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EFFECT OF VAT INCENTIVES ON THE PERFORMANCE OF EPZ FIRMS IN KENYA

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Abstract

Purpose: The purpose of this study was to determine the effect of VAT Incentive on the performance of EPZ firms in Kenya.

Methodology: This research used correlation research design. Sample size of all the 86 registered EPZs firms was used in this study. Primary data was obtained using questionnaires. Secondary data from the registered firms was collected on; ROA, number and value of jobs and the length of stay of the firms. The study used both descriptive and inferential statistics to conduct data analysis.

Results: The results of study revealed that at 5% significance level, VAT incentives had a positive and significant relationship with performance of EPZ firms measured using ROA. The results further revealed that at 5% significance level, VAT incentives were found to have positive and significant relationship with performance of EPZ firms measured using the number of total jobs created in Kenya. The results also revealed that at 5% significance level, VAT incentives were found to have positive and significant relationship with performance of EPZ firms measured using the number of years in operation

Unique contribution to theory, practice and policy Based on the study findings, it was recommended that the government should reconsider its VAT policy by encouraging more VAT rebates to firms in order to boost their productivity and increase the volume of exports. The study also recommends that the government should introduce a strong monitoring unit to oversee the administration of tax incentives. Government should equally pay attention to the issue of security and infrastructure which are basic in order to maximize the benefits of tax incentives.

Keywords: *VAT incentives, performance, EPZ firms, ROA, number of jobs created and years of operation*

1.0 INTRODUCTION

1.1 Background of the Study

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

The Kenyan government has continued to pursue a growth strategy centered on exports, a move, aimed at moving away from the previously favored import-substitution (Mangieri, 2006). That being the case, the government focused on improving exports by creation of EPZ which aimed to have tax incentives in order to spur exports. The overall aim of that was to have the Kenyan economy be more open and increase market access (Mangieri, 2006). Some of the tax incentives hence offered are the wear and tear allowance which is a deduction on the depreciation of assets as well as the investment deductions allowance (IDA) on the expenditure on machinery (Institute of Economic Affairs, 2012). For other countries like Tanzania, tax incentives ranges from incentives on agricultural investors in the form of deferment of VAT payments on project capital goods as well as zero rated value added tax on agricultural exports (Network-Africa & Action Aid International, 2012).

In Kenya companies including those operating at EPZ benefit from major tax incentives especially capital allowances such as Investment building deductions (IBD), Investment deduction (ID) and Wear & Tear allowances by claiming deductions from their corporate tax liability. Incentives lowers the cost of the firm especially where the government offer subsidies and other forms of incentives to firms such as low interest rates, grants, lowering the cost of labor, and improving transportation networks to make transportation cost low, with reduced costs, the net profit posted by firms will be high and hence leads to high financial performance.

Ohaka and Agundu (2012) argue that firms that are eligible for tax incentives normally have higher returns. Tax incentives also make investments more attractive and in turn enhance profitability of a firm. Tax incentive generate employment and encourage self-employed to incorporate into limited companies, this leads to improved financial performance of firms because limited companies perform better given the fact they can assess external sources of capital as compared to sole-traders (Philips, 2011). Incentives lowers the cost of the firm especially where the government offer subsidies and other forms of incentives to firms such as low interest rates, grants, lowering the cost of labor, and improving transportation networks to make transportation cost low, with reduced costs, the net profit posted by firms will be high and hence leads to high financial performance.

1.2 Statement of the Problem

The scholars who propose tax incentives argue that it leads to higher rates of return on both equity and assets and that frees up some revenue to be reinvested in the business (Uwaume & Ordu, 2014). With increased globalized economies characterized by stiff competition, there is

thus a need for competitive tax systems, a strategy aimed at establishment of industries including EPZ so as to establish trading advantage.

