

**EFFECT OF TAX PLANNING STRATEGIES ON TAX SAVINGS BY
MANUFACTURING COMPANIES IN NAIROBI COUNTY, KENYA**

ZACHARY OMONDI ODONGO

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE MASTER'S DEGREE IN TAX AND CUSTOMS
ADMINISTRATION DEPARTMENT OF ACCOUNTING AND FINANCE, MOI
UNIVERSITY**

JUNE, 2022

DECLARATION

This research project is my original work and has not been presented for a degree or any other examination at any other academic and non – academic institution

Signed_____

Zachary Omondi Odongo

Date_____

KESRA/105/92/2019

This research project has been presented for examination with my approval as university supervisor

Signed.....

Dr. Robert Odunga

Lecturer, School of Business and Economics,

Department of Accounting and Finance,

Moi University.

Date.....

Signed.....

Dr. Zurah Chepkoech Mohammed.

Lecturer, School of Business and Economics,

Department of marketing and logistics,

Moi University.

Date.....

DEDICATION

I would like to dedicate this research work to the almighty God for his grace, wisdom, and knowledge to carry on this academic work even with other attached responsibilities. I dedicate this work to my entire family who kept praying for me and always celebrated in my achievements.

ACKNOWLEDGEMENT

I thank the almighty God for his guidance in my entire study of the Masters in Tax and Customs Administration. My sincere gratitude goes to my immediate family members and friends for their unrelenting support and encouragement in undertaking this course. My appreciation goes to my lecturers, whose enlightenment and guidance during the course work and project has been tremendous. I also wish to register my appreciation to all the other people whose word and deeds contributed to the accomplishment of this work but have not been listed above.

Thank you all.

ABSTRACT

There has been growing disquiet and discontent among the manufacturing firms in Kenya owing to the high level of taxation within the existing tax regime and dwindling revenues to the business occasioned by hard economic times, the taxes have been high to servicing the ballooning public debt, corruption, high cost of fuel used by manufacturers, inflation and high interest rates partly caused by COVID-19 pandemic that have led to massive job losses and reduced purchasing power. This study therefore, sought to examine the effect of tax planning strategies on tax saving by manufacturing firms in Nairobi County, Kenya. The specific objectives were to determine the effect debt in capital structure, capital allowances, tax education and intelligent sourcing on tax saving by manufacturing firms. The study is anchored on the credit theory of money, stakeholders' theory and capital structure theory. This study used an explanatory research design. The target population constituted finance managers from a total population of 118 registered manufacturing firms. Stratified sampling was employed to arrive at the 118 manufacturing firms. Data was collected using questionnaires. Quantitative data analysis was executed through descriptive statistics such as means, standard deviations, and percentages and frequencies. Correlation and regression analysis was conducted to determine the relationship between the study variables. The findings of the study show that intelligent sourcing, tax education, debt in capital structure and capital allowances explain 56.9% of the total variations in the tax saving by the manufacturing companies. Debt in capital structure ($\beta=0.257$, $p=0.008<.05$), capital allowances ($\beta=.198$, $p=.042<0.05$), tax education ($\beta=.232$, $p=.004<0.05$), and intelligent sourcing ($\beta=.243$, $p=.010<0.05$) had a positive and significant effect on tax saving by manufacturing firms in Nairobi County, Kenya. Basing on the predictive model, intelligent sourcing had the highest positive influence on tax saving by the manufacturing firms, followed by debt in capital structure tax education and capital allowances. The study recommends the need for government to carry out tax education campaigns. There is need for government to provide tax incentives to the manufacturing companies as a way of attracting more investments in the manufacturing sector. The Government should review the various sections of the ITA to address the manufacturers tax concerns, the government should make available its existing treaties with other countries that may help the manufacturing companies know on where to access raw materials at a cheaper price. The manufacturing companies should be given easy credit access through use of business products as collaterals. The manufacturers through workshops and seminars should lobby the government to reduce taxes. Finally, the manufacturers and suppliers should integrate to make supply of raw materials easier and cheaper. The study makes significant contribution to policy, theory and practice in the field of tax administration. The study was limited to manufacturing sector; further research could focus on tax planning strategies and tax savings in other sectors such as agriculture, telecommunication among others.

TABLE OF CONTENTS

DECLARATION.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT.....	iv
ABSTRACT.....	v
LIST OF TABLES	xi
LIST OF FIGURES	xiii
ABBREVIATIONS AND ACRONYMS.....	xiv
DEFINITION OF KEY TERMS.....	xv
CHAPTER ONE	1
INTRODUCTION.....	1
1.0 Chapter Overview	1
1.1 Background of the Study	1
1.2 Statement of the Problem	4
1.3 Objectives of the Study	6
1.3.1 General Objective	6
1.3.2 Specific Objectives	6
1.4 Research Hypotheses.....	6
1.5 Significance of the Study	7
1.6 Scope of the Study.....	7
CHAPTER TWO	8
LITERATURE REVIEW	8
2.1 Introduction.....	8

2.2 Review of Concepts	8
2.2.1 Tax saving	8
2.2.2 Tax planning	8
2.2.3 Debt in the capital structure	9
2.2.4 Capital allowances	10
2.2.5 Intelligent sourcing	11
2.2.6 Tax education.....	12
2.3 Theoretical Review.....	12
2.3.1 Credit theory of money	12
2.3.2 Stakeholders theory.....	13
2.3.3 Capital Structure Theory	14
2.3.4 Theories of Corporate Tax planning	15
2.4 Empirical literature Review.....	17
2.4.1 Debt in the capital structure and Tax Saving	17
2.4.2 Capital Allowances and Tax Saving	19
2.4.3 Tax education and Tax Saving.....	20
2.4.4 Intelligent sourcing and Tax Saving	22
2.5 Research Gaps	23
2.6 Conceptual framework	24
CHAPTER THREE	26
RESEARCH METHODOLOGY	26
3.1 Introduction	26
3.2 Research Design	26
3.3 Study Area.....	26

3.4 Target Population	26
3.5 Data Collection Instrument	27
3.6 Data Collection Procedures	28
3.7 Pilot Study	28
3.7.1 Validity.....	29
3.7.2 Reliability.....	29
3.8 Data Analysis and Presentation.....	30
3.9 Regression Assumptions	31
3.9.1 Multicollinearity Test.....	31
3.9.2 Normality Test	32
3.9.3 Linearity Test	32
3.9.4 Heteroscedasticity Test	32
3.10 Ethical Considerations.....	32
CHAPTER FOUR.....	34
RESEARCH FINDINGS AND DISCUSSIONS	34
4.1 Introduction	34
4.2 Response Rate	34
4.3 Demographic Information of Respondents.	35
4.3.1 Gender levels of respondents	35
4.3.2 Education background of the Respondents.....	36
4.3.3 Age of the Firm and years worked in the company	36
4.4 Factor Analysis.....	37
4.4.1 Debt to Capital Structure.....	37
4.4.2 Capital Allowances	39

4.4.3 Tax Education	40
4.4.4 Intelligent Sourcing.....	41
4.4.5 Tax saving	43
4.5 Descriptive Statistics	44
4.5.1 Descriptive results for debt to capital structure.	44
4.5.2 Descriptive results for Capital Allowances.....	46
4.5.3 Descriptive results for Tax Education.....	47
4.5.4 Descriptive results for Intelligent Sourcing.	48
4.5.5 Descriptive results for Tax Saving.....	50
4.6 Correlation Analysis.....	52
4.7 Diagnostic tests	54
4.7.1: Multicollinearity Tests	54
4.7.2 Normality Tests.....	55
4.7.3 Linearity Test	56
4.7.4: Heteroscedasticity Test	58
4.8 Regression Analysis	59
4.9 Hypothesis Testing.....	63
CHAPTER FIVE	65
SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	65
5.1 Introduction	65
5.2 Summary of Major Findings	65
5.2.1 Debt in Capital Structure and Tax Saving by Manufacturing Firms	65
4.2.2 Capital Allowances on Tax Saving by Manufacturing Firms	66
4.2.3 Tax Education on Tax Saving by Manufacturing Firms	66

4.2.4 Intelligent Sourcing on Tax Saving by Manufacturing Firms 67

5.3 Conclusions67

5.4 Recommendations68

5.5 Areas for Further Research.....68

REFERENCES..... 69

APPENDICES..... 72

Appendix I: Introductory Letter72

Appendix II: Questionnaire.....73

Appendix III: Plagiarism Report76

LIST OF TABLES

Table 3.1: Target Population.....	27
Table 3.2: Reliability Results.....	30
Table 4.1: Response Rate.....	34
Table 4.2: Age of the Firm and years worked in the company.....	37
Table 4.3: Debt to capital structure KMO Sampling Adequacy and Bartlett's Sphericity Tests ..	38
Table 4.4: Debt to capital structure Component Matrix	38
Table 4.5: Capital Allowances KMO Sampling Adequacy and Bartlett's Sphericity Tests	39
Table 4.6: Capital Allowances Channels' Component Matrix	39
Table 4.7: Tax Education KMO Sampling Adequacy and Bartlett's Sphericity Tests	40
Table 4.8: Tax Education Component Matrix	41
Table 4.9: Intelligent Sourcing KMO Sampling Adequacy and Bartlett's Sphericity Tests.....	42
Table 4.10: Intelligent Sourcing Component Matrix	42
Table 4.11: KMO Sampling Adequacy and Bartlett's Sphericity Tests for Tax saving.	43
Table 4.12: Tax saving Component Matrix	44
Table 4.13: Debt to capital structure.....	45
Table 4.14: Capital Allowances.....	46
Table 4.15: Tax Education.....	47
Table 4.16: Intelligent Sourcing	49
Table 4.17: Tax Saving	51
Table 4.18: Correlation results between tax planning strategies and tax saving	53
Table 4.19: Multicollinearity	55
Table 4.20: Kolmogorov-Smirnov.....	55
Table 4.21 Heteroscedasticity Test.....	59

Table 4.22 Model Summary	60
Table 4.23: ANOVA.....	61
Table 4.24: Regression coefficients	61
Table 4.25: Hypothesis testing summary.....	64

LIST OF FIGURES

Figure 2.1: Conceptual Framework	25
Figure 4.1: Gender of the respondents	35
Figure 4.2: Education levels of the respondents	36
Figure 4.3: Debt in Capital Structure and Tax Saving	56
Figure 4.4: Capital Allowances and Tax Saving	57
Figure 4.5: Tax Education and Tax Saving	57
Figure 4.6: Intelligent Sourcing and Tax Saving	58

ABBREVIATIONS AND ACRONYMS

CDT – Commissioner of domestic taxes

COMESA – Common Market for Eastern and Southern Africa Countries

EAC – East Africa Community

EACMA – East Africa Customs Management Act

GOK – Government of Kenya

ITA - Income tax Act

KAM – Kenya Association of manufacturers

KRA – Kenya Revenue Authority

NACOSTI – National Commission for Science, Technology and Innovation

OECD – Organization of Economic Co-operation and Development

R&D – Research and Development

TAT – Tax appeal tribunal

TOT –Turnover tax

TPA – Tax procedure Act

VAT – Value Added Tax

DEFINITION OF KEY TERMS

Capital allowances Capital Allowance is a claim against assessable profits by companies when computing their tax liabilities (Robinson et al., 2010).

Debt capital structure: Debt capital refers to borrowed funds that must be repaid later, usually with interest (Hai & See, 2017) Common types of debt capital are bank loans, personal loans. Debt capital is the capital that a business raises by taking out a loan. It is a loan made to a company, typically as growth capital, and is normally repaid at some future date.

Intelligent sourcing Finding the balance between the quality of items being purchased and affordability with no compromise to quality (Nwaobia et al., 2016)

Manufacturing is the creation or production of goods with the help of equipment, labor, machines, tools, and chemical or biological processing or formulation (KAM, 2020).

Tax education Business workshops and meetings, designed to help the small business owner understand and fulfill their tax responsibilities these are held at various locations throughout the country (Wadesango & Mwandambira, 2018)

Tax planning Use of the legal methods to modify an individual's or corporate financial situation to lower the amount of income tax owed (Spicer & Becker, 2018)

Tax savings To minimize / the decrease in tax paid or payable to the tax Authority without duplication, increase in any refund attributable to tax benefit (Hanlon & Heitzman, 2009).

CHAPTER ONE

INTRODUCTION

1.0 Chapter Overview

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

1.1 Background of the Study

There are many provisions in the law that provide opportunities for tax saving hence, making it able to pay less tax. Unfortunately, this fact is only known to just a small percentage of business population. Everyone has the right to organize their affairs in such a way that the tax imposed under the relevant legislation is less than it should be. If he succeeds in ordering them to achieve that result, then however unfavorable the Commissioner of Home Affairs or his fellow taxpayers may be against his cunning, he cannot be compelled to raise taxes (Lord Tomlin in the House of Commons) *Lords of the United States of America Royal, IRC v Duke of Westminster, 1936*).

The obligation to pay tax owed to Government is a known fact to many businesses operating in the country. At first humans lived in a state of nature. They have no government and no laws to govern them. There were difficulties and oppression in the society. To ensure their escape from their natural state, they agreed to live together under a common law and created the enforcement mechanisms and laws that shape it. This is how power or government or sovereignty or state came into being. Tax came into being to fund the sovereign under the social contract.

Taxation begins with community members giving gifts to their heads or leaders in return for leadership. As trade between communities expanded, rulers required merchants passing through their countries to pay a small portion of their wares as gifts. The merchants who returned to their respective communities also paid for a part of their goods in the treasury of the rulers.

The obligation to pay tax owed to the government is a known fact to many businesses operating in the country. Every individual who wishes to register a business enterprise or any other form of organization in Kenya is legally obligated to regularly file their tax returns or any other form of tax implication to their organization. Normally all firms, including manufacturing ones, are taxed on the corporate tax rate of 30% for residence and 37.5% for non-residence. They are taxed on all forms of incomes generated in a year of income, which is normally a period of 12 months, fiscal period. Companies are required to pay taxes in four installments i.e., by 20th of the fourth, sixth, ninth and the twelfth month of a year of income, at 25% of their estimated income in each installment. This normally applies to ordinary companies. However, in the cases of companies in the agricultural sector, they are required to make two installments i.e., by the 20th of the ninth and twelfth month at 75% and 25% respectively of their estimated income. Income tax returns are normally filed at the end of the sixth month after the year-end e.g., in the case of companies whose financial year ends every 31st December, by 30th June the following year (ITA, 2021).

One aspect that has been a thorn in the flesh of manufacturing firms in Kenya is the heavy tax burden they have. Manufacturing firms continue to complain about a tax regime that is not conducive for their operations. To this effect, the Kenya Association of Manufacturers (KAM), the umbrella body for manufacturers has officially complained to the government about the tax system in the country. The KAM's annual reports of 2020 and explained its dissatisfaction with the existing tax laws with some of its members relocating to a friendly tax jurisdiction.

It is ironical that while firms in the manufacturing industry continue to suffer from heavy tax burden/ impact, there exist tax planning strategies in the Income Tax Act (ITA 470), meant to cushion/mitigate such companies from heavy taxation. This fact leads to the question of whether

the tax planning strategies available under the Income Tax Act have any effect on the tax saving for the manufacturing industry.

