downward fluctuations. The trend line showed a general increase in FDI throughout the study period. The same can be found in Figure 6.1. Figure 6.2 indicates the trend of withholding tax rate, which was characterised by upward and downward fluctuations. The trend line showed a general stagnation of withholding tax rate throughout the study period. Figure 6.3 indicates the trend of double tax elimination. The trend line shows a steady increase in double tax elimination throughout the study period. Figure 6.4 indicates the trend of investment deductions. The trend line shows a steady decline in investment deductions throughout the study period. Figure 6.5 indicates the trend of GDP. The trend line showed a steady decline in GDP throughout the study period. Figure 6.6 indicates the trend of inflation, which is characterised by upward and downward fluctuations. The trendline showed a general decline in inflation throughout the study period.

4.4 Correlation Analysis

The findings of the correlation between the independent and dependent variables are presented in this section. Table 4.2 displays the results.

Table 4.2: Correlation Matrix

	FDI	WITHHOLDING_ TAX_RATE	DOUBLE TAX ELIMINATION	INVESTMENT DEDUCTIONS	INFL
FDI	1				
WITHHOLDIN G_TAX_RATE	-0.4226	1			
	0.000				
DOUBLE TAX ELIMINATION	0.45818	-0.06664	1		
	0.000	0.5326			
INVESTMENT DEDUCTIONS	-0.3491	0.009739	0.575821	1	
	0.002	0.9274	0.000		
INFL	-0.1247	0.095042	-0.04072	0.106037	1
	0.2414	0.3729	0.7031	0.3199	

The findings indicate a negative and significant correlation between investment deductions and FDI amongst EAC partner states ($r = -0.3491$, $P = .002 < .05$). This denoted that increase in investment deductions is accompanied by decline in FDI. The findings also indicate a negative and significant correlation between withholding tax rate and FDI amongst EAC partner states ($r = -0.4226$, $P = .000 < .05$). This denoted that increase in withholding tax rate is accompanied by decline in FDI. The correlation between double tax elimination and FDI was found to be positive and significant ($r = 0.45818$, $P = .000 < .05$). This suggested that increase in double tax elimination is accompanied by increase in FDI. On the other hand, inflation had no significant correlation with FDI amongst EAC partner states.

4.5 Regression Assumptions

4.5.1 Hausman Test

The Hausman test was used to examine whether the fixed or random effects model was appropriate. The Hausman test was designed to determine whether the unique mistakes (ui) are related to the regressors.

Table 4.3: Hausman Test

	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
Corporate Withholding tax rate	-7.94793	-16.6564	8.708449	14.67089
Double Tax Elimination	0.095872	0.298858	-0.20299	0.159157
Investment Deduction	-0.6154	-1.5135	0.898098	0.319433
Inflation	0.010037	0.001021	0.009016	.
chi2(5)	8.61			
Prob>chi2	0.1257			

The results in Table 4.3 show a probability value of 0.1257, which is greater than the conventional probability value of 0.05, supporting the null hypothesis that the unique mistakes (ui) are not correlated with the regressors and, hence, the random effects model was more appropriate.

4.5.2 Stationarity test

This section presents Levin-Lin Chu test of stationarity.

Table 4.4: Levin-Lin Chu unit-root test

Variable	Statistic	Prob (At level)	Prob (1stDifferencing)
FDI	-2.3138	0.0103	-
Withholding tax rate	-1.45421	0.0029	-
Double tax elimination	-0.87715	0.1902	0.0023
Investment deductions	-1.11123	0.1332	0.0162
Inflation rate	-2.42308	0.0077	-

Table 4.4 shows that, with the exception of double taxation and investment deductions, all variables were non-stationary at the level. Probability values greater than 0.05 imply this. However, after first differencing, all of the variables were discovered to be stationary.