According to the Singa (2007), there is an increase in the number of countries using EPZs in sub-Saharan Africa. Despite this growth in EPZs activity, EPZs still experience poor financial performance. There has been a decreasing trend in the number of employees recruited by EPZ firms in Kenya. Also the number of jobs decreased significantly between 2007 and 2009 (EPZ financial report, 2015). This extension of poor financial performance of EPZs has now happened in the face of expanding global trade and stiff beneficial competition. The economic competition has seen developed countries dominate the domestic firms, a situation that calls for government intervention to encourage financial performance of EPZs.

Uwaume and Ordu (2014) carried out a study to establish the impact of tax incentives on economic development in Nigeria. The study found that sufficient tax incentive enhances industrial growth and economy. Tembur (2016) conducted a study on the Effect of Tax Incentives on Financial Performance of Export Processing Zone Firms in Kenya. The study used IBD, W&T and ID as independent variables (and size and asset utilization as independent variables) and thus an indication of conceptual gap. The current study used VAT incentives as the independent variabl). Chukwumerije and Akinyomi (2011) studied the impact of the tax incentives on the overall performance of registered small scale industries in Rivers State, Nigeria. They concluded that there was significant positive relationship between tax incentives and profitability, staff strength and the growth and development of small scale industries. Gumo (2013) conducted a study on the effect of tax incentives on foreign direct investments (FDI) in Kenya but did not focus on financial performance. His study established that investments deductions and mining operation deductions incentives policy have a positive effect on FDI while industrial allowance has a negative influence. Therefore, this study sought to bridge the research gap by investigating on the effects of VAT incentives on the performance of EPZ firms in Kenya.

1.3 Purpose of the Study

The purpose of the study was to investigate the effects of VAT incentives on the performance of EPZ firms in Kenya.

1.4 Research Hypotheses

H₁: VAT incentives have a significant relationship with the performance of EPZ firms in Kenya.

H₀: VAT incentives have no significant relationship with the performance of EPZ firms in Kenya.

2.0 LITERATURE REVIEW

2.1 Optimal Tax Theory

The theory discusses a best way of raising set revenues, reducing inefficiency and distortion through distortionary taxation (Mirrlees, 1976). A neutral tax is a theoretical tax which avoids distortion and inefficiency completely. Other things being equal, if a tax-payer must choose between two mutually exclusive economic projects (say investments) that face the same pre-tax

risk and returns, the one with the lower tax or with a tax break would be chosen by the rational actor.

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

There is distortion attributable to the incidence of taxes that are levied on commodities a classic example being the tax on restaurant prepared food while the foods bought from supermarkets to then be prepared at home after they have been bought are usually not taxed. Thus it will be safely concluded that tax discriminations in favor of household work over the work that can be executed in the market places can lead to gross inefficiency in tax operations. According to a theory that was developed by Ramsey (1927) on optimal sales taxes levied on commodities, he posited that producer surplus as well as consumer surplus arises where a demand curve sloping downwards intersects with a supply curve that slopes upwards. As a result of imposing a sales tax, there is a considerable reduction in the output apart from imposing a deadweight loss. A single rate of tax that is applied uniformly, of course making the assumption of invariant demand and supply elasticities will bring about minimization of the sum area of DWL triangles that have developed. The general idea about the theory is that if an assumption is made regarding the elasticity of suppliers such that we now assume that they have a perfect elasticity regarding their responses to tax changes, it will be concluded that a smaller DWL distortion will be experienced on taxes levied on commodities that have a more inelastic response to consumer demand. Marginal deadweight loss is the main focus of the modern version of the optimal taxation theory according to (Mayshar, 1990). It is this modern theory upon which the objective of this study will be based.

There is a vivid justification why the theory of optimal tax is pertinent to this study as it provides crucial information on VAT Incentives. According to Ohaka and Agundu (2012), eligibility of EPZs firms on VAT Incentives enables these firms to pay much more less tax which eventually gives them a genuine upper hand to record increased return on assets as well as return on equity (ROE) both of which are arrived at from profit after tax. Tax incentives also make investments more attractive and in turn enhance profitability of a firm. Some of the studies which have used this theory include Dynarski and Scott-Clayton (2006), Kopczuk and Slemrod, (2006) and Saez and Stantcheva (2016).