There are several tax planning strategies available under the Income tax Act. The use of debt in the capital structure; debt is treated as an allowable expense before arriving at the taxable income, interest paid for the debt in terms of the financing cost qualify as allowable expense, thus companies that incorporate debt in their capital structure have an advantage over those that purely use equity. Leverage financing occurs when a company increases working capital or capital expenditure by selling debt instruments to individual and/or institutional investors.

Capital allowances are the practice of allowing taxpayers to exempt taxpayers from their material capital expenditures by allowing them to be deducted from their annual taxable income. Capital allowances are similar to tax-deductible costs and are available in relation to the qualifying cost of capital incurred in providing certain assets for use for commercial or rental business purposes. They effectively allow taxpayers to write off the value of assets over a period of time. Therefore, capital allowance is a right to the estimated profit made by companies when calculating their tax liability.

Tax education plays a significant role in tax savings, it is intended to provide knowledge of the existence of opportunities to reduce tax, thus easing the tax burden. Tax training on computation of capital allowances such as wear and tear, investment deduction among others is useful in reducing the tax payable and reserve the cash flow.

Intelligence sourcing should be applied to reduce the tax burden whereby, an organization focusses on procuring its inputs only from tax advantaged countries and regions such as COMESA and EAC where there are favorable trade agreements and treaties.

While the income tax Act Cap 470 of laws of Kenya provides tax planning strategies aimed at generating tax savings, manufacturing firms in the country continue to express dissatisfaction with the existing tax laws, which they complain give them a heavy tax impact/burden that drastically reduces their profits/ revenue reserves. This study demonstrated whether the available tax planning strategies available under the law to manufacturing firms are effective in generating tax savings. The study will show whether the strategies are effective enough to create a significant savings for the manufacturing companies and if not why is the case.

The study established the most effective strategy, that is, use of debt in capital structure, capital allowance, tax training and intelligent sourcing of inputs, to mitigate/ cushion tax as well as the most widely known among the finance officers/ tax consultants.

Therefore, this study sought to establish if the above strategies, which are laid down by the Government under the Income tax Act for creating tax savings are effective and consequently contributes to substantial tax savings, or whether the manufacturer's claim that the tax regime is oppressive is valid and requires the Government to address its tax legislations. The study was carried out in Nairobi County as most manufacturing companies are in Nairobi Industrial area.

1.2 Statement of the Problem

There has been growing disquiet and discontent among the manufacturing firms in Kenya owing to the high level of taxation within the existing tax regime and dwindling revenues to the business occasioned by hard economic times, the taxes have been high to servicing the ballooning public debt, corruption, high cost of fuel used by manufacturers, inflation and high interest rates partly caused by COVID-19 pandemic that have led to massive job losses and reduced purchasing power.

There is an urgent need to protect manufacturing companies from high taxes. Kenyan companies report that 68.2% of profits come from taxes, tax competitiveness is low and the country remains high among the most tax evasive countries in the world. Tax avoidance is still high with a tax gap of around 35%. Tax laws remain complex and cumbersome, characterized by unequal and unfair taxes, a narrow tax base with highly variable commercial tax rates, and poor tax compliance (KIPRRA, 2016).

While most of the firms continue to operate under unfavorable tax regime, some firms have opted to close shops or shift operations to other countries with more favorable tax laws that favorably affect their profitability and liquidity. The Justifications given for such moves is the heavy tax incidences being experienced by the Manufacturing firms. If the trend is not checked and controlled, the government risks losing out in its main source of revenue. Tax revenues are the largest source of government budgetary resources to finance public expenditures without excessive public and external borrowing. Kenya's overtime has been a heavy tax burden, but the country faces a clear need for more tax revenue even to maintain public services and funds - rising debt.

Whereas there is a heavy tax incidence on the manufacturing firms, the government has placed legislation through which companies can mitigate the tax burden, these tax strategies are provided for under the Income Tax Act Cap 470 The provisions of the Income tax Act 470 are meant to cushion the Manufacturing firms from taxation, the use of debt capital in the capital structure, available capital allowances, utilization of tax credits/losses, allowable business expenses, tax education and intelligent sourcing of the purchases.

The study concentrated on ways the selected manufacturing firms mitigate the tax burden, thus the study does not provide an argument for or against the acts of payment of taxes, whether fair or not, but only the effect of tax planning strategies on creation of savings for the manufacturing firms.

This study examined the effect of tax planning strategies on tax saving by manufacturing firms in Nairobi County, Kenya.

1.3 Objectives of the Study

This section outlines the objectives, which were addressed by the study. The objectives are categorized into general objective and specific objectives.

1.3.1 General Objective

The general objective of the study is to examine the effect of tax planning strategies on tax saving by manufacturing firms in Nairobi County, Kenya.

1.3.2 Specific Objectives

The study seeks to address the outlined specific objectives;

- i. To examine the effect debt in capital structure on tax saving by manufacturing firms in Nairobi County, Kenya.
- ii. To establish the effect of capital allowances on tax saving by manufacturing firms in Nairobi County, Kenya.
- iii. To assess the effect of tax education on tax saving by manufacturing firms in Nairobi County, Kenya.
- iv. To find out the effect of intelligent sourcing on tax saving by manufacturing firms in Nairobi County, Kenya.

1.4 Research Hypotheses

- i. H_{01} : Debt in capital structure has no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya.
- ii. H_{02} : Capital allowances have no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya.

- iii. H₀₃: Tax education has no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya.
- iv. H₀₄: Intelligent sourcing has no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya.

1.5 Significance of the Study

This study analyzed and verified the effectiveness of available tax planning strategies thus providing valuable information/ insights to manufacturing firms and the general business community on strategies that will enable them to reduce their tax burden/impact. Tax Advisors/Financial consultants may also benefit from the study by using the findings as source of reference when providing professional opinion/ advice.

Government may find the findings as a reason to seal any revenue loopholes that exist in the Income tax Act (ITA), VAT Act in areas of tax planning and come up with new statues, the study may help government in addressing capital flights through intelligent sourcing outside the country thus safeguarding job opportunities in the country, seal revenue leakages. This study can be useful for students, researchers and other scholars who will benefit from doing more research and research at the forefront and making more discoveries that can be useful for the country and the business class.

1.6 Scope of the Study

This study assessed the effect of tax planning strategies on tax saving by manufacturing firms in Nairobi County, Kenya. The focus was on capital allowances, debt in capital structure, tax education and intelligent sourcing. The study target population was 118 manufacturing firms in Nairobi Industrial Area as per the County Integrated Financial Operations Management Systems Business Activity Code, County of Nairobi (2021).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a summary of the supporting literature reviewed in an attempt to identify the theories in the topic selected and thereby demonstrate a research gap, which gives a justification for the study. It provides a complete discussion of the concepts of taxation and explore some of the basic concepts in this discipline/or area of knowledge. The chapter concentrated on tax savings strategies and inquire how manufacturing firms may save funds using knowledge of the concepts. It also consists of a theoretical framework and conceptual framework.

2.2 Review of Concepts

2.2.1 Tax saving

There are many provisions in the law that provide opportunities for tax saving hence, making it able to pay less tax. Unfortunately, this fact is only known to just a small percentage of business population. Everyone has the right to organize their affairs in such a way that the tax imposed under the relevant legislation is less than it should be. If he succeeds in ordering them to achieve that result, then however unfavorable the Commissioner of Home Affairs or his fellow taxpayers may be against his cunning, he cannot be compelled to raise taxes (Lord Tomlin in the House of Commons) *Lords of the United States of America Royal, IRC v Duke of Westminster, 1936*).

2.2.2 Tax planning

Several studies have examined the impact of tax planning on tax savings. Most studies find that tax planning reduces tax savings (Hai & See, 2017). Spicer & Becker (2018) argue that taxpayers who know that their taxes are higher than the average tax paid by others are better able to plan their taxes. By default, the perception of taxpayers to pay heavy taxes can be avoided by planning

to use available avenues provided by law by the government. According to Sour (2016), quoted from Spicer & Becker (2018), it was also found that the behavior of taxpayers when reporting too little information was positively related to high tax rates.

High taxes are not only a problem in developed countries but also in Kenya and other less industrialized African countries, for example in Kenya manufacturing companies face taxes in various forms and nuances such as: import duties, export duties and customs duties, sales and VAT, withholding taxes and Income and PAYE (KRA, 2017).

Every time the price goes up due to an increase in the tax rate; prices of goods and services increased and consumption and turnover decreased, causing a slowdown in the growth of manufacturing enterprises. Paying taxes is one of the business outflows that reduce the purchasing power of companies (Mühlbach, Kirchler & Schwarzenegger, 2017). This is because most of the money raised is used to pay taxes and not to expand the business. The results of Torgler (2016) show that the purchasing power of the company immediately decreases so that the organization pays taxes. For example, if corporate tax rates are relatively low but individuals face high personal income tax rates, they may feel their personal tax burden is unfair and choose to report only a portion of their income. By the same token, large corporations are often more likely to exploit tax loopholes, thereby contributing to perceived injustices in the system. Therefore, the tax rate and the overall structure of the taxation system have a significant impact on the tendency of tax avoidance and tax avoidance.

2.2.3 Debt in the capital structure

The capital structure of a company consists of two components; Capital provided by owners (equity) and capital provided by non-owners (debt). The cost of equity is dividends, while the cost of debt is interest. In Kenya, as in many other countries, interest on corporate debt is tax-deductible

before it reaches taxable income, whereas dividends are not. Businesses can take advantage of this tax deduction by determining the optimal amount of debt to carry and work on. It should be noted that the tax authorities are trying to limit the abuse of this tax deduction. This Interest/Capitalization Limit, Section 16(2)(j) of the Income Tax Act provides that interest on debt in excess of three times the equity of a foreign controlled entity (other than a bank) is not tax deductible (Income Tax Act, Section 470, 2009).

2.2.4 Capital allowances

These are tax breaks offered for capital expenditures. This includes wear and tear allowances, reduced business buildings, reduced investment and reduced agricultural labor. The Income Tax Act allows companies to change their income with certain investment allowances. This benefit includes an engine wear allowance and an investment allowance.

The law revises Schedule Two of the Income Tax Act, which defines various forms of capital deductions/relaxations. The second list contains some of the most important tax incentives for investors, such as investment reductions, wear and tear reductions, agricultural deductions and industrial and commercial building allowances. They are regulated in Article 15(2) and annexes to both laws. This allowance serves as an investment incentive. In particular, there is a 100% reduction in investment in industrial buildings and machinery used by manufacturers and for hotels built from January 1, 2004 onwards.

Additionally, those who opt to invest outside the principal municipalities of Nairobi, Mombasa and Kisumu have been given a huge boost on investment deduction at 150% of the capital investment in the first year of operation. This is meant to foster rural development. It is expected that the more the capital allowance claimed by a firm, the higher the tax savings. This study

establishes whether firms are aware of capital allowances provided by the government through the Income Tax Act and the extent to which they generate tax savings for the firms.

A construction allowance (sometimes referred to as an investment allowance) is a deduction that allows real estate investors to offset the fixed costs of building their investment property against their estimated income, 10% per year (ITA Cap 470). A wear premium is charged to the capital cost of the machine when it is divided into five classes, each offered at a different price.

Class 1 - includes heavy excavation equipment and self-propelled vehicles, such as: B. Trucks over 3 tons, forklifts, trucks. The rate is 25% per year. Class 2 - computer, copier, scanner. The rate is 20%. Class 3 - includes light self-propelled vehicles and other machines such as airplanes, motorcycles, trucks under 3 tons. The rate is 12.5%. Class 4 - eg furniture and fixtures, machinery, fixtures, telephones, whiteboards, bicycles. The rate is 10%

There are four types of capital quotas: Initial premium (made once over the life of the asset). Annual haircuts (accumulated annually over the life of the asset after deducting the original accruals). Equalization Adjustment (This occurs after a qualifying capital issue has been approved). Investment Subsidies (These are given once in a lifetime for eligible capital expenditures and are used to encourage investment in certain sectors of the economy).

The requirements to apply for a capital grant are that the applicant company must have a qualifying capital cost, the manufacturing company must own the assets for which the claim is filed. Qualified investments must be used for commercial or business purposes

2.2.5 Intelligent sourcing

Companies can reduce their tax burden by intelligently submitting their purchases and inputs. However, these are imported materials from tax-free areas. This includes, for example, imports

from the East African Community (EAC) or the Common Market for East and South Africa (COMESA). Import tariffs from these sources are lower than import tariffs from other countries. These areas eventually became free trade zones, allowing duty-free imports into them.

This will indeed reduce the cost of imports due to reduced or zero tariffs. Thus, business total operating cost will reduce through tax savings created via intelligent sourcing. The more a business source from lower tax regions the higher the expected tax savings generated.

2.2.6 Tax education

The more the staffs are educated on tax matters the more one stands a chance to take advantage of the available measures and create considerable tax reductions. Any person involved in tax matters should undergo tax training to fully understand the applicable taxes in business set up. This involves attending tax seminars, workshops organized by tax authority, gathering information from local tax magazines, and liaising with the tax authorities as well as tax consultants for advice/professional opinion.

2.3 Theoretical Review

2.3.1 Credit theory of money

The credit theory of money states that "selling and buying is the exchange of merchandise with credit, the value of credit or money does not depend on the value of the metal, but on the creditor's right to pay and the debtor's obligation to pay." his debt and his right to release through payments to creditors and creditor obligations to receive payment" (Werner, 2005).

This means that the buyer (debtor) is obliged to pay money to pay off his debt, while the seller (creditor) is obliged to accept the money. The money to be paid is not dependent on metal (eg gold or silver), which means that money serves as a means of paying off debts unsecured in any metal,

unlike in the days of the gold standard. The buyer pays cash immediately or at a later date to settle the debt and is considered a debtor until payment is made. The arguments of other scientists agree with Werner. Graeber (2011) argues that the main function of money is as a unit of account. It means money is debt. Mehrling (2012) states that debt is an obligation that is settled with money.

From the point of view of the above researchers, we can draw on the theory of money credit to explain the two main functions of money, namely the unit of account and store of value. As a unit of account, it is used to record cash and credit sales, loans, and as a store of value; used to account for assets and liabilities in all business and personal transactions. The theory underpins the tax savings variable in this study.

2.3.2 Stakeholders theory

Stakeholder theory states that there are people other than the company's shareholders who can benefit from the company's success and are harmed by its failure. These individuals include creditors, employees, governments, creditors, customers, shareholders and society. Each interest group has its own interests in the company: creditors want quick payments; Workers want secure jobs that guarantee a steady paycheck; the government wants taxes and obedience to the law. Creditors rather than bankers demand timely interest payments; Customers want regular delivery of quality goods and services at affordable prices, and shareholders want to win. The interests of all stakeholders must be considered by management to achieve the growth and survival of the company (Freeman, 1984).

Stakeholder theory argues that corporations exist not only to generate profits for their owners, as stated by shareholder theory, but to serve the interests of various people in society (Freeman, 1984). According to stakeholder theory, the two categories of stakeholders are creditors and lenders. Lenders sell goods and services to companies now and collect payments later; Creditors

advances in the form of corporate loans, bonds and overdrafts on agreed terms for the early repayment of future principal and interest. Both creditors and lenders are liabilities of the company and are reported as liabilities in the financial statements (Brealey & Myers, 2003).

Stakeholder theory is widely used in business and influences the board of directors in formulating good corporate policies. This involves preparing financial reports to reflect the interests of all stakeholders and confirming that workers demand remuneration commensurate with their performance. However, stakeholder theory can be abused when, for example, creditors charge excessive interest rates; Creditors put undue pressure on payment companies and workers went on strike without declaring a trade dispute. The theory underpins the tax planning strategies in this study.