4.5.3 Normality Test

Normality testing was done using Jacque-Bera test. Results are illustrated in Figure 4.6.
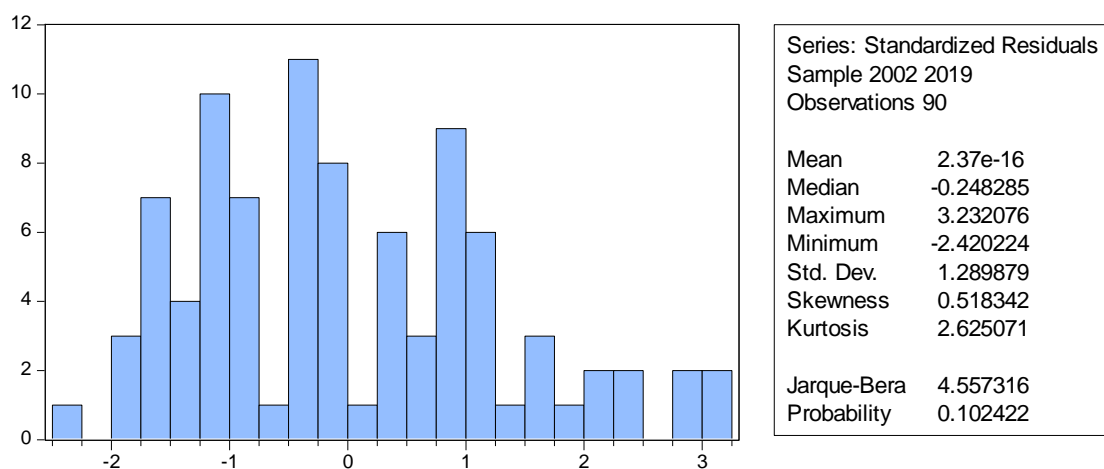
Figure 4.1: Normality Test

Figure 4.1 shows a probability value of 0.1024, which is greater than 0.05. As a result, the normal distribution null hypothesis was not rejected. This implied that the data series in the investigation was regularly distributed.

4.5.4 Multicollinearity Test

The multicollinearity test was checked using VIF and tolerance analysis. The results are shown in Table 4.5.

Table 4.5: Multicollinearity Test

Variable	VIF	1/VIF
Double Tax Elimination	5.92	0.168995
Investment deductions	1.4	0.713908
Inflation	1.04	0.960067
Corporate Withholding Tax Rate	1.02	0.977608

The VIF values in Table 4.5 are less than 10, indicating that there was no multicollinearity between the independent variables. This is also confirmed by tolerance values greater than 0.1.

4.5.5 Heteroscedasticity Test

The test for heteroscedasticity was done using Modified Wald test.

Table 4.6: Heteroskedasticity Test

Modified Wald test for groupwise heteroscedasticity
in fixed effect regression model
H0: sigma(i)^2 = sigma^2 for all i
chi2 (4) =   2.59
Prob>chi2 =   0.6281

The results in Table 4.6 show that the null hypothesis of homoscedastic error terms was not rejected because the probability value of 0.6281 was greater than 0.05. As a result, there was no heteroscedasticity concern.

4.5.6 Autocorrelation Test

The test of autocorrelation was conducted using Wooldridge test.

Table 4.7: Autocorrelation Test

Wooldridge test for autocorrelation in panel data
H0: no first-order autocorrelation
F (1, 3) =   2.870
Prob > F =   0.188

Table 4.7 shows a probability value of 0.188, which is greater than 0.05 at the 95 percent confidence interval. That is, the null hypothesis of no autocorrelation was accepted. As a result, the residuals were not cross-correlated in time.

4.6 Hypothesis Testing

Following the results of the Hausman test, a random effects regression model was run to estimate the impact of corporation tax policy on foreign direct investment inside the EAC partner states. Table 4.8 summarizes the findings.

Table 4.8: Random-effects Regression Model

FDI	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
Corporate Withholding Tax Rate	-16.15797	3.472877	-4.6526	0.0000	-16.15797	3.472877
Double Tax Elimination	0.253988	0.039549	6.42209	0.0000	0.253988	0.039549
Investment deductions	-1.646486	0.468088	-3.51747	0.0007	-1.646486	0.468088
Inflation	-0.020864	0.029412	-0.70938	0.4801	-0.020864	0.029412
_cons	4.388040	0.611285	7.17838	0.0000	4.388040	0.611285
R squared	0.455					
F statistics	14.04					
Prob > chi2	0.000					

The regression Model

$FDI_{it} = \beta 0 + \beta_1 WTR_{it} + \beta_2 TT_{2it} + \beta_3 ID_{3it} + \beta_4 INFL_{4it} + \epsilon_{it}$ becomes;

FDI=4.388-16.158WTR + 0.254TT -1.646ID

Where:

FDI_i– Foreign Direct Investment for the EAC state partners

WTR – Withholding Tax Rate for the EAC state partners

TT – Double Tax Elimination for the EAC state partners

ID – Investment Deductions for the EAC state partners

$\beta 0$ - Constant

ϵ_{it}= Error term

The results in Table 4.8 reveal a constant value of 4.38804 for FDI when the corporation tax policy factors are held constant. The overall model was found to be significant (F statistic=14.04, P=0.000) implying that withholding tax rate, double tax elimination and investment deductions are good predictors of FDI within the EAC state partners.

the R squared was 0.455 implying that withholding tax rate, double tax elimination and investment deductions account for 46% of total variations in FDI amongst the EAC state partners. The remaining 54% could be attributed to other variables not included in this study model.