2.2 Empirical Review

In their study, Harju, Matikka, and Rauhanen (2015) sought to find out the effects of the value-added tax (VAT) threshold on the performance of small businesses. It was reported in this study that in Finland, firms that earned below 8,500 in annual sales Euros were not liable to pay VAT. A robust and clear evidence of behavioral effects of the threshold was obtained in the study by applying the bunching method on detailed register data on the universe of businesses in Finland. The results of the study implied that small businesses were notably influenced by the VAT threshold. Notable efficiency implications were observed since the firms bunched actively just below the threshold. It was found that changing tax incentives at the threshold did not have a

significant effect on the extent of the response. This implied that compliance costs were important in explaining observed responses. The study found no evidence of tax avoidance or evasion, which suggested that firms responded by reducing output. Also, it was found that bunching behavior was relatively permanent, which implied that the threshold decreased the growth of small businesses.

The study played a significant role in adding to the existing literature on tax incentives and performance of firms. The study however opened avenue for the current study to fill the contextual and conceptual knowledge gaps it left. The study by Harju, Matikka, and Rauhanen (2015) focused on the performance of small businesses while the study focused on firms in export processing zones. It was forth comparing the findings to establish whether the situation with small firms is similar to that of large firms hence the importance of this study. Further, the situation in Finland (a developed economy) is different from the situation in Kenya (a developing economy). For that, there is a limitation in generalizing the findings of a study in developed economy to a developing economy. As such, the current study established whether there would be comparison in the findings between the two findings.

Ironkwe and Peter (2015) conducted a study aimed at investigating the impact of value-added tax incentive on corporate financial performance of quoted companies. Agribusinesses quoted in the Nigerian Stock Exchange Fact book of 2009 were considered as the population for this study. The population elements include the General Managers, Chief Accountants, Finance Managers, Chief Internal Auditors, External Auditors, and Tax Administrators of the selected companies. A total of forty (42) respondents were considered for this study. The study findings indicated that Value-Added Tax (VAT) impacted negatively on the financial performance of agribusinesses though the impact is of insignificant value. Based on the findings, the study recommended that agribusinesses should endeavour to keep appropriate source documents of all transactions for efficient VAT operations and that the governments should ensure that proper tax incentive scheme was designed and fully implemented to promote the growth of agribusinesses, in Nigeria.

In comparison to the study by Harju, Matikka, and Rauhanen (2015), this study by Ironkwe and Peter (2015) also played a significant role in adding to the existing literature on tax incentives and performance of firms. More specifically, the study linked value added tax to performance. The study however opened avenue for the current study to fill the contextual and conceptual knowledge gaps it left. The study by Ironkwe and Peter (2015) focused on the performance of firms listed at Nigerian Stock Exchange while the study focused on firms in export processing zones. It was forth comparing the findings to establish whether the effect of tax incentives among listed firms in Nigeria is similar to that of firms operating in export processing zones in Kenya. Further, the economic situation in Nigeria is different from the situation in Kenya and due to that contextual difference; this study was timely in investigating the effect of VAT tax on performance with a context of Kenya.

In the Kenyan context, Mutwiri and Okello (2015) focused on how value added tax incentives affected the capital structure decisions involving the firms which are listed at the Nairobi Securities Exchange. The study adopted a descriptive research design which made it easy to achieve its objectives. The design majorly helped it to form a causal relationship between the study variables. The study also adopted the correlational research design which helped it to collect data at the same time over various companies. With data analysis, the study majorly

relied on correlation and regression analysis with inclusion of descriptive results. The correlation findings revealed that value added tax incentives did not play a huge influence on the capital structure decisions of the firms listed at NSE. The nature of its effect was termed as weak due to a small value of Pearson correlation. It generally implied that the local tax incentives did not play a huge role in motivating investors to invest in the firms listed at Nairobi Securities. There was hence a need to review the value added tax incentives so as to see it play a significant role in attracting more investors, a firm which can spur growth through increased investments.