2.3.3 Capital Structure Theory

Capital structure theory has been developed by financial economists including Modigliani and Miller (1958); but is widespread in the financial sector. Finance as a discipline consists of three main decisions: investment decisions, financing and dividends. Capital structure is included in the category of funding decisions. It is difficult for a company to be an independent resource to pursue its goals. The share capital comes from the business owner but may not be sufficient to trade, expand and diversify. Therefore, firms borrow capital from outside to increase their equity; Loans represent debt (Block, Hirt, and Danielson, 2014).

In financial statements, share capital must be reported as equity and debt as debt (International Accounting Standard 1 (IAS 1). Financial managers seek funds, both equity and debt, and consider how to combine the two sources of capital for optimal corporate profits, accountants classify and record financial transactions involving equity and debt, and advise management in terms of their implications (Ifede, 2011; Pandey, 2010; Modigliani and Miller, 1958), which means that the

theories of capital structure The basic knowledge formulated by financial economists is the basic knowledge that influences the work of financial managers and accountants in preparation related to finance. The combinations of equity and debt theories cited above in Sections 2 and 3 are harmonized in capital structure theory. The theory underpins the debt in capital structure variable in this study.

2.3.4 Theories of Corporate Tax planning

The main theory of this research is Hoffman's tax planning theory, which states that efficient companies legally transfer funds from tax authorities into the company's portfolio (Hoffman, 1961). The theory states that tax planning activities are desirable only when there is a tendency to generate minimum taxable income without affecting accounting income, because the company's tax liability is based on the former and not the latter, that is, taxes are levied. on taxable income. Therefore, companies need to increase their efforts in tax planning activities that reduce taxable income and not accounting profit. Hoffman (1961) stated that there is a positive relationship between corporate tax planning activities and their performance to the extent that the tax benefits of these activities exceed the tax costs.

Recent contributions (Inger, 2012; Kawor & Kportorgbi, 2014; Ogundajo & Onakoya, 2016) to this theory are consistent with Hoffman's theory that through a deeper understanding of the ambiguities and loopholes of tax law, companies can derive significant tax savings from their operations. Although tax planning theories and frameworks explain the frequency of tax planning in many ways in terms of cumulative benefits, costs, and reality, the theoretical literature discussing tax planning from an industry perspective is still limited.

The projected growth of corporate tax planning has led to two alternative perspectives on the motivation and impact of this activity. Several studies have identified corporate tax planning as a

continuation of other tax-advantaged activities, such as use of debt, examined. Graham and Tucker (2006) examined firms involved in 44 corporate tax breaks over the period 1975-2000 and compared these firms with a matched sample of firms not involved in the litigation and identified characteristics such as size and profitability that positively contradict the use of tax havens, arguing that tax havens serve as a substitute for interest in determining capital structure. This document represents the common belief that corporate tax havens are simply tax savers with no other dimension of authority. An alternative theoretical approach emphasizes the interaction of these tax evasion activities and the problems with the public authorities inherent in public companies. According to this view, tax planning activities can create a protective shield against corporate opportunism and rent diversion. This view has been the focus of several recent studies, including Desai and Dharmapala (2006) and Desai, Dyck, and Zingales (2007), and is part of an emerging paradigm that highlights the relationship between corporate governance regulations and their tax responses.

From this perspective, corporate tax evasion not only results in individual costs, but these costs may outweigh the benefits to shareholders given the diversion opportunities offered by these funds. Desai and Dharmapala (2006) discuss examples of interactions between tax havens and various forms of managerial opportunism, and illustrate that direct diversions and subtle forms of earnings manipulation can be facilitated when managers take steps to avoid tax avoidance. While the traditional view of corporate tax avoidance suggests that firm value should increase through tax avoidance, an alternative view offers a more nuanced prognosis. In particular, corporate governance should be an important determinant in assessing perceived corporate tax savings. While the direct effect of tax avoidance is to increase the after-tax value of the firm, this effect can be offset, especially in poorly managed firms, by increasing the opportunities for shifting

management profits. Therefore, the net effect on firm value should be larger for firms with stronger management institutions. The theory supports the tax planning strategies in this study.

2.4 Empirical literature Review

2.4.1 Debt in the capital structure and Tax Saving

From developing countries, Kawor and Kportorgbi (2014) show that tax planning does not have a significant effect on the performance of these companies in Ghana. Nanik and Ratna (2015) examine tax planning (TP) and the value of non-bank companies and financial companies in Indonesia with board diversity as a moderating variable. The results show that after applying panel analysis to data analysis, tax planning has a very significant effect on firm value. In Pakistan, Sadia and Qaisar (2012) focused on the textile industry and found that profitability, size and capital intensity affect leverage in a firm's capital structure. Using banking and insurance companies listed on the Colombo Stock Exchange (CSE), Gamlath and Rathiranee (2013) examined the impact of capital and concrete intensity on the company's financial performance using correlation and regression analysis. The results showed that the intensity and availability of the company's capital had a significant positive effect on the company's financial performance and future stability. In Kenya, Wafula, Namusonge, and Nambuswa (2016) focused on the impact of leasing on the financial performance of the Trans Nzoya District government by conducting regression analysis. Studies show that finance leases have a positive impact on asset returns. In Bangladesh, Abdus (2013) examined the impact of leasing financing on the financial performance of manufacturing companies by conducting content analysis. This study shows a positive correlation between lease financing and financial outcomes.

Documents from previous studies show significant benefits from tax avoidance. For example, research has shown that corporate tax havens save SIC participants billions each year (Bankman,

1999). Similarly, other studies have shown that tax havens result in deductions as high as 9 percent of total wealth (Graham and Tucker, 2006). However, previous studies have also found that there are significant differences in the ability of firms to avoid income tax (Dyreng et al. 2008). Thus, while the benefits of tax avoidance are large, the determinants of corporate tax avoidance activity remain unclear (Hanlon and Heitzman 2009). Examining whether the industry experience of a firm's external auditors and consulting firms influences the level of tax evasion is interesting for at least four reasons. First, corporate tax planning activities, as described above, result in significant tax savings. Previous research investigated whether CEO characteristics, director tax incentives, and ownership structure influence tax avoidance (Armstrong et al. 2009; Chen et al., 2010; Dyreng et al. 2009; Robinson et al. 2010). In addition, recent research examines the characteristics of firms dealing with tax havens (Wilson, 2009).

However, little is known about the mechanisms companies use to evade income taxes. Thus, considering the experience of the company's accounting industry provides an overview of the potential ability of companies to avoid income taxes. Two notable exceptions are Mills et al. (1998) and Cook et al. (2008). Mills et al. (1998) found a negative relationship between a firm's investment in tax planning and its effective tax rate. Cook et al. (2008) find that tax services rendered by auditors are associated with a greater reduction in the effective corporate tax rate in the fourth quarter. There are no studies examining whether tax audit industry experience is related to tax avoidance. Although significant savings are associated with tax avoidance, there is little empirical evidence on the determinants of corporate tax avoidance activities (Dyreng et al. 2009). Further research examined the relationship between tax department orientation and tax avoidance and found that tax departments organized as profit centers had lower effective tax rates than tax departments organized as cost centers (Robinson et al., 2010).

2.4.2 Capital Allowances and Tax Saving

There is no significant relationship between the orientation of the tax department and the effective cash tax rate (Robinson et al., 2010). Similarly, there is a negative relationship between the tax director's compensation and the effective tax rate, but there is no significant relationship between the tax director's compensation and the effective cash tax rate. (Armstrong et al., 2009). Previous research has examined the relationship between tax avoidance and firm characteristics such as size, capital intensity, leverage, and research and development (eg, Gupta and Newberry 1997; Shevlin and Porter 1992; Zimmerman 1983). Extending this line of research provides evidence that corporate tax planning costs are associated with lower effective tax rates (Mills et al., 1998). Additional evidence also suggests that the level of tax expense paid to external auditors is associated with a greater reduction in the fourth quarter effective tax rate (Cook et al, 2008). Finally, Rego (2003) finds that the size of foreign transactions is negatively related to the effective tax rate, indicating that MNCs have more opportunities to evade income taxes. Further research analyzed whether the basis for managers' compensation purposes is tax avoidance and finds that firms whose managers are compensated on an after-tax basis have a lower effective tax rate than firms whose managers are compensated for each tax base (Phillips, 2003). One might think that fiscal factors are also becoming increasingly important in developing countries for investment projects that could easily be undertaken elsewhere with similar non-fiscal characteristics, but there is no clear evidence for this. The Review of Econometric Surveys (PD) in Africa does not even mention the effect of taxes (Basu & Srinivasan, 2Q02).

Another study for Brazil found that investment in the Northeast was actually critical of tax breaks (Shah and Toyne, 1978). Not much has changed since that initial review of the case literature. Most cases attribute an insignificant role to tax considerations (as long as the tax system is relatively

well structured) and emphasize the role of non-tax factors in investment decisions. In some cases, such as Mauritius and Ireland, large tax incentives have undoubtedly attracted investors (Basu and Srinivasan, 2002). Furthermore, in other countries, such as Uganda and Indonesia, the removal of incentives has no impact on investment flows. Real world experiments to prove that selective incentives are not important for the investment climate are of interest (OECD report, 1997).

2.4.3 Tax education and Tax Saving

The data show that tax incentives are usually insufficient to attract large investment flows. Mauritius, Costa Rica, Ireland, and Malaysia are examples of successful countries that attract investment and offer investors many advantages besides tax breaks, such as stable economic and political conditions as well as an educated workforce, good infrastructure, open trade for exporters, reliable rule of law and an effective investment promotion system. Experiences such as in Uganda and Indonesia, where tax exemptions and selective tax incentive programs have been phased out in favor of a more attractive general tax regime, support the theory that special tax incentives are effective in attracting investment or stimulating economic development. In 1997, a major tax reform took place in Uganda. These reforms include the complete removal of new tax breaks in favor of a 30% tax rate on corporate income, with a large capital reduction for all investors and unlimited losses. Zero import duties are also imposed on various capital goods. Eliminating selected incentives also makes investment approval much easier.

The main effects of these tax reforms were (comparing the average for the three years before and after 1997): a 1 percentage point increase in the investment-to-GDP ratio, a 70% increase in foreign investment inflows, and a 1 percentage point increase in income GDP tax. It should be noted that despite these positive effects, in 1998 companies again asked for tax incentives when asked what the government could do to improve the business environment (OECD 1997 report).

In 1984, ambitious tax reforms were implemented in Indonesia, the main objectives of which were to reduce administrative costs and economic distortions, increase equity, and curb obscurity and corruption. The corporate tax rate was reduced from 45% to 35% and selective tax incentives were removed, including tax exemptions, preferential rates, special investment allowances and selectively accelerated depreciation. Despite strong fears that foreign investors would shun Indonesia in favor of countries such as Malaysia and Singapore, the number of FDI projects fell in 1984 but then rose sharply for the rest of the decade. In addition, the value of foreign direct investment fell from the plateau reached in the previous two years, but then reached new highs after 1987. Despite this positive effect, the pressure to regain tax incentives remained constant in 1994 (with a few exceptions). and 1996 (the discretionary tax exemption, although abolished in 2000 in favor of new tax breaks and accelerated depreciation), some incentives were strengthened (Cherenkov, 1993).

Wadesango and Mwandambira (2018) assessed the impact of tax planning on tax savings for manufacturing firms in developing countries. This study finds that manufacturing companies in Zimbabwe do not comply with tax laws, only provide basic tax knowledge and lack understanding of tax issues, but this does not significantly affect tax saving behavior among them. A question posed by previous researcher Singh (2019); Fishman and Swenson (2018) examined whether increased knowledge automatically leads to tax savings. It turns out that only increasing tax literacy without tackling high tax rates and corruption will not have a positive impact on the tax-saving behavior of Zimbabwean manufacturing companies. The results also show that the tax awareness design currently used in Zimbabwe is not effective. Newspapers, the Internet, and repair shops became the least popular methods of obtaining information from manufacturing companies.

The Tax Office (ZIMRA) is also accused of posing as an anti-corruption authority and of neglecting its duties in fulfilling and collecting revenues.

Edward (2012) focused on the effectiveness of tax-cutting strategies on tax savings by manufacturing companies based in the Nairobi Industrial Estate. This shows how effective the tax mitigation strategies available to manufacturing companies are in creating tax savings. The survey was conducted by collecting primary and secondary data from manufacturing companies. A questionnaire was developed and made available to the company's finance staff. It turns out that applying for a capital reduction is not only the most effective tax relief strategy, but also the most popular among tax officials. The rest: Tax training, use of leverage in capital structure, and smart sourcing have all proven ineffective in generating significant tax savings. When it comes to smart supply, most companies cite lengthy procedures as the reason for the inefficiency in creating tax savings.

2.4.4 Intelligent sourcing and Tax Saving

Evidence from developed countries such as MA Desai and D Harmapala (2009) examining tax planning, corporate governance and corporate representation in the United States shows that average tax planning does not have a significant impact on company efficiency. In China, Zhang et al. (2016) used the structural equation model (SEM) to study the impact of corporate tax avoidance on the company's financial performance and found that there is a significant positive and indirect relationship between tax avoidance and market value because it encourages company growth and increases in business profitability, as well as additional cash. cash after tax due to tax avoidance, has helped increase the market value of the company. Vincenzo and Carlo (2011) focused on the profitability of European banks and applied regression analysis in their study and found that taxes have the opposite effect on the stability of the banking system. In the United

States, Blouin, Huizinga, Leaven, and Nicodeme (2014) examined the thin capitalization rule and the capital structure of multinational corporations and found, among other things, that applying the thin capitalization rule leads to a reduction in the overall cost of interest and firm valuation.

In Nigeria, Nwaobia et al. (2016) the impact of tax planning on the value of consumer goods companies using secondary data which was analyzed with a panel regression model. The results show that tax planning has a significant effect on firm value, but the ETR income distributed, dividends and firm age have a significant positive effect on firm value, while firm size, leverage and tangibility have a significant negative effect.

Using the least squares regression (GLS) method, Ogundaio and Onakoya (2016) found that aggressive tax planning, which includes effective tax rates, leverage, company size and age, has a significant impact on the return of productive company assets. listed on the Nigerian Stock Exchange. Kiabel and Akenbor (2014) show that tax planning has a significant and positive influence on the corporate governance of Nigerian banks. On the other hand, some authors apply regression analysis to study tax planning strategies and corporate liquidity. The findings show that tax planning strategies have a negative impact on firm liquidity but positive impact on industry liquidity, suggesting that tax planning is beneficial at the macro rather than micro level.

