A SURVEY OF TAX AVOIDANCE AND INCENTIVES SCHEMES ADOPTED BY KENYA AIRWAYS

DAVID MUREITHI WACHIRA

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DECLARATION

This research project is my original work and has not been presented for a degree or any other examination in any University.

Signed ……………………………….. Date……………..

MR. DAVID MUREITHI WACHIRA

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Declaration by the Supervisor

This project has been submitted for examination with my approval as University Supervisor

Signed …………………….. Date………………

MR. MARTIN ODIPO

Lecturer: Finance & Accounting

University of Nairobi

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DEDICATION

My study is dedicated to my supervisors for their support and patience during the entire period of my study. Further, to my parents, thank you for taking me to school the first day. Thank you and God bless you abundantly.

ABSTRACT

Kenya Airways was established in 1977 as with a core purpose to contribute to the sustainable development of Africa. Tax avoidance and tax incentives are adopted by Kenya Airways to modify the financial situation and make investments correspondingly. The main objective of the study was to determine the benefits and effectiveness of tax avoidance strategies adopted by Kenya Airways. The respondents of the study involved the Tax Manager, and the supporting officers in Kenya Airways tax department. A semi structured questionnaire was applied as the data collection tool that involved both open and closed format questions. The Statistical Package for Social Sciences (SPSS) was adopted in the analysis.

The findings of the study show that Kenya Airway comprehensively looks at various tax options in order to take full advantage of all available tax deductions, both business and personal. This is adopted so that the company can bear the lowest legal tax liability in the core business. Kenya Airways has implemented strict measures to avoid tax evasion that is the reduction of tax through deceit, subterfuge, and concealment. Implementing tax avoidance strategies has been done by changing one's tax residence to a tax haven and adopting the double taxation treaties as applied in other countries. However the study reveals that employees in KA do not use legal avoidance of personal taxation but instead separate legal entity to which one's property is donated is created. Tax avoidance is deemed advantageous in that it reduces the amount of taxable income, reduces tax rates, it controls the time when the tax must be paid, helps to claim any available tax credits, avoiding the most common tax planning mistakes and controls the effects of the alternative minimum tax. The schemes also help in minimizing restrictions on tax planning, preparing income tax return and attending to personal tax issues. However tax avoidance and incentives have not been effective in tax exemption in different employees status thought it is the appropriate strategy to minimize tax obligations before they occur for example, by the use of outsourced employees and independent contractors to avoid employment taxes. The study finds the tax and incentives scheme in Kenya Airways as effectives and recommends tax holidays and investment allowances and tax credits to be provided to the employees as a motivational initiative. The study also suggests further research studies in the area of the role of tax avoidance and incentive in the motivation of Kenya airways employees.

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LIST OF ACRONYMS

ASEAN - Association of Southeast Asian Nations

A.C.H.L - African Cargo Handling Limited

CEO - Chief Executive Officer

CFO - Chief Financial Officer

EPZs - Export Processing Zones

FDI – Foreign Direct Investment

IRS - Internal Revenue Service

K.A.H.L - Kenya Airfreight Handling Limited

NAFTA - North American Free Trade Agreement

OECD - Organization for Economic Co-operation and Development

R&D - Research and Development

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

1.1.1 Tax Avoidance

Tax Avoidance is the use of legal methods to modify an individual's financial situation in order to lower the amount of income tax owed. Tax avoidance can be exogenous or endogenous. Exogenous tax avoidance refers to avoidance of tax by resorting to transactions or structures for their own sake, that is, to transactions and structures that are independent of other economic activity of the taxpayer (Zoe & John 2010). Exogenous avoidance typically involves taxpayers participating in tax shelters that generate losses to set off against ordinary income or that otherwise produce fiscal effects that reduce tax payable on such income. Endogenous tax avoidance refers to avoidance that is affected by adjusting transactions and structures that the taxpayer was proposing to enter, or have already entered, in any event. Endogenous avoidance ordinarily involves avoidance in the context of some other transaction or structure, most commonly a business or estate planning structure (Zoe & John 2010).

Sonja, (2002) stated that tax avoidance (effective tax planning) reduces the present value of tax payments and generally increases the after-tax rate of return to investors in a firm. Graham (2003) noted that taxes affect financing choices, organizational form and restructuring decisions, payout policy, compensation policy and risk management decisions.) A strong positive feedback effects between corporate tax avoidance and the structure of corporate governance may exist such that increased levels of tax enforcement may raise firm value, despite the firm's increased tax payments (Desai, Dyck and Zingales, 2004) Corporate tax avoidance not only entails distinct costs, but these costs may actually outweigh the benefits to shareholders (Graham *et al.,* 2004).