The study focused on a similar theme as the current study although knowledge gaps were presented based on the methods of data analysis and the context of the study. The incentives investigated by the study were majorly value added tax incentives. The current study went a step ahead to focus on not only value added tax incentives but also other incentives. A study by Mutwiri and Okello (2015) focused on firms listed at the Nairobi Securities exchange while the current study focused on manufacturing firms in EPZ zones in Kenya.

Chukwudi (2015) assessed the degree of effect of tax incentives on the performance of manufacturing firms using some indices like investment decision, profit, capital growth, research & development (R&D) etc. Extensive literature review on textbooks, journal, and materials on the areas of the study was carried out. The data collected were presented on static tables tested with Kendall Coefficient of concordance. Based on the analysis, it was discovered that various incentives are available to manufacturing firm in Rivers State, but not all the companies were aware of the available tax incentives scheme because of poor administration of incentive scheme. Tax incentives did not bear much on the performance of the firms because they were considered secondary to more fundamental determinant factors like market size, security and infrastructure. On the strength of the findings it was recommended that government should introduce a strong monitoring unit to oversee the administration of tax incentives. Government should equally pay attention to the issue of security and infrastructure which are basic in order to maximize the benefits of tax incentives.

The study by Chukwudi (2015) presented conceptual and methodological gaps as exploited by the current study. The study by Chukwudi (2015) focused on a similar theme as the current study however; there was a conceptual knowledge gap in operationalization of the dependent variable. The proxies for the dependent variable applied were investment decision, profit, capital growth, research & development (R&D). The current study on the other hand focused on operationalizing the dependent variable as number of employees, profits and length of stay. Concerning methodology, the study by Chukwudi (2015) presented the data collected on static tables tested with Kendall Coefficient of concordance. The current study opted for a different methodology by using correlations and regressions other than the methodology adopted by Chukwudi (2015).

In the case of Zimbabwe, Munyanyi and Chiromba (2015) focused on establishing how tax incentives were related to the tourism industry. The main aim was to generalize the findings to the developing countries. The main motivation for the study was the use of tax incentives by the developing countries to attract investors into their countries. Inasmuch as this was the case, there was little evidence of how the tax incentives impacted on the development in these countries in terms of the social and economic growth. There was the use of both quantitative as well as qualitative data which was collected through questionnaires (quantitative data) and interviews (qualitative data). Interviews were conducted through phones and face to face approaches.

The method of sampling used was stratification and random sampling so as to avoid bias in the process. Those who participated in the study were key stakeholders in the tourism industry in the country. The study not only employed primary data but also incorporated secondary data in its analysis. The findings revealed presence of application of tax incentives in the sector. It was revealed that foreign investors into the sector were attracted through tax incentive policies. The main challenge was that such policies were not practiced in other sectors which end up affecting the tourism sector negatively in the long run. To boost the sector after introduction of the tax incentives policies, the study recommended a need to curb cases of corruption which were looming, to improve transparency in the way the government performed and that would create an ease of doing business, improve the ease of doing business through improving the time taken as well as the costs involved in starting a business in Zimbabwe. If these were taken care of, then introduction of the tax incentives stand a better chance of bringing progress.

Since the study was carried out in Zimbabwe which has a different macro environment of operations, the current study focused on Kenya so as to have findings that can be compared and deductions made from. The current study also employed the use of questionnaires and secondary data but not qualitative data through interviews. The use of various methodologies enriches the findings of the study and also fills the methodological research gaps in the works. Furthermore, the study by Munyanyi and Chiromba (2015) focused on the tourism sector. Various incentives and working conditions of the tourism sector might be different from those of a manufacturing sector. However, this study sought to establish whether similar findings could be found in a different sector.