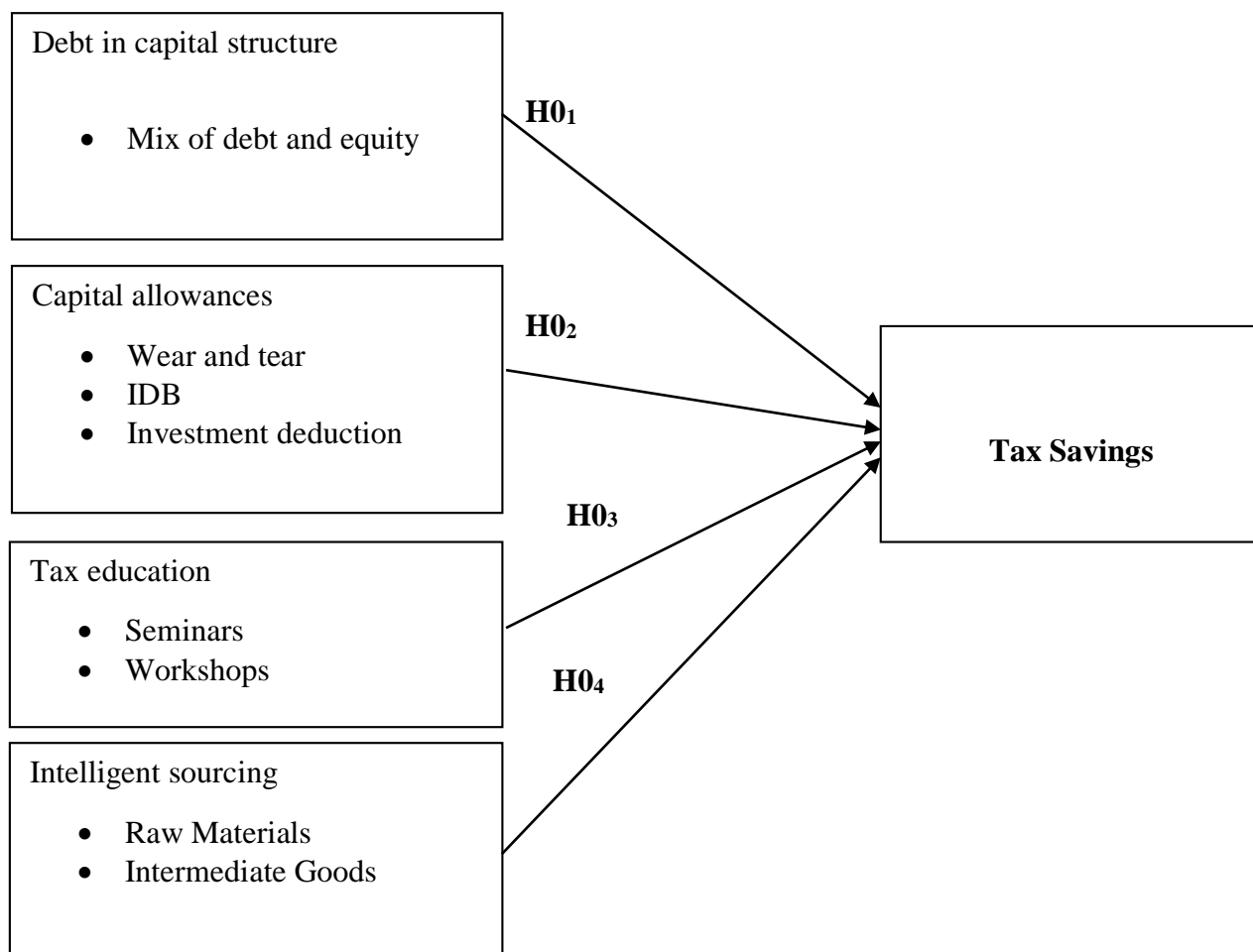
2.5 Research Gaps

Empirical evidence shows that not much research has been done in the subject of the study. Most researchers have concentrated on other tax related issues like the effects of tax incentives on Foreign Direct Investments. Whether a firm's external auditor and advisor's industry competence effects its level of tax evasion, and whether managerial incentives are linked to tax avoidance. Other researchers have concentrated on the effectiveness of tax modernization programs in Kenya. The area on the effectiveness of Tax planning strategies on tax savings has not been given much

attention in previous studies in the area of taxation. This study therefore acts as a benchmark for possible future studies as a means of comparison of results and any changes that may take place over time. It also gives an insight as to why manufacturers in the country are discontented on the tax incidence yet there are mitigation strategies availed through the Income Tax Act by the government to mitigate tax, thus exploring whether they are ineffective, inadequate or any other possible explanation for the current state of affairs.

2.6 Conceptual framework

The independent variables included use of debt in capital structure, capital allowances, tax education, and intelligent sourcing. Tax savings is the dependent variable. Figure 2.1 shows the hypothesized relationship between the independent variables and the dependent variable.

Independent Variables**Dependent Variable****Figure 2.1: Conceptual Framework****Source: Researcher (2022)**

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methods and techniques used in conducting this research to achieve the research objectives that have been set. It covers the areas of survey design, target groups, data collection procedures, trials, validity and reliability of the questionnaire and analysis of the collected data.

3.2 Research Design

The research design is a master plan, research data collection and analysis methods (Bryman & Bell, 2015), defines methods and procedures for data collection and analysis (Zikmond, 2016). This study used an explanatory research design, where inferential statistics such as correlation and regression analysis were used. An explanatory research design was used since the study involved testing the causal- effect relationship between tax planning strategies and tax savings by manufacturing firms.

3.3 Study Area

The study location was premises of manufacturing firms within Nairobi County, Kenya. The number of manufacturing firms operating in Nairobi County is 118, which formed sufficient population sample. Manufacturing firms also practice tax planning strategies and therefore it was essential to determine the role of tax planning strategies in enhancing tax saving.

3.4 Target Population

Population is a group of all items of interest to statisticians (Keller, 2007). Mugenda and Mugenda (2003) refer to the population as a whole series of events or individual objects that have common

observable characteristics. It can also be described as a collection of elements that the researcher wants to draw conclusions from (Copper & Schindler, 2015). The population in this study is the basis from which the subject or research sample is taken. The target population constituted finance managers from a total population of 118 registered manufacturing firms, operating in Nairobi County as per County Integrated Financial Operations Management System Business Activity Code (IFOMS (2021)). A census of all the manufacturing firms was conducted.

Table 3.1: Target Population

Stratum	Target Population
Agro - processing	39
Textile and Apparels	21
Leather and tannery	5
Construction materials	23
Oil and mining	9
Iron and Tea	10
Information, Communication and Technology	11
Total	118

Source: Nairobi County IFOMS (2021)

3.5 Data Collection Instrument

Data collection methods in this study include primary data (questionnaire). The questionnaire consisted of questions about participants' perceptions and the variables and sub-variables associated with the impact of tax savings strategies on manufacturing firms in Nairobi District. According to Ghauri and Gronhaug (2018), primary data is data collected by researchers from direct sources using methods such as surveys, interviews or experiments. With regard to research projects, collected directly from primary sources. The primers were obtained through a structured questionnaire. This is to extract relevant information from manufacturing companies, who are

believed to have relevant skills related to their companies and therefore able to fill out the questionnaires effectively.

3.6 Data Collection Procedures

Ghauri and Gronhaug (2018) define data collection as collecting appropriate and systematic information related to research sub-problems using methods such as interviews, participant observation, focus group discussions, storytelling, and case histories. The questionnaires were completed independently with the help of two researchers, while others were sent by post. The questionnaire was conducted using two methods – the “play and choose” method and a postal survey due to the busyness of the respondents.

To increase response rates, researchers also considered research ethical issues, which include confidentiality and anonymity. The researcher explained the importance of this research to the respondents and asked permission before the research was conducted. The survey assures respondents of the confidentiality and anonymity of their identity, and respondents are notified of difficult questions.

3.7 Pilot Study

Pilot test is an activity that helps researchers to find out whether there are deficiencies, limitations, or other weaknesses in the data collection tool. This allows the researcher to make necessary revisions before conducting the research. According to Kothari (2014), conducting a trial involving several target audiences of the questionnaire with the intention of testing the questions first. Researcher tested 10% of the target sample. This means that the questionnaire was distributed to nine respondents. The pilot test sample was carried out within the recommended range as the rule of thumb is that 5% to 10% of the target sample should be pilot test (Ghauri & Gronhaug, 2018). The aim of the pilot study is to establish the validity of the questionnaire and if improvements are

needed, these will be entered before the final questionnaire is distributed to the actual respondents. The pilot study was conducted in manufacturing firms within Thika town and the responses were excluded from the main study.

3.7.1 Validity

Validity is the most critical criterion and indicates the extent to which the instrument measures to reflect the true differences between the people being tested. Validity means the ability to produce accurate results that reflect the real situation and circumstances of the environment under study (Bryman & Bell, 2015). Content validity is used to verify that a test question measures what it is intended to test. Validity is used to determine whether a survey actually measures what it is supposed to measure, or how accurate the survey results are. To achieve content validity, the research supervisor went through questionnaire and recommended changes aimed at improving the instrument. To test construct validity in this study used factor analysis (KMO test and Bartlett sphericity). For Principal Components Method, extraction value of more than 0.5 is retained for further analyses (Field, 2013).

3.7.2 Reliability

Reliability refers to the ability of an instrument to produce consistent results. Reliability testing was used to find out about data collected and measuring instruments. Cronbach's alpha was used to indicate how the items in a test were positively correlated. The closer the reliability coefficient is to 1, the higher the internal consistency reliability. In general terms Cronbach of 0.7 and 0.8 is an acceptable range while if it is 0.6 and below is poor (Sekaran,2009). Reliability is more concerned with the consistency and the stability of the test result (Bryman & Bell, 2015).

In this study, reliability was tested using questionnaire duly completed by randomly selected respondents. These respondents were not included in the final study sample in order to control for

response biasness. Cronbach's alpha coefficient was generated to assess reliability. The closer the Cronbach's alpha coefficient is to 1, the higher the internal consistency reliability. A coefficient of 0.7 is recommended for a newly developed questionnaire. Table 3.2 shows the pilot study results.

Table 3.2: Reliability Results

Variable	Respondents	α=Alpha	Comment
Debt in Capital structure	9	.766	Reliable
Capital Allowances	9	.724	Reliable
Tax Education	9	.707	Reliable
Intelligent Sourcing	9	.875	Reliable
Tax saving	9	.719	Reliable

Source: Research Data (2022)

Table 3.2 shows that all the variables had a Cronbach alpha above 0.7 and thus were accepted. Reliability test results represented a high level of reliability and on this basis, it was supported that scales used in this study were reliable to capture the variables. All the variables were quite reliable with a Cronbach's alpha reliability coefficient greater than 0.7. The questionnaire was thus reliable

3.8 Data Analysis and Presentation

Cooper and Schinler (2008) highlighted data analysis as inspection, cleaning, transforming and modeling data in order to highlight useful information to draw conclusions and support decision making. The collected data was coded and entered into SPSS to create information used for analysis. Quantitative data analysis was executed through descriptive statistics such as means, standard deviations, and percentages and frequencies. Correlation and regression analysis was also conducted to determine the relationship between the study variables. Results were presented in tables and graphs.

The following model for the regression model was used:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \varepsilon$$

Where:

Y = Tax savings

β_0 = Constant

X1 = Debt in capital structure

X2 = Capital allowance

X3 = Tax Education

X4 = Intelligent sourcing

ε = Stochastic term

3.9 Regression Assumptions

Prior to running the regression analysis, several assumptions were conducted on the data. This was done to ensure that the analysis results are accurate and free from bias (Field, 2009). The tests included multicollinearity, normality, linearity, and heteroscedasticity tests.

3.9.1 Multicollinearity Test

Multicollinearity occurs when there is high correlation between the independent variables, which affects the significance of the individual variables. The Variance Inflation Factor (VIF) was used to check for multicollinearity (Thompson et al., 2017). A VIF value more than 10 implies presence of multicollinearity problem while a VIF value less than 10 implies no multicollinearity problem. Furthermore, the tolerance value greater than 0.2 implies that independent variables are not highly correlated.

3.9.2 Normality Test

Normality test improves the regression model by ensuring the data is normally distributed. Normality of data was tested using the Kolmogorov-Smernov. The criterion is that the probability value should be greater than 0.05 for the data to be normally distributed (Thornhill, Saunders & Lewis, 2009).

3.9.3 Linearity Test

Linearity was tested using scatterplots, which is used to show whether there is a linear relationship between two continuous variables. It is expected that the relationship between variables should be fairly linear before the regression models are applied (Jain et al., 2017).

3.9.4 Heteroscedasticity Test

If the error variance is not constant, then there is Heteroscedasticity in the data. Running a regression model without accounting for Heteroscedasticity would lead to biased parameter estimates. Levene's test for equity of change was utilized to test for homogeneity of fluctuation (Parra-Frutos, 2013). The null hypothesis is that the variance of error term is constant. A probability value greater than five percent leads to acceptance of the null hypothesis, implying a constant variance of the error term.

3.10 Ethical Considerations

Ethical considerations relate to the ethical norms that the researcher ought to consider in all examination strategies in all phases of the research design (Fellows & Liu, 2015). Permission was sought from the university in order to carry out the study. Further, a research permit from the National Commission for Science, Technology and Innovation (NACOSTI) was obtained before commencing the data collection exercise. High standards of ethics was ensured by treating the

information collected from the respondents with utmost confidentiality. Further, the target respondents was informed about the purpose of the research.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This section introduces the findings of the research, discussion and explanation of the results. Demographic statistics, descriptive statistics and model assumption tests are shown in this section. Furthermore, correlation results and multiple regressions were also conducted to establish the connection and linkage between the independent variables and dependent variable respectively.

4.2 Response Rate

A total of 118 questionnaires were administered whereas a total of 103 questionnaires were correctly filled and returned. Table 4.1 presents the return rate.

Table 4.1: Response Rate

Response	Frequency	Percent
Returned	103	87.3%
Unreturned	15	12.7%
Total	118	100%

Source: Research Data (2022)

In this research, 103 were properly filled out of the 118 given questionnaires and returned representing 87.3 percent rate of response. This rate of response is termed as satisfactory to make viable conclusions regarding the study population. Bailey (2000) noted that return rate of 50 % is acceptable and return rate of 70% and above is good. Thus, the return rate of 87.3% is very good for the study. Collection of data procedures applied could have led to this high rate of response. Which include early notification of respondents about the study, emphasis on voluntary engagement in the study, dropping and picking later questionnaires to allow for more time for

filling, keeping anonymity of participants as well as confidentiality and calls of follow up to make some clarification on some questions from the respondents.

4.3 Demographic Information of Respondents.

The section presents the demographic information of the respondents.

4.3.1 Gender levels of respondents

The study sought to determine the gender of the respondents who were the financial managers of the manufacturing firms. The results are presented in figure 4.1.

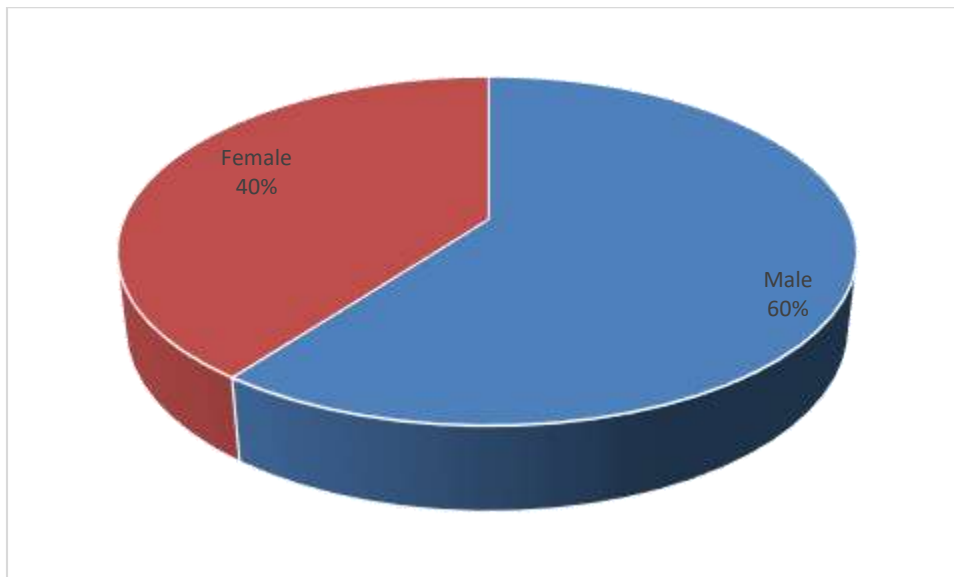


Figure 4.1: Gender of the respondents

Source: Research Data (2022)

The results presented in figure 4.1 show that the 60% of the finance managers were males while 40% were females. This implies that majority of the finance managers in the manufacturing firms were male.