The findings indicate that inflation had no statistically significant impact on FDI. This is demonstrated by the p value (0.4801), which is bigger than the standard p value of 0.05. This implies that the impact of inflation on FDI was minimal.

4.6.1 H_{01}: Corporate withholding tax rate has no significant effect on foreign direct investment amongst EAC partner states

The results indicate that withholding tax rate has a negative and significant effect on FDI (β= -16.158, p=0.000) at 5% level of significance. The null hypothesis (H01) that corporate withholding tax rates have no significant influence on foreign direct investment among EAC partner nations was rejected as a result of this results. A P value of 0.000<0.05 corroborated this. This implied that the corporation withholding tax rate had a considerable impact on EAC partner states' foreign direct investment.

4.6.2 H_{02}: Double tax elimination has no significant effect on foreign direct investment amongst EAC partner states

Result reveal that double tax elimination has a positive and significant effect on FDI (β= 0.2539, p=0.000). The null hypothesis (H02) that tax treaties have no substantial effect on foreign direct investment among EAC partner states was rejected as a result

of this results. A P value of 0.000<0.05 corroborated this. This implied that tax treaties have a considerable impact on EAC partner states' foreign direct investment.

4.6.3 H$_{03}$: Investment deduction has no significant effect on foreign direct investment amongst EAC partner states

Further, the findings indicate that investment deductions have a negative and significant effect on FDI (β= -1.646, p=0.0007). The null hypothesis (H03) that investment deduction has no substantial effect on foreign direct investment among EAC member countries was rejected as a result of this results. A P value of 0.0007<0.05 supported this. This implied that the investment deduction has a considerable impact on foreign direct investment among EAC member countries.

4.7 Discussion of the Findings

4.7.1 Corporate withholding tax rate and foreign direct investment

The study examined the effect of corporate withholding tax rate on foreign direct investment amongst EAC partner states. According to the regression results, the withholding tax rate had a negative and substantial influence on FDI within EAC state partners. A beta coefficient of -16.158 and a p value of 0.000 confirmed this. This meant that a one-unit rise in the withholding tax rate would result in a 16.158-unit decrease in FDI. The findings corroborated those of Boly, Coulibaly, and Kéré (2019), who discovered that lower Corporate WHT rates improve FDI net inflows in the host nation and neighboring countries in the short and long run. Similar observations were made by San, Cheng, and Heng (2013).

4.7.2 Double tax elimination and foreign direct investment

The study established the effect of double tax elimination on foreign direct investment amongst EAC partner states. The data also showed that eliminating double taxation has

a negative and considerable impact on FDI inside EAC state partners. A beta coefficient of 0.2539 and a p value of 0.000 confirmed this. This meant that increasing the number of double tax treaties by one unit would result in an increase in FDI of 0.2539 units. The findings aligned with those of Hong (2018), who found that eliminating double taxation has a favorable and significant influence on FDI. Similarly, Barthel, Busse, Krever, and Neumayer (2014) discovered a favorable link between the abolition of double taxation and FDI.

4.7.3 Investment deduction and foreign direct investment

The study determined the effect of investment deduction on foreign direct investment amongst EAC partner states. According to the data, investment deduction had a negative and considerable impact on FDI within the EAC state partners. The beta coefficient was -1.646, and the p value was 0.0007. This meant that increasing investment deductions by one unit would result in a -1.646 unit decrease in FDI. The findings refuted Gumo's (2013) conclusion that a tax incentive would have a favorable effect on FDI. Furthermore, Githaiga (2013) found a substantial correlation between wear and tear allowances and FDI inflows.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings, conclusions, recommendations, and future research directions. This is done in accordance with the research objectives.