In the context of China, Gourdon, Monjon, and Poncet (2014) established how frequent changes in value added tax were related to performance of exports in the Chinese economy. The time period of the study spanned five years from the year 2003 to the year 2012 with a focus on export data. A timer series data approach was considered for this study and the data used was purely secondary. Changes in the value added rebates were established to significantly and positively affect the volume exported outside the country in the study period. In terms of magnitude, a one percent increase in value added tax was found to contribute to a seven percent increase in the volume of exports outside China. The study played a role of linking value added tax to performance. However, the main focus was changes in value added tax versus the amount of exports. The comparison with the present study reveals conceptual research gap since the study by Gourdon, Monjon, and Poncet (2014) focused on changes in value added tax and performance of export. The current study looked at more tax incentives and their effect on performance of firms. The study by Gourdon, Monjon, and Poncet (2014) was also conducted in China thus revealing a contextual research gap due to the differences in the status of the economies of the two countries. It was hence not possible to generalize the findings of the study by Gourdon, Monjon, and Poncet (2014) to the Kenyan context. The current study hence focused on tax incentives and performance of firms operating in the EPZs.

In a similar study as the study by, Gourdon, Monjon, and Poncet (2014), Chen et al. (2006) had previously conducted a study focusing on value added tax on rebates and its effect on the amount of exports in China. The study by Chen *et al* (2006) had used panel data spanning 1985 and 2002. Similar findings reported in the study by Gourdon, Monjon, and Poncet (2014) had been reported that changes in value added tax rebates had a positive effect on the amount of exports

from China. Similar results had also been established in the study conducted by Chandra and Long (2013) who used panel data spanning 3 years from the year 2004 to the year 2006 to investigate the effect of value added tax changes and exports quantity from China. The average rebate rate was found to have a positive effect on the firm export volume in China in the period between the years 2004 to 2006.

Just like the study by Gourdon, Monjon, and Poncet (2014) revealed a conceptual research gap by focusing on changes in value added tax and performance of export, so did the studies by Chen et al. (2006) ; Monjon, and Poncet (2014). The current study looked at more tax incentives and their effect on performance of firms. The study by Chen et al. (2006); Monjon and Poncet (2014) were also conducted in China thus revealing a contextual research gap due to the differences in the status of the economies of the two countries. It was hence not possible to generalize the findings of the study by Chen et al. (2006); Monjon, and Poncet (2014) to the Kenyan context. The current study hence focused on tax incentives and performance of firms operating in the EPZs.

In Kenya, with a focus on real estate firms, Kimeu (2013) investigated the effect of VAT tax reforms on financial performance of real estate firms in Kenya. A descriptive survey was carried out in all the real estate firms within Nairobi County. The study purely relied on primary data collected using questionnaires and some secondary data obtained from secondary sources. The type of questionnaire used was a semi structured one which captured both quantitative and qualitative data. Quantitative data was collected through closed questions while qualitative data was collected through open ended questions. The analysis of the data collected involved both descriptive means as well as the inferential means. Descriptive statistics involved were frequencies and percentages as well as means and standard deviations. The inferential statistics involved was both correlation and regression analysis. Value added tax reforms were found to positively affect the performance of the firms in the real estate industry. An improvement in the value added tax reforms led to an improvement in the performance of those firms operating in the real estate industry in Kenya.

The study by Kimeu (2013) focused on a similar theme as the current study in that knowledge gaps were presented based on the methods of data analysis, context of the study and the concept based on the choice of the study variables. The incentives investigated related to the real estate industry and was specifically the effect of value added tax reforms on performance of firms operating in the real estate industry in Kenya. The current study on the other hand focused on the manufacturing firms which operated in the export processing zones in Kenya. The study by Kimeu (2013) used both qualitative and quantitative data while the current study relied on quantitative data collected through closed ended questions as well as secondary data. Even though both studies focused on tax incentives, the current study focused on not just the value added tax but also more tax incentives thus filling the conceptual knowledge gap in the study by Kimeu.

Focusing on value added tax incentive and economic growth as whole, Umeora (2013) focused his study in Nigerian economy to test whether the value added tax which had been introduced in the year 1994 affected or had any effect on the economy of the country. Economic development was measured using gross domestic product as well as the total revenue. The methodology adopted by the study was the use of simple linear regressions using data spanning the year 1994

to the year 2010. The main data analysis tool used was statistical package for social sciences. The significance of the beta coefficients from the regression model was used to test the study hypotheses. The results revealed that value added tax incentives had had a significant effect on the economy of Nigeria which was measured as total revenue and the gross domestic product. The main recommendation was that the Nigerian government should come up with policies geared towards improving the value added tax so as to improve the economic growth of Nigeria.