4.3.2 Education background of the Respondents.

The results of the education level of the of the finance managers is presented in figure 4.2.1. Level of education is important in career advancement.

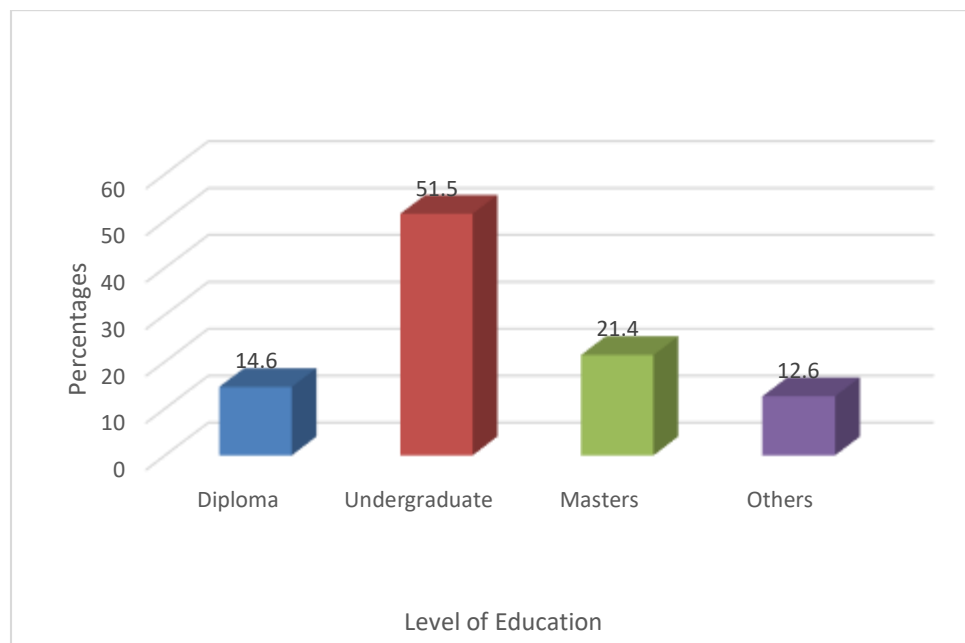


Figure 4.2: Education levels of the respondents

Source: Research Data (2022)

The results in Table 4.2 shows that 51.5% finance managers held first degrees, 21.4% had masters, 14.6% had diploma and 12.6% had other levels of certifications. The finance management position requires quality training and qualification and this justifies the managers have at least a diploma as their lowest education level.

4.3.3 Age of the Firm and years worked in the company

The study sought to determine the age of the manufacturing firm and also the number of years the financial manager of the manufacturing firm had worked in the firm as at the time of study. The results are presented in table 4.2.

Table 4.2: Age of the Firm and years worked in the company

	Minimum	Maximum	Mean	Std. Deviation
Age of the manufacturing firm	2	47	24.29	13.935
Number of years worked in the firm	1	15	7.96	3.955

Source: Research Data (2022)

The results presented in table 4.2 show that from the manufacturing firms that are under study, the one that had the lowest years of operation was two years. The oldest firm in terms of operations had 47 years. The mean years of firm, existence was 24.29. The standard deviation of the years of firms existence was 13.935 meaning that with this standard deviation, the firm's existence were clustered around 24.29 years. The lowest number of years the financial managers had been working for the firm was 1 year. The most experienced financial manager had 15 years. The mean number of work years of the financial managers is 7.96 years and the standard deviation is 3.955 meaning that with this standard deviation, most managers were clustered around 7.96 work years.

4.4 Factor Analysis

To test construct validity in this study used factor analysis (KMO test and Bartlett sphericity). For Principal Components Method, extraction value of more than 0.5 is retained for further analyses (Field, 2013).

4.4.1 Debt to Capital Structure

Findings in Table 4.3 showed that the KMO statistic was .608 which was significantly high; that is greater than the critical level of significance of the test which was set at 0.5 (Field, 2013). In addition to the KMO test, the Bartlett's Test of Sphericity was also highly significant (Chi-square = 42.241 with 15 degrees of freedom, at $p < 0.000 < 0.05$). These results provide an excellent justification for further statistical analysis to be conducted with this variable.

Table 4.3: Debt to capital structure KMO Sampling Adequacy and Bartlett's Sphericity Tests

KMO and Bartlett's Test	
Kaiser-Meyer-Olkin Measure	.608
Bartlett's Chi- Square	42.241
Bartlett's df	15
Bartlett's Sig.	.000

Source: Research Data (2022)

Factor analysis was conducted after successful testing for KMO Sampling Adequacy and Bartlett's Sphericity Tests. Factor analysis was undertaken on the indicators of debt to capital structure statements that attracted a coefficient of more than 0.5 hence were retained for further analysis in regression. Results of the factor analysis are presented in Table 4.4.

Table 4.4: Debt to capital structure Component Matrix

Statement/construct/indicator	Factor loadings
The company uses debt to raise capital	0.752
The company enjoys tax-deduction due to use of debt in capital	0.765
The use of debt in capital allows the company to retain ownership	0.663
The company has easy access to debt	0.637

Source: Research Data (2022)

As shown in Table 4.4, the statement that the company uses debt to raise capital had a component coefficient of .752. It was also established that the statement that the company enjoys tax-deduction due to use of debt in capital had a component coefficient of .765. The statement that the use of debt in capital allows the company to retain ownership had a component coefficient of .663 while passive investment funds are becoming more popular than traditionally in managing investment portfolios to a large extent had a component coefficient of .637. Further, the statement that the company has easy access to debt had a component coefficient of .493. From the results of principal component analysis, it is evident that all statements for ass debt to capital structure attracted factor loadings of more than 0.5 hence were retained for further analysis in regressions.

4.4.2 Capital Allowances

Findings in Table 4.5 showed that the KMO statistic for measures of .691 which was significantly high; that is greater than the critical level of significance of the test which was set at 0.5 (Field, 2013). In addition to the KMO test, the Bartlett's Test of Sphericity was also highly significant (Chi-square = 41.853 with 15 degrees of freedom, at $p < 0.000 < 0.05$). These results provide an excellent justification for further statistical analysis to be conducted.

Table 4.5: Capital Allowances KMO Sampling Adequacy and Bartlett's Sphericity Tests

KMO and Bartlett's Test	
Kaiser-Meyer-Olkin Measure	.691
Bartlett's Chi- Square	41.853
Bartlett's df	15
Bartlett's Sig.	.000

Source: Research Data (2022)

Factor analysis was conducted after successful testing for KMO Sampling Adequacy and Bartlett's Sphericity Tests. Factor analysis was conducted using PCM approach. Factor analysis was undertaken on the constructs of capital allowances that attracted a coefficient of more than 0.5 hence were retained for further analysis in regression. Results of the factor analysis are presented in Table 4.6.

Table 4.6: Capital Allowances Channels' Component Matrix

Statement/construct/indicator	Factor loadings
The company is entitled to investment deduction	0.531
The company is entitled to industrial building deduction	0.652
The company has a claim on wear and tear	0.621
The company has a claim on farm works deductions	0.743

Source: Research Data (2022)

As shown in Table 4.6, the statement that the company is entitled to investment deduction had a component coefficient of $.531 > 0.45$ and was retained for further analysis. The statement that the company is entitled to industrial building deduction had a component coefficient of $.652 > 0.45$ and was retained for further analysis. That the company has a claim on wear and tear attracted factor loading of $0.621 > 0.45$ and was retained for further analysis. Further, principal component analysis results showed that the statement that the company has a claim on farm works deductions had a component coefficient of $.743 > 0.45$ and was retained for further analysis.

4.4.3 Tax Education

Findings in Table 4.7 showed that a KMO statistic of $.673$ which was significantly high; that is greater than the critical level of significance of the test which was set at 0.5 . In addition to the KMO test, the Bartlett's Test of Sphericity was also highly significant (Chi-square = 45.728 with 15 degrees of freedom, at $p\ 0.000 < 0.05$). The results of the KMO and Bartlett's. These results provide an excellent justification for further statistical analysis to be conducted.

Table 4.7: Tax Education KMO Sampling Adequacy and Bartlett's Sphericity Tests

KMO and Bartlett's Test	
Kaiser-Meyer-Olkin Measure	.673
Bartlett's Chi- Square	45.728
Bartlett's df	15
Bartlett's Sig.	.000

Source: Research Data (2022)

Factor analysis was undertaken on the measurement items of tax education that attracted a coefficient of more than 0.5 hence were retained for further analysis in regression. Results of the factor analysis are presented in Table 4.8.

Table 4.8: Tax Education Component Matrix

Statement/construct/indicator	Factor loadings
The company engages tax expert on regular basis	0.693
There are regular seminars to train personnel in the finance department on tax matters	0.681
There are regular workshops to train personnel in the finance department on tax matters	0.61
New personnel in the finance department are oriented on tax matters.	0.643

Source: Research Data (2022)

Factor analysis results in Table 4.8 shows that the statement that the company engages tax expert on regular basis had a component coefficient of $.693 > 0.45$ and was retained for further analysis. The statement that there are regular seminars to train personnel in the finance department on tax matters had a component coefficient of $.681 > 0.45$ and was retained for further analysis. The statement that there are regular workshops to train personnel in the finance department on tax matters had a component coefficient of $.61 > 0.45$ and was retained for further analysis. Further, the statement that new personnel in the finance department are oriented on tax matters had a component coefficient of $.643 > 0.45$ and was retained for further analysis.

4.4.4 Intelligent Sourcing

Results in Table 4.9 shows a KMO statistic of $.673$ which was significantly high; that is greater than the critical level of significance of the test which was set at 0.5 . In addition to the KMO test, the Bartlett's Test of Sphericity was also highly significant (Chi-square = 176.407 with 15 degrees of freedom, at $p 0.000 < 0.05$). These results provide an excellent justification for further statistical analysis to be conducted.

Table 4.9: Intelligent Sourcing KMO Sampling Adequacy and Bartlett's Sphericity Tests

KMO and Bartlett's Test	
Kaiser-Meyer-Olkin Measure	.673
Bartlett's Chi- Square	176.407
Bartlett's df	55
Bartlett's Sig.	.000

Source: Research Data (2022)

Factor analysis was conducted after successful testing for KMO Sampling Adequacy and Bartlett's Sphericity Tests. Factor analysis was undertaken on the indicators of intelligent sourcing attracted a coefficient of more than 0.5 hence were retained for further analysis in regression. Results of the factor analysis are presented in Table 4.10.

Table 4.10: Intelligent Sourcing Component Matrix

Statement/construct/indicator	Factor loadings
The company undertakes intelligent sourcing of raw materials from lower tax areas or regions	0.607
The company undertakes intelligent sourcing of intermediate goods from lower tax areas or regions	0.613
The company undertakes intelligent sourcing locally	0.629
The company undertakes intelligent sourcing from EAC member states	0.604
The company undertakes intelligent sourcing from COMESA	0.598

Source: Research Data (2022)

The statement that the company undertakes intelligent sourcing of raw materials from lower tax areas or regions had a factor loading of $.607 > 0.45$ and was retained for further analysis. That the company undertakes intelligent sourcing of intermediate goods from lower tax areas or regions had a factor loading of $.613 > 0.45$ and was retained for further analysis while the statement that the company undertakes intelligent sourcing locally had a factor loading of $.629 > 0.45$ and was retained for further analysis. Further, the statement that the company undertakes intelligent sourcing from EAC member states had a factor loading of $.604 > 0.45$ and was retained for further analysis while

the statement that the company undertakes intelligent sourcing from COMESA had factor loading of $.598 > 0.45$.

4.4.5 Tax saving

Results in Table 4.11 shows a KMO statistic of $.556$ which was significantly high; that is greater than the critical level of significance of the test which was set at 0.5 . In addition to the KMO test, the Bartlett's Test of Sphericity was also highly significant (Chi-square = 14.675 with 10 degrees of freedom, at $p\ 0.044 < 0.05$). These results provide an excellent justification for further statistical analysis to be conducted.

Table 4.11: KMO Sampling Adequacy and Bartlett's Sphericity Tests for Tax saving.

KMO and Bartlett's Test	
Kaiser-Meyer-Olkin Measure	.556
Bartlett's Chi- Square	14.675
Bartlett's df	10
Bartlett's Sig.	.044

Source: Research Data (2022)

Factor loading was conducted after successful testing for KMO Sampling Adequacy and Bartlett's Sphericity Tests. Factor analysis was undertaken on the indicators of tax saving attracted a coefficient of more than 0.5 hence were retained for further analysis in regression. Results of the factor analysis are presented in Table 4.12.

Table 4.12: Tax saving Component Matrix

Statement	Factor loadings
To what extent has the use of debt in capital generated tax savings for your firm?	0.576
To what extent has the capital allowances generated tax savings for your firm?	0.527
What is the extent of tax savings as a result of the tax education?	0.549
What is the estimated tax savings created due to intelligent sourcing?	0.582

Source: Research Data (2022)

All the measures of tax saving attracted factor loadings greater than 0.5. They were therefore retained for further retained for further analysis.

4.5 Descriptive Statistics

The section shows the results of the descriptive statistics of the study. It covers the tax planning strategies including debt in capital structure, the capital allowance, tax education and intelligent sourcing on tax saving by the manufacturing companies in Nairobi County. The likert scale ratings used, were as follows; 1=Strongly Disagree, 2= Disagree, 3= don't know, 4= Agree and 5=Strongly Agree. Findings output are in form of mean and standard deviation.

4.5.1 Descriptive results for debt to capital structure.

The study sought to determine the descriptive results for the debt to capital structure. The results are presented in table 4.13.

Table 4.13: Debt to capital structure

	SD	D	Not Sure	A	SA	M	SDev
The company uses debt to raise capital	11.7%	12.6%	6.8%	37.9%	31.1%	3.64	1.35
The company enjoys tax-deduction due to use of debt in capital	5.8%	14.6%	10.7%	35.9%	33.0%	3.76	1.22
The use of debt in capital allows the company to retain ownership	8.7%	15.5%	12.6%	32.0%	31.1%	3.61	1.31
The company has easy access to debt	10.7%	14.6%	9.7%	38.8%	26.2%	3.55	1.31

Source: Research Data (2022)

From the results in table 4.13, most of the respondents agreed that the company uses debt to raise capital. 31.1% strongly agreed that the company uses debt to raise capital, 37.9% agreed while 6.8% held a neutral stand. The question had a mean response of 3.64 and a standard deviation of 1.35. This implies that most respondents were clustered around the agree section. With regards to the question that the company enjoys tax-deduction due to use of debt in capital, most of the respondents agreed that the company enjoys tax-deduction due to use of debt in capital. 33.0% strongly agreed that the company uses debt to raise capital, 35.9% agreed while 10.7% held a neutral stand. The question had a mean response of 3.76 and a standard deviation of 1.22. This implies that most respondents were clustered around the agree section.