5.2 Summary of Findings

5.2.1 To examine the effect of corporate withholding tax rate on foreign direct investment amongst EAC partner states

The study's primary goal was to investigate the impact of corporate withholding tax rates on foreign direct investment among EAC partner countries. According to the model results, the withholding tax rate had a negative and significant influence on FDI among EAC partner countries (β=-16.158, p=0.000). As a result, the null hypothesis was rejected in favor of the alternative, implying that the withholding tax rate had a significant effect on FDI among EAC partner states.

5.2.2 To establish the effect of double tax treaties on foreign direct investment amongst EAC partner states

The study's second goal was to determine the impact of double tax treaties on foreign direct investment among EAC partner countries. According to the model results, double tax treaties had a positive and substantial influence on FDI among EAC partner nations (β=0.2539, p=0.000). As a result, the null hypothesis was rejected in favor of the alternative, implying that double tax treaties had a significant effect on FDI among EAC partner nations.

5.2.3 To determine the effect of investment deduction on foreign direct investment amongst EAC partner states

The third goal of the study was to examine the impact of investment tax breaks on foreign direct investment among EAC partner countries. According to the regression results, investment deduction had a negative and significant effect on FDI among EAC partner countries (β =-1.646, p=0.0007). As a result, the null hypothesis was rejected in favor of the alternative, implying that investment deduction had an influence on FDI among EAC partner nations.

5.3 Conclusion

The study concluded that withholding tax rate had a negative and significant effect on FDI amongst EAC partner states. The implication is that an increase in withholding tax rate could hinder FDI attraction within the EAC. This connotes that foreign investor take a keen interest in the amount they are able to repatriate back to their home country from the host country as profit or interest.

The study also concluded that double tax elimination had a positive and significant effect on FDI amongst EAC partner states. The implication is that an increase in double tax treaties between home country and host country could encourage investors to invest more within the EAC partner states and therefore enhancing FDI inflows in the region. Investors prefer a jurisdiction where they are only taxed once, not both in the home country and the host country.

The study further concluded that investment deduction had a negative and significant effect on FDI amongst EAC partner states. The expectation would be that an increase in investment deduction would enhance foreign direct investment within the EAC partner states. However, the study found an inverse effect of investment deduction on

FDI. This could be attributed to tax planning by investors who exploits the tax incentives available to their advantage without focusing on long term investment in the EAC partner states.

5.4 Recommendations

5.4.1 Recommendations to Theory

The study adds to the body of information on the relationship between corporation tax policy and foreign direct investment from a theoretical standpoint. Furthermore, the study validates the theoretical framework and fortifies the many hypotheses employed to explain the variables. The study recommends that other studies should be conducted focusing on other corporate tax policies, for example, transfer pricing policies.

5.4.2 Recommendations to Policy and Practice

The study established a negative and significant effect of withholding tax rate on FDI amongst EAC partner states. The study recommends that the EAC member states should adjust the corporate withholding tax rates downwards in order to attract foreign investors. The use of withholding tax to retain the profit within the countries should be discouraged and focus should be shifted to encourage re-investment by creating a more attractive trading environment.

The study found a positive and significant effect of double tax elimination on FDI amongst EAC partner states. The study recommends that the EAC member states should strengthen the double tax treaties amongst themselves as well as with other countries. This could boost the level of FDI inflows in the respective EAC member states. The EAC countries should, based on the findings of this study, proceed to ratify the East Africa Community Double Tax Treaty, which is yet to come to force, as not all member states have ratified it. The EAC countries should further adopt the UN

model of DTA which promote source-based taxation when contracting with other countries. This will ensure that the FDI are taxed only in the country where the income is derived or accrued and not at the residence of the countries.

The study established a negative and significant effect of investment deduction on FDI amongst EAC partner states. The study recommends that the EAC member states should review their tax incentives policy, particularly, on investment deductions. Investment deduction as a tool for encouraging FDI may have been prone to abuse and never achieves the intend goal. Investment deductions are very costly to the government and resulting into substantive loss of government revenue, as they seem not to be achieving their objective they should be reviewed by each country.

5.5 Suggestions for Further Studies

The corporate tax policy elements (withholding tax rate, double tax treaties and investment deductions) used in this study accounted for 46% of variations in FDI amongst the EAC member states. Future studies could consider factors such as political influence and regulatory changes that can explain the remaining 54%. A study should also be considered on investment deduction in order to clearly ascertain whether they are still viable with the changes in the investor behaviour.