Sonja, (2002) argued that multinational corporations have opportunities to avoid income taxation by locating operations in low-tax rate countries, by shifting income from high-tax locations to low-tax locations, by exploiting differences between the tax rules of different countries, and by taking advantage of tax subsidy agreements with host countries. Economies of scale and scope

can significantly affect a firm's ability to reduce its tax burden through tax avoidance. Firms with higher levels of pre-tax income and more extensive foreign operations are able to reduce their worldwide tax burdens through tax planning activities. Holding firm size constant, firms with greater pre-tax income are likely to avoid more income taxes than firms with less pre-tax income, since firms with greater income have lower costs of tax avoidance. Manzon and Plesko (2001) argue that profitable firms can make more efficient use of tax deductions, credits, and exemptions relative to less profitable firms, resulting in greater book-tax differences. Firms with greater pre-tax income should have greater incentives and resources to engage in tax planning.

1.1.2 Tax incentives

Tax incentives are components of the tax code designed to encourage certain behaviors, such as job creation or investment in specific geographic areas (Dagney & Michael, 2010). Tax credits including jobs tax credits, investment tax credits and training credits, tax deductions, tax holidays, tax free zones and property tax abatement are common types of incentives used by federal, state and local governments. These tax credits can be divided into two categories: statutory and discretionary tax credits. Statutory credits are available to businesses meeting certain criteria, such as being in a targeted industry and creating a minimum number of jobs. Discretionary tax credits are offered to attract or retain firms (Dagney & Michael, 2010).

Many governments rely on tax incentive schemes in their effort to lure foreign investors. Contrary to a generalized tax reduction, tax incentive are attractive to many countries because they minimize the initial effect on fiscal revenues and, in principle, should help to target specific industries or activities that would bring the greater benefits to the country (Jacques & Neda, 2004).

1.2 Problem statement

Tax incentives and tax avoidance can be advantageous or disadvantageous. Some of the advantages of tax incentives include; no requirement for an actual expenditure of funds or cash subsidies to investors, they may minimize the initial effect on fiscal revenues, they have a signaling effect on the government's commitments to stimulate Foreign Direct Investment and tax avoidance reduces the value of tax payments and generally increases the after-tax rate of return to investors in a firm (Sonja, 2002). However tax incentives such as tax holidays primarily

benefit short-term investments and tend to reward the founding of a company, rather than investment in existing companies and discriminate against investments that rely on long-lived depreciable capital (Steven, *et al.,* 2007). They can lead to large erosion of the tax base as taxpayers learn how to escape taxation of income from other sources. Abusive tax avoidance schemes, made possible by tax preferences, can erode the revenue base. Tax incentives also divert administrative resources from revenue collection. Tax differentials can introduce serious economic distortions that reduce efficiency and productivity (Steven, *et al.,* 2007).

Previous studies in Kenya did not focus on tax avoidance and tax incentives. For example, Bankman (2004) studied resurgence in corporate tax avoidance activities with focus on annual measures of avoidance. Bondo (2008) studied the effectiveness of tax payer education as a revenue collection strategy in Kenya Revenue Authority. Other authors who studied tax avoidance include (Hanlon et al. 2005, Plesko 2004, Frischmann et al., (2007) and Blouin & Tuna, (2006). There is no known study done in Kenya on tax avoidance and incentives in Kenya airways. Hence, there exists a gap in knowledge on comprehensive information regarding tax avoidance and tax incentives from available literature sourced from empirical studies and from the government. This study therefore seeks to bridge the gap in knowledge by determining the practices of tax avoidance and tax incentives by Kenya Airways. The study seeks to answer the question; what are the tax avoidance and incentives schemes adopted by Kenya Airways?.

1.3 Objectives of the study.

1.3.1 Main objective

To determine the benefits and effectiveness of tax avoidance and incentives schemes adopted by Kenya Airways

1.3.2 Specific objectives

i. To determine tax avoidance strategies adopted by Kenya Airways and establish benefits of tax incentives offered by the government of Kenya.

1.4 Significance of the study

Stakeholders: The findings of this study will be of great benefit to stakeholders in Kenya Airways and other companies because it will provide an insight into effectiveness of tax avoidance strategies and the tax incentives by the government. The findings will also be important in formulation of financial strategies within Kenya Airways.

Government: The findings from this research will be valuable to the to the government of Kenya who will use the finding to evaluate effectiveness of tax avoidance and tax incentives schemes towards improving performance of firms within the country. Information resulting from this research will form a basis of formation of government policies that govern taxation.

Academicians: The research information will also provide vital data to assist and benefit researchers, development practitioners, academicians, policy makers, planners and programme implementers to monitor and evaluate existing tax avoidance and tax incentives schemes.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents review of literature on tax avoidance and tax incentives. The bias is on Kenya Airways since tax avoidance and tax incentives scheme vary from company to company.