Concerning the question that the use of debt in capital allows the company to retain ownership, most of the respondents agreed that the use of debt in capital allows the company to retain ownership. 31.1% strongly agreed that the company uses debt to raise capital, 32.0% agreed while 12.6% held a neutral stand. The question had a mean response of 3.61 and a standard deviation of 1.31. This implies that most respondents gave a positive response regarding the question. Concerning the question that the company has easy access to debt, most of the respondents agreed that the company has easy access to debt. 26.2% strongly agreed that the company uses debt to

raise capital, 38.8% agreed while 9.7% held a neutral stand. The question had a mean response of 3.55 and a standard deviation of 1.31. This implies that most respondents were clustered around the agree section.

4.5.2 Descriptive results for Capital Allowances.

The study sought to determine the descriptive results for the capital allowances. The results are presented in table 4.14.

Table 4.14: Capital Allowances

	SD	D	Not Sure	A	SA	M	SDev
The company is entitled to investment deduction	7.8%	13.6%	6.8%	35.0%	36.9%	3.80	1.29
The company is entitled to industrial building deduction	11.7%	14.6%	4.9%	33.0%	35.9%	3.67	1.40
The company has a claim on wear and tear	6.8%	16.5%	5.8%	39.8%	31.1%	3.72	1.26
The company has a claim on farm works deductions	7.8%	17.5%	3.9%	34.0%	36.9%	3.75	1.33

Source: Research Data (2022)

The results in table 4.14 show the responses regarding the question on capital allowances. The responses from the question, company is entitled to investment deduction are presented as follows; 36.9% strongly agreed that the company is entitled to investment deduction, 35.0% agreed while 6.8% held a neutral stand. The question had a mean response of 3.8 and a standard deviation of 1.29. This implies that most respondents gave a positive response regarding the question. The results from the question, company is entitled to industrial building deduction show that, 35.9% strongly agreed that the company is entitled to investment deduction, 33.0% agreed while 4.9% held a neutral stand. The question had a mean response of 3.67 and a standard deviation of 1.40. This implies that most respondents agreed that the company is entitled to investment deduction.

The results from the question, the company has a claim on wear and tear show that, 31.1% strongly agreed that the company has a claim on wear and tear, 39.8% agreed while 5.8% held a neutral stand. The question had a mean response of 3.72 and a standard deviation of 1.26. This implies that most respondents agreed that the company has a claim on wear and tear. 36.9% strongly agreed that the company has a claim on wear and tear, 34% agreed while 3.9% held a neutral stand with regards to the question the company has a claim on farm works deductions. With a mean of 3.75 and a standard deviation of 1.33, it implies that most of the responses were clustered around the mean that is the agree section.

4.5.3 Descriptive results for Tax Education.

The study sought to determine the descriptive results for the tax education. The results are presented in table 4.15.

Table 4.15: Tax Education

	SD	D	Not Sure	A	SA	M	SDev
The company engages tax expert on regular basis	2.9%	19.4%	8.7%	36.9%	32.0%	3.76	1.18
There are regular seminars to train personnel in the finance department on tax matters	7.8%	17.5%	10.7%	33.0%	31.1%	3.62	1.30
There are regular workshops to train personnel in the finance department on tax matters	6.8%	17.5%	11.7%	31.1%	33.0%	3.66	1.29
New personnel in the finance department are oriented on tax matters.	9.7%	22.3%	5.8%	25.2%	36.9%	3.57	1.43

Source: Research Data (2022)

The results in table 4.15 show the responses regarding the question on tax education. The responses from the question, the company engages tax expert on regular basis show that, 32.0% strongly agreed that the company engages tax expert on regular basis, 36.9% agreed while 8.7% held a

neutral stand. With a mean response of 3.76 and a standard deviation of 1.18, the results imply that most respondents gave a positive response regarding the question. The question, there are regular seminars to train personnel in the finance department on tax matters, the responses were as follows; 31.1% strongly agreed that the company engages tax expert on regular basis, 33.0% agreed while 10.7% held a neutral stand. With a mean response of 3.62 and a standard deviation of 1.30, the results imply that most respondents agree that there are regular seminars to train personnel in the finance department on tax matters.

The results from the question, there are regular workshops to train personnel in the finance department on tax matters show that, 33.0% strongly agreed that there are regular workshops to train personnel in the finance department on tax matters, 31.1% agreed while 11.7% held a neutral stand. The question had a mean response of 3.66 and a standard deviation of 1.29. This implies that most respondents agreed that there are regular workshops to train personnel in the finance department on tax matters. 36.9% strongly agreed that new personnel in the finance department are oriented on tax matters, 25.2% agreed while 5.8% held a neutral stand. The question had a mean response of 3.57 and a standard deviation of 1.43. This implies that most respondents agreed that new personnel in the finance department are oriented on tax matters.

4.5.4 Descriptive results for Intelligent Sourcing.

The study sought to determine the descriptive results for intelligent sourcing. The results are presented in table 4.16.

Table 4.16: Intelligent Sourcing

	SD	D	Not Sure	A	SA	M	SDev
The company undertakes intelligent sourcing of raw materials from lower tax areas or regions	5.8%	18.4%	6.8%	39.8%	29.1%	3.68	1.24
The company undertakes intelligent sourcing of intermediate goods from lower tax areas or regions	4.9%	18.4%	13.6%	32.0%	31.1%	3.66	1.23
The company undertakes intelligent sourcing locally	10.7%	18.4%	5.8%	30.1%	35.0%	3.60	1.40
The company undertakes intelligent sourcing from EAC member states	8.7%	15.5%	11.7%	31.1%	33.0%	3.64	1.32
The company undertakes intelligent sourcing from COMESA	9.7%	20.4%	6.8%	32.0%	31.1%	3.54	1.37

Source: Research Data (2022)

The results in table 4.16 show the responses regarding the question on intelligent sourcing. The responses from the question, the company undertakes intelligent sourcing of raw materials from lower tax areas or regions show that, 29.1% strongly agreed that the company undertakes intelligent sourcing of raw materials from lower tax areas or regions, 39.8% agreed while 6.8% held a neutral stand. With a mean response of 3.68 and a standard deviation of 1.24, the results imply that most respondents gave a positive response regarding the question. Additionally, 31.1% strongly agreed that the company undertakes intelligent sourcing of intermediate goods from lower tax areas or regions, 32.0% agreed while 13.6% held a neutral stand. With a mean response of 3.66 and a standard deviation of 1.23, the results imply that most respondents gave a positive response regarding the question that the company undertakes intelligent sourcing of intermediate goods from lower tax areas or regions.

Regarding the question, the company undertakes intelligent sourcing locally, the responses were as follows; 35.0% strongly agreed that the company undertakes intelligent sourcing locally, 30.1% agreed while 5.8% held a neutral stand. With a mean response of 3.60 and a standard deviation of 1.40, the results imply that most respondents agree and their responses were clustered around the agree section. The question, the company undertakes intelligent sourcing from EAC member states attracted the following responses, 33.0% strongly agreed, 31.1% agreed while 11.7% held a neutral stand. With a mean response of 3.64 and a standard deviation of 1.32, the results imply that most respondents agree that the company undertakes intelligent sourcing from EAC member states.

Concerning the question, the company undertakes intelligent sourcing from COMESA, the responses were as follows; 31.1% strongly agreed that the company undertakes intelligent sourcing from COMESA, 32.0% agreed while 6.8% held a neutral stand. With a mean response of 3.54 and a standard deviation of 1.37, the results imply that the agreements of most respondents were clustered around the mean that is the agree section.

4.5.5 Descriptive results for Tax Saving

The study sought to determine the descriptive results for tax saving. The results are presented in table 4.17.

Table 4.17: Tax Saving

	Less than 5%	5- 10%	11- 15%	16- 20%	Above 20%	M	SDev
To what extent has the use of debt in capital generated tax savings for your firm?	9.7%	15.5%	5.8%	35.9%	33.0%	3.67	1.34
To what extent has the capital allowances generated tax savings for your firm?	9.7%	12.6%	6.8%	35.0%	35.9%	3.75	1.33
What is the extent of tax savings as a result of the tax education?	12.6%	10.7%	5.8%	35.0%	35.9%	3.71	1.38
What is the estimated tax savings created due to intelligent sourcing?	5.8%	19.4%	7.8%	26.2%	40.8%	3.77	1.32

Source: Research Data (2022)

The results in table 4.17 show the responses regarding the question on the extent of tax saving by the manufacturing companies in Nairobi City County. The responses from the question, to what extent has the use of debt in capital generated tax savings for your firm? The results show that, 33.0% responded that the effected was above 20%, 35.9% gave it between 16-20% and 5.8% gave it between 11-15%. The mean response was 3.67 and a standard deviation of 1.34. These results imply that most of the responses gave the extent of tax saving ta 16-20%. Regarding the question, to what extent has the capital allowances generated tax savings for your firm? The responses are as follows; 35.9% responded that the effected was above 20%, 35.0% gave it between 16-20% and 6.8% gave it between 11-15%. The mean response was 3.75 and a standard deviation of 1.33. These results imply that most of the responses gave the extent of tax saving ta 16-20%.

The responses from the question, what is the extent of tax savings as a result of the tax education? The results show that, 35.9% responded that the effected was above 20%, 35.0% gave it between 16-20% and 5.8% gave it between 11-15%. The mean response was 3.71 and a standard deviation

of 1.38. These results imply that most of the responses gave the extent of tax saving to 16-20%. Regarding the question, what is the estimated tax savings created due to intelligent sourcing? 40.8% responded that the effected was above 20%, 26.2% gave it between 16-20% and 7.8% gave it between 11-15%. The mean response was 3.77 and a standard deviation of 1.32. These results imply that most of the responses gave the extent of tax saving to 16-20%.

4.6 Correlation Analysis

In this research, Pearson's correlation (r) was applied to explore association between the factors, particularly in terms of direction and strength ranging ± 1 . Pearson conducted before carrying out further regression analysis. $r = +0.7$ indicates strong association, $r = +0.5$ to 0.69 is a strong association, $r = 0.3$ to 0.49 moderate association whereas $r < 0.29$ is weak association. Where $r = 0$ it indicates that there is no association (Dăncică, 2017). Table 4.18 shows correlation results.

Table 4.18: Correlation results between tax planning strategies and tax saving

		Tax Saving	Debt in Capital structure	Capital Allowance	Tax Education	Intelligent Sourcing
Tax Saving	Pearson Correlation Sig. (2-tailed)	1.000				
Debt in Capital structure	Pearson Correlation Sig. (2-tailed)	.644**	1.000			
Capital Allowances	Pearson Correlation Sig. (2-tailed)	.627**	.647**	1.000		
Tax Education	Pearson Correlation Sig. (2-tailed)	.545**	.463**	.461**	1.000	
Intelligent Sourcing	Pearson Correlation Sig. (2-tailed)	.628**	.624**	.638**	.422**	1.000
		0.000	0.000	0.000	0.000	0.000

** Correlation is significant at the 0.01 level (2-tailed).

Source: Research Data (2022)

Table 4.18 reveals a significant strong association between debt in capital structure with tax saving by the manufacturing firms ($r=.644$, $p=0.000<0.05$). The computed p value of $0.000<0.05$ which means that the association between debt in capital structure with tax saving by the manufacturing firms is statistically significant. The results imply that debt in capital structure and tax saving by the manufacturing firms move in the same direction that is as the tax in capital improves, the tax saving also improve.

Correlation results revealed a significant strong positive association between capital allowances and tax saving ($r=.627$, $p=0.000<0.05$). The computed p value of $0.000<0.05$ which means that the association between capital allowances and tax saving by the manufacturing firms is

statistically significant. The results imply that capital allowances and tax saving by the manufacturing firms move in the same direction, that is; as capital allowances improve, tax saving is also enhanced.

Findings further showed that there was remarkable strong useful association between tax education and tax saving by the manufacturing firms ($r=.545$, $p=0.000<0.05$). The computed p value of $0.000<0.05$ which means that the association between tax education and tax saving by the manufacturing firms is statistically significant. The results imply that tax education and tax saving move in the same direction, that is; as improvement in tax education leads to increase in tax savings by the manufacturing firms.

Person Correlation results also showed that intelligent has a significant strong useful linkage with tax saving by the manufacturing firms ($r=.628$, $p=0.000<0.05$). The computed p value of $0.000<0.05$ implying that the association between intelligent sourcing and tax saving by the manufacturing firms is statistically significant. The results imply that intelligent sourcing and tax saving by the manufacturing firms move in the same direction, that is; as intelligent sourcing is enhanced, tax saving is also enhanced.

4.7 Diagnostic tests

This section presents the diagnostics tests conducted in the study. The tests include multicollinearity, normality, linearity and Heteroscedasticity Test.

4.7.1: Multicollinearity Tests

The study sought to tests the level of multicollinearity. The results are presented in table 4.19.

Table 4.19: Multicollinearity

(Constant)	Tolerance	VIF
Debt in Capital structure	0.488	2.05
Capital Allowances	0.476	2.102
Tax Education	0.732	1.366
Intelligent Sourcing	0.51	1.961

Source: Research Data (2022)

Collinearity statistics (Table 4.19) indicates a Variance Inflation Factor (VIF) <10 for all the variables thus an indication that the variables were not highly correlated, hence no existence of Multicollinearity. This is an indication of the suitability of the variables for multiple regression analysis.

4.7.2 Normality Tests

The study sought to test whether the data is normally distributed. Kolmogorov-Smirnov (K-S test) was employed to check for normality of data distribution. The results are presented in table 4.20

Table 4.20: Kolmogorov-Smirnov

	Statistic	df	Sig.
Tax Saving	0.147	103	0.614
Debt in Capital structure	0.173	103	0.428
Capital Allowances	0.124	103	0.109
Tax Education	0.173	103	0.057
Intelligent Sourcing	0.159	103	0.285

Source: Research Data (2022)

When non-significant results (>0.05) are obtained for a score it implies the data fits a normal distribution (Tabachnik&Fidell, 2007). The data in Table 4.20 highlighted the findings of the Kolmogorov-Smirnov test. The normality test findings in the table above show that the data in relation to each variable is normally distributed as the significance value in all cases is greater than 0.05. This means the data is fit for analysis through correlation and regression analysis.