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APPENDICES

Appendix 1: Raw Data

Country	Year	FDI (% of GDP)	Withholding Tax Rate (%)	Tax Treaties (Number of DTAs)	Investment deduction (%)	Inflation (%)
Kenya	2002	0.21	0.20	8.00	0.85	1.96
Kenya	2003	0.55	0.20	8.00	0.70	9.82
Kenya	2004	0.29	0.20	8.00	1.00	11.62
Kenya	2005	0.11	0.20	8.00	1.00	10.31
Kenya	2006	0.20	0.20	8.00	1.00	14.45
Kenya	2007	2.28	0.20	8.00	1.00	9.76
Kenya	2008	0.27	0.20	8.00	1.00	26.24
Kenya	2009	0.31	0.20	9.00	1.33	9.23
Kenya	2010	0.45	0.20	9.00	1.15	3.96
Kenya	2011	3.46	0.20	9.00	1.37	14.02
Kenya	2012	2.74	0.20	9.00	1.01	9.38
Kenya	2013	2.03	0.20	9.00	1.26	5.72
Kenya	2014	1.34	0.20	10.00	1.08	6.88
Kenya	2015	0.97	0.20	10.00	1.32	6.58
Kenya	2016	0.57	0.20	10.00	1.36	6.30
Kenya	2017	0.85	0.20	10.00	1.38	8.01
Kenya	2018	2.38	0.20	9.00	1.36	4.69
Kenya	2019	1.27	0.20	14.00	1.38	5.24
Burundi	2002	0.00	0.15	0.00	1.00	-1.37
Burundi	2003	0.00	0.15	0.00	1.00	10.65
Burundi	2004	0.00	0.15	0.00	1.00	8.18
Burundi	2005	0.05	0.15	0.00	1.00	13.25
Burundi	2006	0.00	0.15	0.00	1.00	2.75
Burundi	2007	0.04	0.15	0.00	1.00	8.41
Burundi	2008	0.24	0.15	0.00	1.00	24.41
Burundi	2009	0.02	0.15	0.00	1.00	10.56
Burundi	2010	0.04	0.15	0.00	0.00	6.49
Burundi	2011	0.15	0.15	0.00	0.00	9.59
Burundi	2012	0.03	0.15	0.00	0.00	18.16
Burundi	2013	4.76	0.15	0.00	0.00	7.94
Burundi	2014	3.02	0.15	0.00	0.00	4.41
Burundi	2015	1.60	0.15	0.00	0.00	5.54
Burundi	2016	0.00	0.15	0.00	0.00	5.56
Burundi	2017	0.01	0.15	0.00	0.00	16.05
Burundi	2018	0.09	0.15	0.00	0.00	-2.81
Burundi	2019	0.14	0.15	0.00	0.00	-0.69
Rwanda	2002	0.09	0.15	0.00	0.49	1.99

Rwanda	2003	0.25	0.15	0.00	0.46	7.45
Rwanda	2004	0.37	0.15	0.00	0.47	12.25
Rwanda	2005	0.31	0.15	0.00	0.47	9.01
Rwanda	2006	0.92	0.15	0.00	0.48	8.88
Rwanda	2007	2.02	0.15	0.00	0.49	9.08
Rwanda	2008	1.97	0.15	0.00	0.42	15.44
Rwanda	2009	2.08	0.15	0.00	0.41	12.94
Rwanda	2010	4.07	0.15	0.00	0.49	-0.25
Rwanda	2011	1.72	0.15	0.00	0.45	3.08
Rwanda	2012	3.32	0.15	0.00	0.41	10.27
Rwanda	2013	3.28	0.15	0.00	0.44	5.92
Rwanda	2014	3.80	0.15	3.00	0.42	2.35
Rwanda	2015	2.60	0.15	4.00	0.47	2.53
Rwanda	2016	3.05	0.15	4.00	0.42	7.17
Rwanda	2017	2.92	0.15	4.00	0.46	8.28
Rwanda	2018	3.30	0.15	4.00	0.42	-0.31
Rwanda	2019	1.99	0.15	8.00	0.46	3.35
Tanzania	2002	2.80	0.05	8.00	1.00	5.32
Tanzania	2003	2.09	0.09	8.00	1.00	5.30
Tanzania	2004	2.65	0.05	9.00	1.00	4.74
Tanzania	2005	5.08	0.07	9.00	1.00	5.03
Tanzania	2006	2.16	0.10	9.00	1.00	7.25
Tanzania	2007	2.66	0.07	9.00	1.00	7.03
Tanzania	2008	4.95	0.10	9.00	1.00	10.28
Tanzania	2009	3.28	0.08	9.00	1.00	12.14
Tanzania	2010	5.66	0.06	9.00	1.00	6.20
Tanzania	2011	3.55	0.10	9.00	1.00	12.69
Tanzania	2012	4.54	0.07	9.00	1.00	16.00
Tanzania	2013	4.57	0.05	9.00	1.00	7.87
Tanzania	2014	2.83	0.09	9.00	1.00	6.13
Tanzania	2015	3.18	0.09	9.00	1.00	5.59
Tanzania	2016	1.74	0.10	9.00	1.00	5.17
Tanzania	2017	1.76	0.05	9.00	1.00	5.32
Tanzania	2018	4.55	0.10	9.00	1.00	3.49
Tanzania	2019	4.11	0.05	9.00	1.00	3.46
Uganda	2002	2.99	0.15	6.00	0.74	-0.29
Uganda	2003	3.19	0.15	7.00	0.65	8.68
Uganda	2004	3.72	0.15	9.00	0.63	3.72
Uganda	2005	4.21	0.15	9.00	0.69	8.45
Uganda	2006	6.48	0.15	9.00	0.61	7.31
Uganda	2007	6.45	0.15	10.00	0.67	6.14
Uganda	2008	5.12	0.15	10.00	0.75	12.05
Uganda	2009	3.38	0.15	10.00	0.53	13.02
Uganda	2010	2.06	0.15	10.00	0.56	3.98
Uganda	2011	3.23	0.15	10.00	0.51	15.13