3.0 RESEARCH METHODOLOGY

This research used correlation research design. Sample size of all the 86 registered EPZs firms was used in this study. Primary data was obtained using questionnaires. Secondary data from the registered firms was collected on; ROA, number and value of jobs and the length of stay of the firms. The study used both descriptive and inferential statistics to conduct data analysis.

4.0 DATA ANALYSIS AND PRESENTATION

4.1 Description of VAT Incentive

Assessment of VAT incentives waived for EPZ firms in Kenya revealed that a cumulative total of 402 firms benefited from this VAT waiver for between the period of 2003 and 2014. The study also revealed that a total of between Kshs 4,332,347 and Kshs 27,363,346 was lost through VAT incentive years for the study period between 2003 and 2014.

Table 1: VAT Incentives Descriptive

Year	N	Mean (Million)	Std. Deviation
2003	36	4,332,347	11,565,259
2004	33	5,674,146	8,603,645
2005	31	19,296,465	75,316,436
2006	17	15,132,455	34,446,628
2007	34	9,419,316	24,133,209
2008	40	12,671,245	40,801,212
2009	36	12,664,328	30,401,847
2010	33	16,241,075	46,418,534
2011	35	15,427,012	59,800,258
2012	36	19,159,042	71,778,186
2013	37	25,369,213	69,161,290
2014	34	27,363,346	91,964,975
Total	402	15,214,719	53,638,486

4.2 VAT Incentives Trend

The graph below shows that the VAT incentive has been increasing across the study period. In 2005 there was significant increase in VAT incentive that EPZ firms received. On average the trend for VAT incentive has been increasing as illustrated in Figure 1.

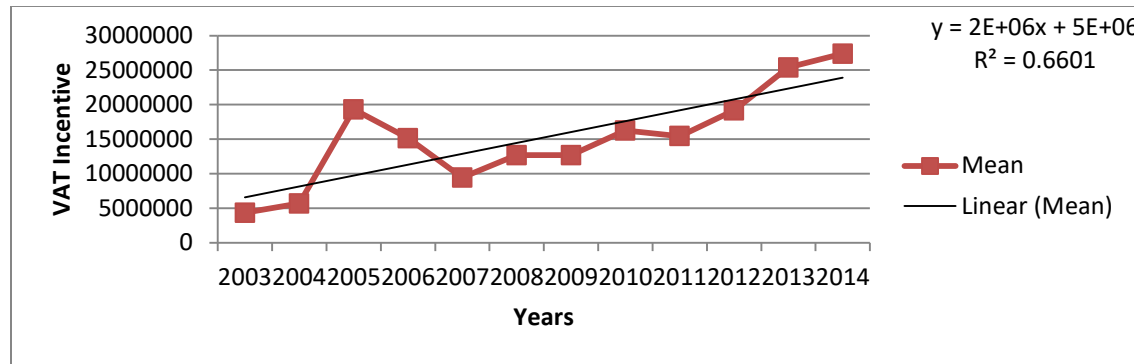


Figure 1: Trend for the Mean of VAT Incentive Waived for EPZ Firms

4.3 Effects of VAT Incentive on ROA

The results presented in table 2 present the fitness of model used of the regression model in explaining the study phenomena. VAT incentives explained 36% of variation in ROA.

Table 2: Model Fitness

Indicator	Coefficient
R	0.600
R Square	0.360
Adjusted R Square	0.0224
Std. Error of the Estimate	4.27845

This study sought to investigate the influence of VAT incentive given to EPZ firms on the performance of the firms.