4.7.3 Linearity Test

The study sought to determine whether there exist a linear relationship between the variables. The results are presented in the figures 4.3 - 4.6

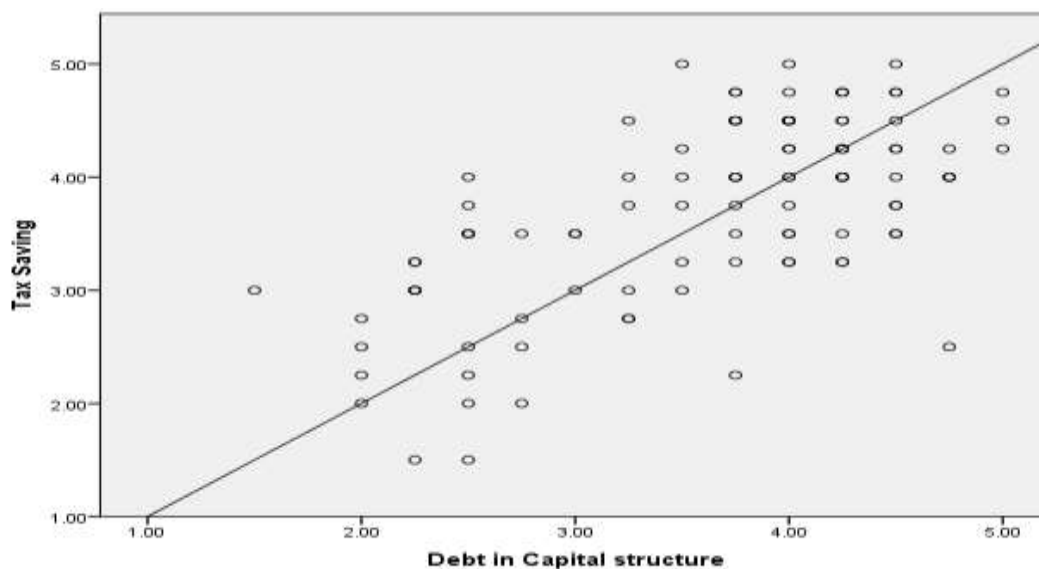


Figure 4.3: Debt in Capital Structure and Tax Saving

Source: Research Data (2022)

From the results in figure 4.3, the scatter plot shows linear relationship between debt in capital and the tax saving by the manufacturing firms in Nairobi County. Therefore, multiple regression can be conducted to determine the effect of debt in capital and the tax saving by the manufacturing firms in Nairobi County.

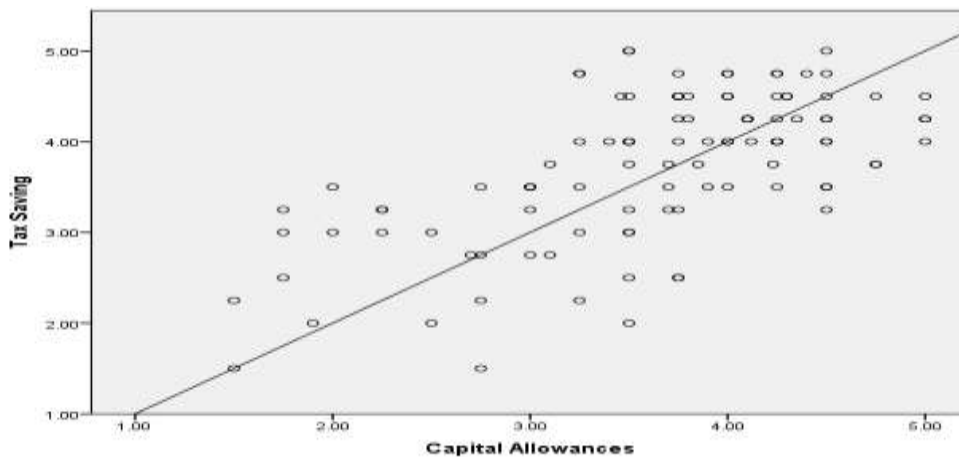


Figure 4.4: Capital Allowances and Tax Saving

Source: Research Data (2022)

From the results in figure 4.4, the scatter plot shows linear relationship between capital allowances and the tax saving by the manufacturing firms in Nairobi County. Therefore, multiple regression can be conducted to determine the effect of capital allowances and the tax saving by the manufacturing firms in Nairobi County.

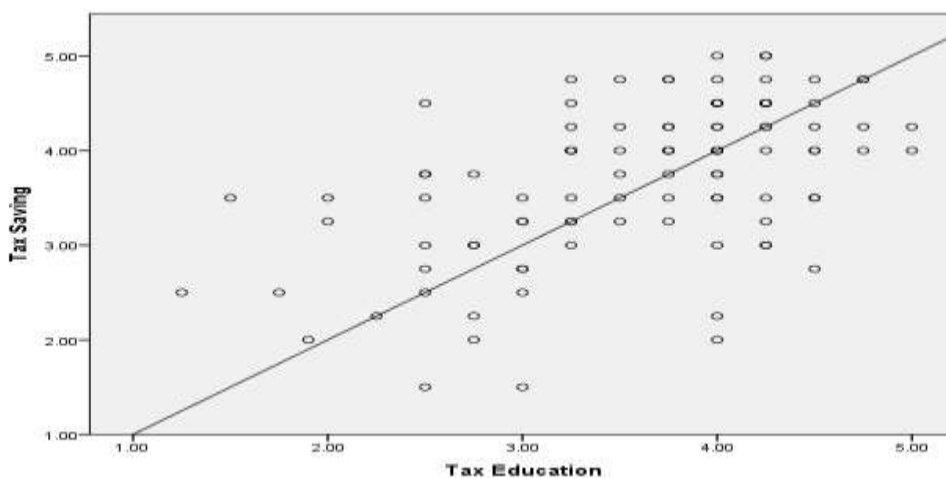


Figure 4.5: Tax Education and Tax Saving

Source: Research Data (2022)

From the results in figure 4.5, the scatter plot shows linear relationship between tax education and the tax saving by the manufacturing firms in Nairobi County. Therefore, multiple regression can be conducted to determine the effect of tax education and the tax saving by the manufacturing firms in Nairobi County.

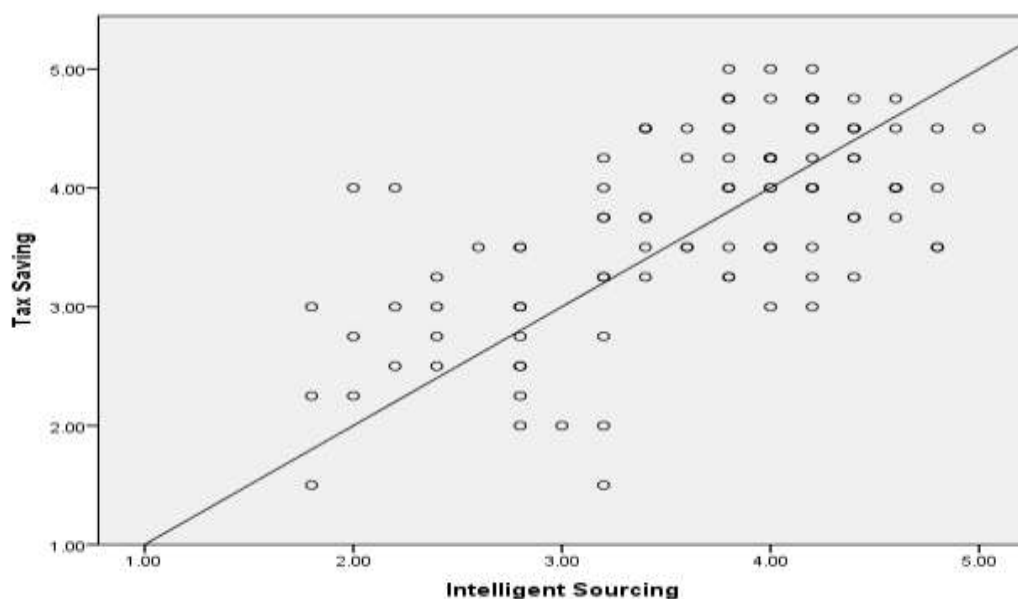


Figure 4.6: Intelligent Sourcing and Tax Saving

Source: Research Data (2022)

From the results in figure 4.6, the scatter plot shows linear relationship between intelligent sourcing and the tax saving by the manufacturing firms in Nairobi County. Therefore, multiple regression can conduct to determine the effect of intelligent sourcing and the tax saving by the manufacturing firms in Nairobi County.

4.7.4: Heteroscedasticity Test

The study sought to determine the homogeneity of variance of the variables. The results are presented in table 4.21.

Table 4.21 Heteroscedasticity Test

	Levene Statistic	df1	df2	Sig.
Debt in Capital Structure	1.455	12	89	0.157
Capital allowances	2.681	20	73	0.201
Tax Education	0.847	11	86	0.594
Intelligent sourcing	1.047	13	86	0.416

Source: Research Data (2022)

Based on the results on the test of homogeneity table above, the value based on mean significance is 0.157 greater than 0.05. Thus, the conclusion is that the variance of Tax saving through debt in capital structure by the manufacturing companies in Nairobi County is homogeny. Based on the results on the test of homogeneity table above, the value based on mean significance is 0.001 less than 0.05. Thus, the conclusion is that the variance of Tax saving through capital allowances by the manufacturing companies in Nairobi County is not homogeny.

Based on the results on the test of homogeneity table above, the value based on mean significance is 0.594 greater than 0.05. Thus, the conclusion is that the variance of Tax saving through Tax education by the manufacturing companies in Nairobi County is homogeny. Based on the results on the test of homogeneity table above, the value based on mean significance is 0.416 greater than 0.05. Thus, the conclusion is that the variance of Tax saving through intelligent sourcing by the manufacturing companies in Nairobi County is homogeny.

4.8 Regression Analysis

The findings indicated in Table 4.22 presents the model summary results.

Table 4.22 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.754a	0.569	0.552	0.54777

Predictors: Constant, Intelligent Sourcing, Tax Education, Debt in Capital structure, Capital

Allowances

Source: Research Data (2022)

From the results on Table 4.22, intelligent sourcing, tax education, debt in capital structure, capital allowances are all significant variables that are used to explain tax saving by the manufacturing companies in Nairobi City. This is supported by R square of 0.569, which means that intelligent sourcing, tax education, debt in capital structure, capital allowances explain 56.9% of the total variations in the tax saving by the manufacturing companies in Nairobi City.

The point and source of goods of a company is an important consideration in the overall objective of tax saving. Wise sourcing of the goods and raw materials from lower tax regions helps save tax. The sourcing can be done locally or regionally but should be on consideration on the amount of taxes to be paid during the purchase. Tax education is also an important factor in tax saving. Engaging tax experts in the trainings and seminars on issues tax helps in tax saving. Regular workshops and trainings also enhance tax saving through ensuring that the finance officers dealing in issues tax have adequate knowledge.

The use of debt by a company to raise capital is significant in tax saving. This is because the companies will enjoy tax deductions due to the use of debts as capital. This debt in capital allows the company to retain ownership and hence will have easy access to debts. There are several privileges that a company is entitled to including deductions on investments, industrial building,

the wear and tear among others that are effective in tax savings. Table 4.23 highlights the findings of the analysis of variance (ANOVA).

Table 4.23: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	38.835	4	9.709	32.357	.000b
Residual	29.405	98	0.3		
Total	68.239	102			

a Dependent Variable: Tax Saving Mean

b Predictors: Constant, Intelligent Sourcing Mean, Tax Education Mean, Debt in Capital structure Mean, Capital Allowances Mean

Source: Research Data (2022)

The ANOVA results indicate that the general model was statistically remarkable since F statistic of 32.357 > F critical of 2.46 and p-value computed 0.000 < 0.05. Further, the outcomes suggest that intelligent sourcing, tax education, debt in capital structure, capital allowances are all satisfactory indicators of tax saving by the manufacturing firms in Nairobi City County. The F statistic of 32.357 is greater than the F critical of 2.46 picked from F tables implying that the model is statistically significant. The regression of coefficient table is indicated in Table 4.24.

Table 4.24: Regression coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.357	0.305		1.171	0.244
Debt in Capital structure	0.25	0.092	0.257	2.709	0.008
Capital Allowances	0.195	0.095	0.198	2.063	0.042
Tax Education	0.235	0.079	0.232	2.987	0.004
Intelligent Sourcing	0.249	0.095	0.243	2.622	0.01

a Dependent Variable: Tax Saving Mean

Source: Research Data (2022)

Model :

$$Y = .357 + .257X_1 + .198X_2 + .232X_3 + .243X_4$$

Where;

Y is Tax saving

X₁ is debt in capital structure

X₂ is capital allowances

X₃ is tax education

X₄ is intelligent sourcing

Basing on the predictive model, intelligent sourcing ($\beta = .243$) had the highest positive influence on tax saving by the manufacturing firms, followed by tax education ($\beta = .232$), capital allowances ($\beta = .198$) and debt in capital structure ($\beta = .257$). The results also revealed that debt in capital structure and tax saving have a useful and remarkable association ($\beta = .257$, $p = .008 < .05$). The regression of coefficient means that if debt in capital structure is increased by one unit, tax saving increases by .257 units. The results also revealed that capital allowances and tax saving have a positive and remarkable relationship ($\beta = .198$, $p = .042 < .05$). The regression of coefficient means that if capital allowances is increased by one unit, tax saving increases by .198 units.

It was also established in the model that tax education and tax saving have a useful and remarkable association ($\beta = .232$, $p = .004 < .05$). The regression of coefficient means that if tax education is increased by one unit, tax saving increases by .232 units. The results also revealed that intelligent

sourcing and tax saving have a useful and remarkable linkage ($\beta=.243$, $p=.010<0.05$). The regression of coefficient means that if intelligent sourcing is improved by one unit, tax saving increases by .243 units.

4.9 Hypothesis Testing

Hypothesis testing was conducted using regression coefficients results in Table 4.24. The decision was to reject the null hypothesis if the p value was less than 0.05.

H₀₁: Debt in capital structure has no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya. Results indicated a p value of $.008<.05$, hence rejection of the null hypothesis. This denoted that debt in capital structure has a significant effect on tax saving by manufacturing firms in Nairobi County, Kenya.

H₀₂: Capital allowances have no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya. Results indicated a p value of $.042<.05$, hence rejection of the null hypothesis. This denoted that capital allowances have a significant effect on tax saving by manufacturing firms in Nairobi County, Kenya.

H₀₃: Tax education has no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya. Results indicated a p value of $.004<.05$, hence rejection of the null hypothesis. This denoted that tax education has a significant effect on tax saving by manufacturing firms in Nairobi County, Kenya.

H₀₄: Intelligent sourcing has no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya. Results indicated a p value of $.01<.05$, hence rejection of the null hypothesis. This denoted that intelligent sourcing has a significant effect on tax saving by manufacturing firms in Nairobi County, Kenya.

Table 4.25: Hypothesis testing summary

Hypotheses	P-Value	Decision
H ₀₁ : Debt in capital structure has no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya.	0.008<0.05	Rejected
H ₀₂ : Capital allowances have no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya.	0.042<0.05	Rejected
H ₀₃ : Tax education has no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya.	0.004<0.05	Rejected
H ₀₄ : Intelligent sourcing has no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya.	0.01<0.05	Rejected

Source: Research data (2022)

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusion and recommendations. This is done in line with the objectives of the study. The purpose of the study was to examine the effect of tax planning strategies on tax saving by manufacturing firms in Nairobi County, Kenya.

5.2 Summary of Major Findings

5.2.1 Debt in Capital Structure and Tax Saving by Manufacturing Firms

The first objective was to determine the effect debt in capital structure on tax saving by manufacturing firms in Nairobi County, Kenya. The responses from the research by the finance managers indicated a positive effect of debt in capital structure on tax savings by the manufacturing firms in Nairobi County. The correlation results revealed a significant strong relationship between debt in capital structure and tax saving by the manufacturing firms in Nairobi County. Regression results revealed a positive and significant relationship between debt in capital structure and tax saving ($\beta=.257$, $p=0.008<.05$). These findings mirrored those of Gamlath and Rathiranee (2013) who established that availability of the company's capital had a significant positive effect on the company's financial performance and future stability. Similarly, the results confirmed Nanik and Ratna (2015) conclusion that tax planning has a very significant effect on firm value. However, the findings did not agree with Kawor and Kportorgbi (2014) argument had tax planning does not have a significant effect on the firm performance. The null hypothesis that debt in capital structure has no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya was rejected.