Uganda	2012	4.45	0.15	11.00	0.56	12.68
Uganda	2013	3.82	0.15	11.00	0.59	4.90
Uganda	2014	3.27	0.15	11.00	0.71	3.07
Uganda	2015	2.30	0.15	11.00	0.63	5.41
Uganda	2016	2.16	0.15	11.00	0.70	5.45
Uganda	2017	2.61	0.15	11.00	0.60	5.64
Uganda	2018	2.65	0.15	11.00	0.70	2.62
Uganda	2019	5.35	0.15	11.00	0.60	2.87

Appendix 2: Trends for Variables

The trends of each variable throughout the study period (2002-2019) was analysed and we established as follows:
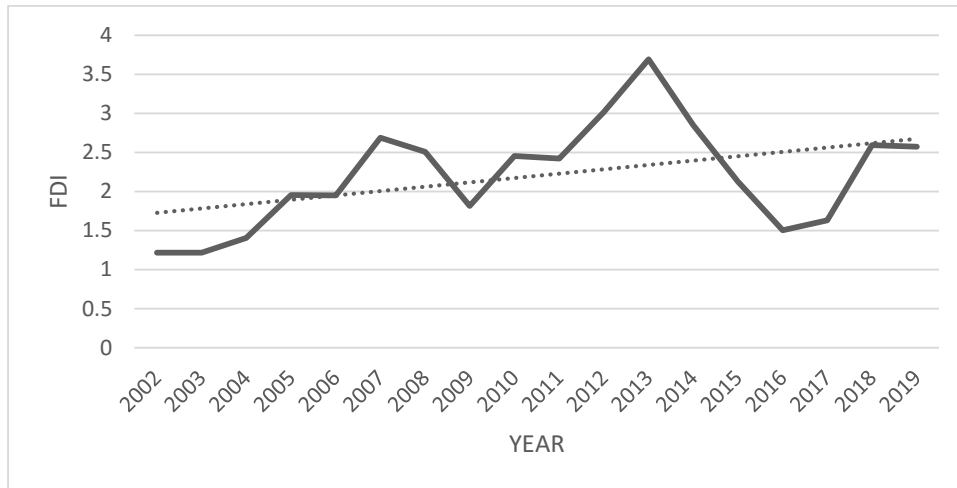
Figure 6.1: Trends of FDI