Table 3: Effects of VAT Incentive on ROA

Parameter Estimate	B	Std. Error	Beta	t	Sig.
(Constant)	65,349,981.23	10,345,786		2.641	0.000
VAT Incentive	3.91	0.621	0.291	15.821	0.000

The study sought to test the null hypothesis below:

H₀: There is no significant relationship between VAT incentive and performance of EPZ firms in Kenya.

$$ROA \text{ (EPZ Performance)} = 65,349,981.23 + 3.91 \text{ (VAT Incentive)}$$

From the findings, the study rejected the null hypothesis that VAT Incentive has no significant relationship with the performance of EPZ firms in Kenya. This is because the probability value (p-value = 0.000) was less than the conventionally value of 0.05. Therefore, the study concludes

that VAT Incentive has a positive significant relationship with the performance of EPZ firms in Kenya.

4.4 Effects of VAT Incentive on the Number of jobs

The results presented in table 4 present the fitness of model used of the regression model in explaining the study phenomena. VAT incentives explained 12.3% of variation in Number of jobs.

Table 4: Model Fitness

Indicator	Coefficient
R	0.35
R Square	0.123
Adjusted R Square	0.2712
Std. Error of the Estimate	4.8952

The study conducted a linear regression to ascertain the influence of VAT incentive on the EPZ firm's performance. The performance of firms was measured by the number of jobs.

Table 5: Effects of VAT Incentive on the Number of jobs

	B	Std. Error	Beta	t	Sig.
(Constant)	1.208	0.665		1.816	0.070
Log VAT incentive	0.212	0.046	0.226	4.649	0.000

The following null hypothesis was tested:

H₀: There is no significant relationship between VAT incentive and performance of EPZ firms in Kenya.

$$Y = 1.208 + 0.212 X$$

$$Y = \text{Ln}(\text{Number of jobs (EPZ Performance)})$$

$$X = \text{Ln}(\text{VAT Incentive})$$

From the findings, the study rejected the null hypothesis that VAT incentive has no significant relationship with performance of EPZ firms in Kenya. This is because the probability value (p-value = 0.000) was less than the conventionally value of 0.05. Therefore, the study concluded that VAT incentive has a positive relationship with the performance of EPZ firms as measured using the number of total workers created in Kenya.

4.5 Effects of VAT Incentive on the Length of Stay

The results presented in table 6 present the fitness of model used of the regression model in explaining the study phenomena. VAT incentives explained 10.3% of variation in Length of Stay.

Table 6: Model Fitness

Indicator	Coefficient
R	0.320
R Square	0.103
Adjusted R Square	0.2489
Std. Error of the Estimate	4.2451

The study conducted a linear regression to ascertain the influence of VAT incentive on the EPZ firm's performance. The performance of firms was measured by the number of years in operation.

The following null hypothesis was tested:

H₀: There is no significant relationship between VAT incentive and performance of EPZ firms in Kenya.

$$Y = 0.143 + 0.078 X$$

Y=Ln (Length of Stay (EPZ Performance))

X=Ln (VAT Incentive)

From the findings, the study rejected the null hypothesis that VAT incentive has no significant relationship with performance of EPZ firms in Kenya. This is because the probability value (p-value = 0.007) was less than the conventionally value of 0.05. Therefore, the study concluded that VAT incentive has a positive relationship with the performance of EPZ firms as measured using the number of years in operation.

Table7: Effects of VAT Incentive on the of Length of Stay

Parameter	B	Std. Error	Beta	t	Sig.
(Constant)	0.143	0.418		0.341	0.733
Log VAT incentive	0.078	0.029	0.158	2.728	0.007

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Based on the study findings, the study concluded that VAT incentives had a positive effect on the performance of EPZ firms in Kenya as measured by the ROA, number of jobs and length of stay.

5.2 Recommendations

Based on the study findings, it was recommended that the government should reconsider its VAT policy by encouraging more VAT rebates to firms in order to boost their productivity and increase the volume of exports. The study also recommends that the government should introduce a strong monitoring unit to oversee the administration of tax incentives. Government

should equally pay attention to the issue of security and infrastructure which are basic in order to maximize the benefits of tax incentives.

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