4.2.2 Capital Allowances on Tax Saving by Manufacturing Firms

The second objective was to establish the effect of capital allowances on tax saving by manufacturing firms in Nairobi County, Kenya. The responses from the research by the finance managers indicated a positive effect of capital allowances on tax savings by the manufacturing firms in Nairobi County. The correlation results revealed a significant strong relationship between capital allowances and tax saving by the manufacturing firms in Nairobi County. Regression results revealed a positive and significant relationship between capital allowances and tax saving ($\beta=.198$, $p=.042<0.05$). These findings were consistent with the work of Basu and Srinivasan (2002) who found that tax incentives have undoubtedly attracted investors. The null hypothesis that capital allowances have no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya was rejected.

4.2.3 Tax Education on Tax Saving by Manufacturing Firms

The third objective was to establish the effect of tax education on tax saving by manufacturing firms in Nairobi County, Kenya. The correlation results revealed a significant strong relationship between tax education and tax saving by the manufacturing firms in Nairobi County. Regression results revealed a positive and significant relationship between tax education and tax saving ($\beta=.232$, $p=.004<0.05$). These findings disagreed with Wadesango and Mwandambira (2018) assertion that tax education has no significant effect on tax saving behavior. Similarly, the findings were different from Fishman and Swenson (2018) conclusion that increasing tax literacy without tackling high tax rates and corruption will not have a positive impact on the tax-saving behavior. The null hypothesis that tax education has no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya was rejected.

4.2.4 Intelligent Sourcing on Tax Saving by Manufacturing Firms

The third objective was to establish the effect of intelligent sourcing on tax saving by manufacturing firms in Nairobi County, Kenya. The correlation results revealed a significant strong relationship between intelligent sourcing and tax saving by the manufacturing firms in Nairobi County. Regression results revealed a positive and significant relationship between intelligent sourcing and tax saving ($\beta=.243$, $p=.010<0.05$). These findings concurred with Ogundaio and Onakoya (2016) assertion that aggressive tax planning, which includes intelligent sourcing has a significant impact on the return of productive company assets. Similarly, the results agreed with Kiabel and Akenbor (2014) observation that tax planning has a significant and positive influence on the corporate governance. The null hypothesis that intelligent sourcing has no significant effect on tax saving by manufacturing firms in Nairobi County, Kenya was rejected.

5.3 Conclusions

From the findings of this research, intelligent sourcing was the most effective way of creating tax savings by manufacturing firms in Nairobi County. This was enhanced by the fact Nairobi County is situated in and Kenya is a member state of EAC and COMESA where trade tariffs have been harmonized. Sourcing of goods and raw materials therefore becomes easy and cheap.

Tax education was found to be the second most effective mechanism of tax saving. This is because; educating the finance officers through seminars and workshops on the available ways of tax savings makes it possible for the manufacturing companies to save tax.

Thirdly, capital allowances was also found to be effective in tax savings. This was enhanced by the fact that most finance officers are aware of existing capital allowances and how they work.

Lastly, debt in capital structure was also used as a mechanism for tax saving by the manufacturing firms in Nairobi. Use of debt as a firms' capital results in tax savings.

5.4 Recommendations

The Kenya revenue authority should consider revising the tax rates to make it friendly to the manufactures. The government needs to carry out tax education campaigns to create great tax awareness among manufacturers to increase their investment activities in the country. The government should provide tax incentives to the manufacturing companies as a way of attracting more investments in the manufacturing sector.

The Government should review the various sections of the ITA to address the manufacturers tax concerns, especially reducing tax rates and creating more effective tax saving mechanisms. The government should make available its existing treaties with other countries that may help the manufacturing companies know on where to access raw materials at a cheaper price. The manufacturing companies should be given easy access of credit through use of their business products as collaterals. The manufacturers should lobby the government through workshops and seminars to create more tax saving measures and reduce the tax rates as well as the multiple taxes. Manufacturing firms need to integrate their supply chain systems with those of the suppliers of raw materials to minimize the costs incurred in ordering for the raw materials.

5.5 Areas for Further Research

A similar study to be carried out in other towns or cities in the country to find out whether similar findings shall be found on the effects of tax planning strategies on tax savings by manufacturing firms and other sectors of the economy. A similar study to be carried out focusing on other productive sectors of the economy like agriculture sectors, which is also the backbone of the economy. A study on the attitudes and extent of interest by business people towards tax matters in comparison to finance.

REFERENCES

- Alan, M. R., & Thomas, L.B. (2001). *The Oxford Handbook of International Business* (3ed). Oxford University Press.
- Boone, J. P.; Khurana, I.; Raman, K. K., 2013. Religiosity and Tax Avoidance. *Journal of American Taxation Association*. 35(1), 53–84.
- Brealey, R. A., & Myers, S. C. (2003). *Principles of corporate finance*: McGraw-Hill higher education.
- Brizi, A., Giacomantonio, M. & Schumpe, B.M. (2015). Intention to Pay Taxes or to Avoid Them: The Impact of Social Value Orientation. *Journal of Economic Psychology*, 50 (10), 22–31. <https://doi.org/10.1016/j.joep.2015.06.005>.
- Dyreng, S., Hanlon, M., Maydew, E., 2008. Long–run Corporate Tax Avoidance. *The Accounting Review*, 83(1), 61–82.
- Edward, O. O. (2012). *Effects of tax planning strategies on tax savings by manufacturing firms based in industrial area Nairobi* (Doctoral dissertation, University of Nairobi).
- Emiola, A. (2007). *Nigeria Company Law*. Ogbomoso, Emiola Publishers Ltd.
- Fellows, R. F., & Liu, A. M. (2015). *Research methods for construction*. John Wiley & Sons.
- Field, A. (2009). *Discovering statistics using SPSS*. Sage publications
- Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Pitman Co.
- Gamlath, G. R. M., & Rathirane, Y. (2013). The Impact of Capital Intensity, Size of Firm and Firm's Performance on Debt Financing in Plantation Industry. In *Proceedings of 2nd International Conference on Management and Economics, University of Ruhuna* (pp. 478-484).
- Gatsi, J. G., Gadzo, S. G., & Kportorgbi, H. K. (2013). The effect of corporate income tax on financial performance of listed manufacturing firms in Ghana. *Research Journal of Finance and Accounting*, 4(15), 118-124.
- Gordon, R. H. (2010). Taxation and corporate use of debt: Implications for tax policy. *National Tax Journal*, 63(1), 151-174.
- Graham, J. R. Hanlon, M., & Shevlin, T. (2014). Incentives for Tax Planning and Avoidance: Evidence from the Field. *The Accounting Review*. 89(3), 991–1023. <http://dx.doi.org/10.2308/accr-50678>.
- Grubert H. (1991). Taxes, Tariff, and Transfer Pricing in Multinational Corporate have information that investors do not have. *Journal of Financial Economics*, 13(2), 22-43.

- Ifede A. I. (2011). *Fundamentals and Practice of Financial Accounting*. Ibadan: Gondolier I
- Inger, K., 2013. Relative Valuation of Alternative Methods of Tax Avoidance, 2013 American Taxation Association Midyear Meeting: JATA Conference. <http://dx.doi.org/10.2139/ssrn.2216845>.
- Jain, N., Agarwal, N., Thinakaran, R., & Parekhji, R. (2017). Low-cost dynamic error detection in linearity testing of SAR ADCs. In 2017 IEEE International Test Conference (ITC) (pp. 1-8). IEEE
- Kawor, S., & Kportorgbi, H.K. (2014). Effect of Tax Planning on Firms Market Performance: Evidence from Listed Firms in Ghana. *International Journal of Economics and Finance*, 6(3), 162–168. <http://dx.doi.org/10.5539/ijef.v6n3p162>.
- Kirchler, E. Maciejovsky, B., & Schneider, F. (2001). Everyday Representations of Tax Avoidance, Tax Evasion, and Tax Flight: Do Legal Differences Matter? *Journal of Economic Psychology*, 24(4), p. 535–553. [https://doi.org/10.1016/S0167-4870\(02\)00164-2](https://doi.org/10.1016/S0167-4870(02)00164-2).
- Kraus, A., & Litzenberger, R. (1973). *A state preference model of optimal financial*, Princeton Publishing Company.
- Kuria, J., Omboi, B., & Achoki, G. (2017). Effect of Capital Allowance Incentive on the Performance of EPZ Firms in Kenya. <http://erepo.usiu.ac.ke/handle/11732/4120>
- Laguir, I., Elbaz, J., & Laguir, L. (2015). Empirical Evidence on SME's Tax Management. *Applied Economics Letters*, 22(14), 1133–1137. <http://dx.doi.org/10.1080/13504851.2015.1008757>.
- Lanis, R.; Richardson, G., 2012. Corporate Social Responsibility and Tax Aggressiveness: An Empirical Analysis. *Journal of Accounting and Public Policy*, 31 (11,)86–108. <https://doi.org/10.1016/j.jaccpubpol.2011.10.006>.
- Lisowsky, P., Robinson, L., & Schmidt, A. (2013). Do Publicly Disclosed Tax Reserves Tell Us About Privately Disclosed Tax Shelter Activity? *Journal of Accounting Research*, 51(3), 583–629. <http://dx.doi.org/10.2139/ssrn.1481488>.
- Parra-Frutos, I. (2013). Testing homogeneity of variances with unequal sample sizes. *Computational Statistics*, 28(3), 1269-1297.
- Squire L. (2009), Tax policy in sub-Saharan, Africa. www.The-Green-Guide.info/.
- Thompson, C. G., Kim, R. S., Aloe, A. M., & Becker, B. J. (2017). Extracting the variance inflation factor and other multicollinearity diagnostics from typical regression results. *Basic and Applied Social Psychology*, 39(2), 81-90.
- Thornhill, A., Saunders, M., & Lewis, P. (2009). *Research methods for business students*. Pearson Education Ltd.

Tooma R.A. (Feb 12, 2008), *Legislating against tax avoidance*, San Francisco.

Vasanthi, R., 2015. A Study on Tax Planning Pattern of Salaried Assessee. *Research Journal of Finance and Accounting*, 6(1), p. 170–173.

Wafula, P., Namusonge, G. S., & Nambuswa, E. (2016). Effect of leasing on the financial performance of the county government of Trans Nzoia. *International Journal of Scientific and Research*, 6(9), 67-83.

APPENDICES

Appendix I: Introductory Letter

Zachary Odongo

P.O Box 10032 - 00200

Nairobi

KESRA/105/92/2019

TO

Dear sir/Madam

RE: RESEARCH PROJECT (MASTER IN TAX AND CUSTOMS ADMINISTRATION)

Hello? I am hereby requesting you to kindly complete the attached questionnaire.

I am undertaking research at the University of Moi, Business Department, on **“Effect of tax planning strategies on tax savings by Manufacturing firms in Nairobi County”**

I wish to bring to your attention that your response will only be used for research work and not for any other purpose and will therefore not have any recourse on you. It is my sincere hope that you will respond to all questions and where there is need for clarity, kindly do not hesitate to ask.

Your assistance in response to this questionnaire will greatly contribute to the success of this research work and thus highly appreciated.

Thank you.

Zachary Odongo

Appendix II: Questionnaire

Please answer the following questions dealing with tax planning strategies used by manufacturing firms in Kenya. All individual responses will remain confidential. Results will be tallied and will be made available to any respondent upon request. Please return the completed questionnaire to the research assistant who will be sent to collect it from you. Thank you.

PART A: Background Information

1. What is gender
2. What is your highest education level.....
3. How long has your company been in business.....
4. How long have you worked in your company.....

PART B: Debt in Capital structure

5. Please indicate your agreement or otherwise with the following statements on debt in capital structure in your company. Use the scale: Strongly Disagree=1, Disagree =2, Not sure=3, Agree =4, Strongly Agree =5.

Statements on debt in capital structure	1	2	3	4	5
The company uses debt to raise capital					
The company enjoys tax-deduction due to use of debt in capital					
The use of debt in capital allows the company to retain ownership					
The company has easy access to debt					

PART C: Capital Allowances

6. Please indicate your agreement or otherwise with the following statements on capital allowances in your company. Use the scale: Strongly Disagree=1, Disagree =2, Not sure=3, Agree =4, Strongly Agree =5.

Statements on Capital Allowances	1	2	3	4	5
The company is entitled to investment deduction					
The company is entitled to industrial building deduction					
The company has a claim on wear and tear					
The company has a claim on farm works deductions					

PART D: Tax Education

7. Please indicate your agreement or otherwise with the following statements on tax education in your company. Use the scale: Strongly Disagree=1, Disagree =2, Not sure=3, Agree =4, Strongly Agree =5.

Statements on tax education	1	2	3	4	5
The company engages tax expert on regular basis					
There are regular seminars to train personnel in the finance department on tax matters					
There are regular workshops to train personnel in the finance department on tax matters					
New personnel in the finance department are oriented on tax matters.					

PART E: Intelligent Sourcing

8. Please indicate your agreement or otherwise with the following statements on intelligent sourcing in your company. Use the scale: Strongly Disagree=1, Disagree =2, Not sure=3, Agree =4, Strongly Agree =5.

Statements on intelligent sourcing	1	2	3	4	5
The company undertakes intelligent sourcing of raw materials from lower tax areas or regions					
The company undertakes intelligent sourcing of intermediate goods from lower tax areas or regions					
The company undertakes intelligent sourcing locally					
The company undertakes intelligent sourcing from EAC member states					
The company undertakes intelligent sourcing from COMESA					

PART F: Tax Saving

9. Please rate the following statements on tax saving in your company. Use the scale: Less than 5% =1, 5 to 10% =2, 11 to 15% =3, 16-20%= 4 and Above 20% =5

Statements on tax saving	Less than 5%	5 to 10%	11 to 15%	16 to 20%	Above 20%
To what extent has the use of debt in capital generated tax savings for your firm?					
To what extent has the capital allowances generated tax savings for your firm?					
What is the extent of tax savings as a result of the tax education?					
What is the estimated tax savings created due to intelligent sourcing?					

THANK YOU.

Appendix III: Plagiarism Report

EFFECT OF TAX PLANNING STRATEGIES ON TAX SAVINGS BY MANUFACTURING COMPANIES IN NAIROBI COUNTY, KENYA

ORIGINALITY REPORT

18% SIMILARITY INDEX	18% INTERNET SOURCES	4% PUBLICATIONS	10% STUDENT PAPERS
--------------------------------	--------------------------------	---------------------------	------------------------------

PRIMARY SOURCES

1	Submitted to Lake Weir High School Student Paper	2%
2	www.researchgate.net Internet Source	2%
3	iprjb.org Internet Source	2%
4	tippie.uiowa.edu Internet Source	2%
5	www.people.hbs.edu Internet Source	1%
6	uonjournals.uonbi.ac.ke Internet Source	1%
7	www.oecd.org Internet Source	1%
8	Submitted to Mount Kenya University Student Paper	1%
9	ujcontent.uj.ac.za Internet Source	1%