Figure 6.1 indicates the trend of FDI, which is characterised by upward and downward fluctuations. The trend line shows a general increase in FDI throughout the study period.
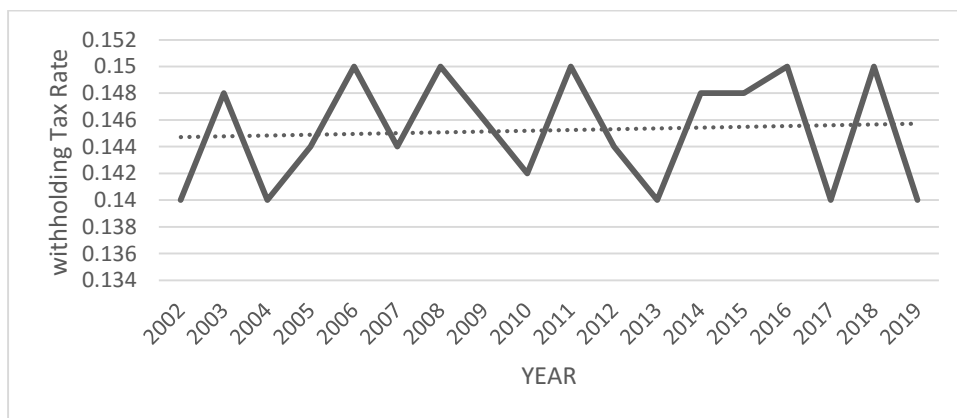
Figure 6.2: Trends of withholding tax rate

Figure 6.2 indicates the trend of withholding tax rate, which is characterised by upward and downward fluctuations. The trendline shows a general stagnation of withholding tax rate throughout the study period.
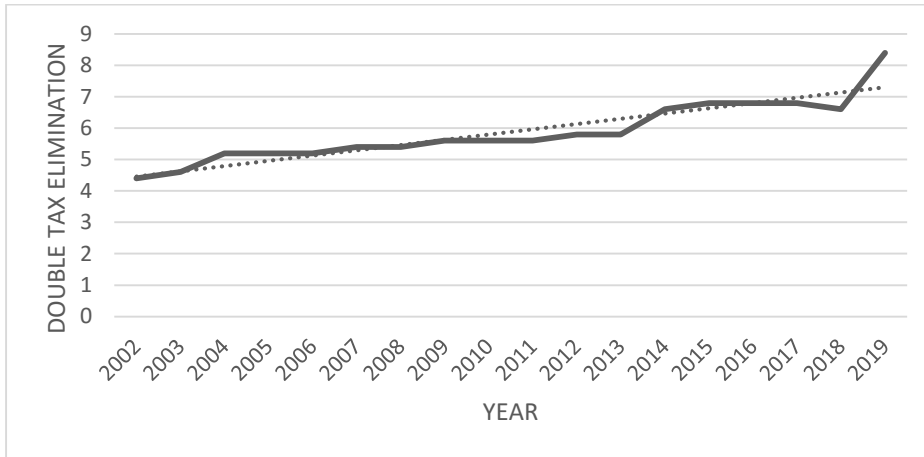
Figure 6.3: Trends of Double Tax Elimination

Figure 6.3 indicates the trend of double tax elimination. The trend line shows a steady increase in double tax elimination throughout the study period.
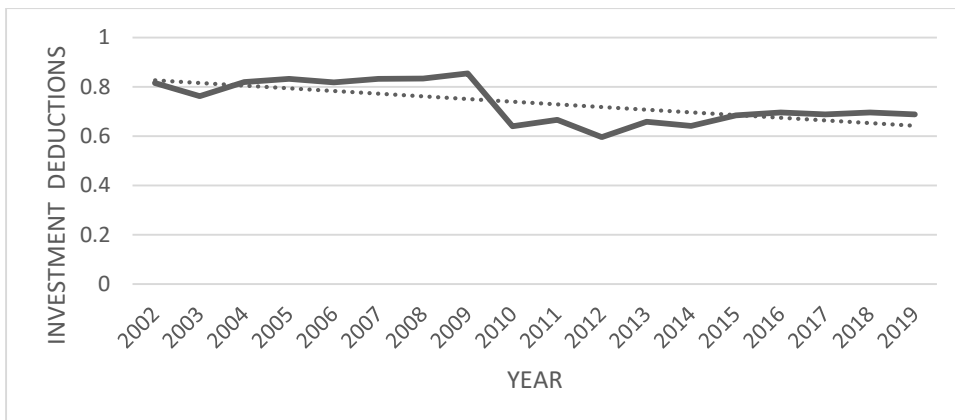
Figure 6.4: Trends of investment deductions

Figure 6.4 indicates the trend of investment deductions. The trendline shows a steady decline in investment deductions throughout the study period.
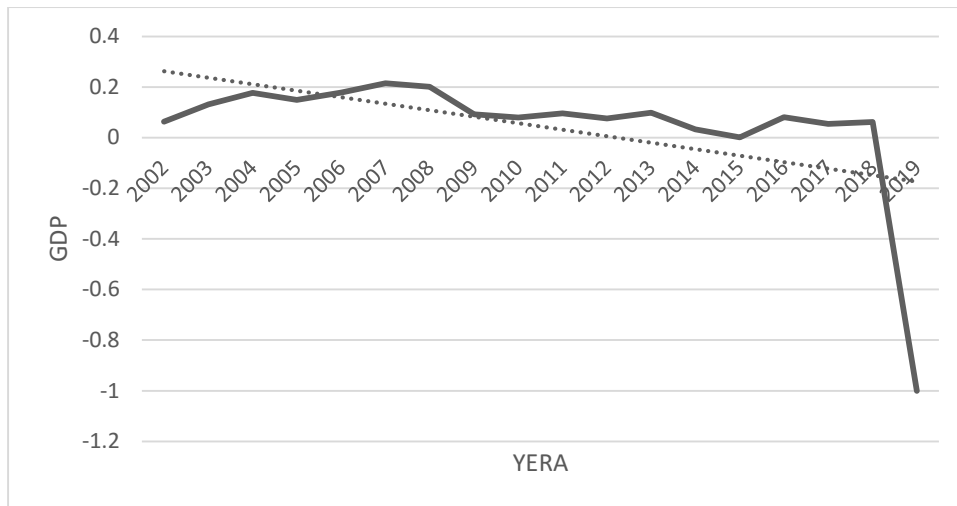
Figure 6.5: Trends of GDP

Figure 6.5 indicates the trend of GDP. The trendline shows a steady decline in GDP throughout the study period.
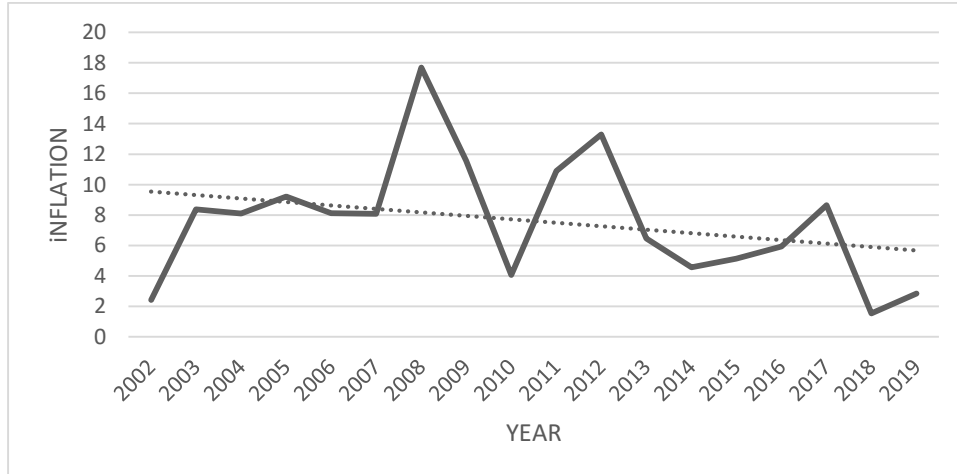
Figure 6.6: Trends of Inflation

Figure 6.6 indicates the trend of inflation, which is characterised by upward and downward fluctuations. The trendline shows a general decline in inflation throughout the study period.

Appendix 3: Authorisation Letter

REF: KESRA/NBI/036

12th April, 2021

TO WHOM IT MAY CONCERN

RE: REQUEST FOR RESEARCH PERMIT: GAYA GEORGE ODHIAMBO OCHIENG REG NO: MU/KESRA/0194/16

This is to confirm that the above named is a student at Kenya School of Revenue Administration (KESRA) Nairobi Campus pursuing a Masters in Tax and Customs Administration.

The named student is undertaking Research on TOPIC: *"EFFECT OF CORPRATE TAX POLICY ON FOREIGN DIRECT INVESTMENT: A STUDY OF EAST AFRICAN COUNTRIES."*

The purpose of this letter is to request your good office to assist the above student with the information to enable his work on his project.

Your support to KESRA in this regard will be highly appreciated.

Thank you.

Dr. Marion Nekesa PHD,
Head Academic Research
KESRA

Appendix 4: NACOSTI License

Appendix 5: Plagiarism Report

EFFECT OF CORPORATE TAX POLICIES ON FOREIGN DIRECT
INVESTMENT: A STUDY OF THE EAST AFRICA COMMUNITY
PARTNER STATES

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