2.2 Theories of Corporate Tax Avoidance

The purported growth in corporate tax avoidance activity has given rise to two alternative perspectives on the motivations and effects of this activity. Several studies investigate corporate tax avoidance as an extension of other tax-favored activity, such as the use of debt. In particular, Graham and Tucker (2006) construct a sample of firms involved in 44 corporate tax shelter cases over the period 1975-2000. By comparing these firms with a matched sample of firms not involved in such litigation, they identify characteristics (such as size and profitability) that are positively associated with the use of tax shelters, and argue that tax shelters serve as a substitute for interest deductions in determining capital structure. This paper is representative of the common view that corporate tax shelters are merely tax-saving devices without any other agency dimensions.

An alternative theoretical approach emphasizes the interaction of these tax avoidance activities and the agency problems that are inherent in publicly held firms. According to this view, obfuscatory tax avoidance activities can create a shield for managerial opportunism and the diversion of rents. This perspective underlies several recent studies, including Desai and Dharmapala (2006) and Desai, Dyck and Zingales (2007), and forms part of an emerging paradigm that emphasizes the links between firms' governance arrangements and their responses to taxes. In this view, corporate tax avoidance not only entails distinct costs, but these costs may actually outweigh the benefits to shareholders, given the opportunities for diversion that these vehicles provide. Desai and Dharmapala (2006) discuss examples of the interaction between tax shelters and various forms of managerial opportunism, illustrating that straightforward diversion and subtle forms of earnings manipulation can be facilitated when managers undertake tax

avoidance activity. While the traditional view of corporate tax avoidance suggests that shareholder value should increase with tax avoidance activity, the alternative view provides a more nuanced prediction. Specifically, firm governance should be an important determinant of the valuation of purported corporate tax savings. While the direct effect of tax avoidance is to increase the after tax value of the firm, these effects are potentially offset, particularly in poorly-governed firms, by the increased opportunities for managerial rent diversion. Thus, the net effect on firm value should be greater for firms with stronger governance institutions.

2.3 Kenyan case tax system

Though the Kenyan tax structure had changed tremendously over the years, massive reforms commenced in 1986 following the publication of Sessional Paper No 1 of 1986. Since then, the implementation of major tax reforms introduced the following changes to the tax system. There has been a reduction in direct taxes through a widening of tax brackets and gradual lowering of income tax rates. Indirect taxes have been increased to cover the shortfall in revenue. Since indirect taxes are regressive and therefore impose a greater burden on the poor, this shift has been criticized as reducing the redistributive effect of the tax system.

Kenya's tax reform programme, Wagacha (1999) argues, should seek to (a) improve the efficiency and productivity of taxation, (b) improve tax collection and administration while lowering the rates, and (c) gain tax effectiveness through greater tax elasticity. On the basis of tax/GDP ratios for the period 1992/93–1996/97, this author observes that Kenya's tax burden (averaging 26.6%) is high by international standards and therefore the ultimate objective of a reform scheme should be to lower the excess.

Muriithi and Moyi (2003) conducted a study on tax reforms and revenue mobilization in Kenya.

They discussed several reforms which include customs reform and income tax reform.

Customs reform: Kenya's customs taxes underwent significant changes during the reform period in the direction of restricting duty exemptions, encouraging exports, reforming the tariff structure and strengthening the administration of customs duties. Broadly, these reforms were aimed at encouraging a free market atmosphere and therefore increasing the level of foreign direct investment. During the period 1987 to 1998, the top tariff rate was reduced systematically

from 170% to 25%, while the rate bands were reduced from 24 to 5 (including duty free). As a result of these changes, the simple average rate fell from 40% to 16%.

The reforms were also aimed at expanding the export capacity of the country by among other things introducing duty/VAT exemption on direct and indirect imports of raw materials for use in the production of exports, duty-free items for the domestic market, and inputs for aid-funded projects. Under the manufacturing under bond facility, machinery and raw material were classified under duty/VAT exempt products so long as the manufactured products were meant for export. If the products were sold in the domestic market, then normal duties plus 2.5% surcharge would apply. Other export support programmes included export compensation (from 1974 to 1993), export processing zones from 1991), full import liberalization (from mid 1993) and full foreign exchange

Income tax reform: Income tax is a direct tax charged on business income, employment income, rent income, pensions, and investment income. The main goal of income tax reforms has been to enhance collection by broadening the tax base while reducing the maximum rates.

The top rate for individual tax was reduced from 65% (in 1987) to 32.5% in 1998. Further, basic tax allowances (tax credits) were increased and simplified while the single credit per individual was introduced in 1997. Changes in the company tax structure included reducing the top rate from 45% to 32.5% between 1989 and 1998. The rate was rationalized by unifying the structure across all types of business. There were efforts to lower and equalize company and individual marginal tax rates. This was aimed at increasing the disposable income for both corporate and individual capital investments, thus encouraging private investment through the consumption transmission mechanism.

2.4 Tax Behavior of Multinational Companies

While most early studies examine the impact of taxes on the average foreign investors, there were many reasons to believe that this impact differs greatly depending on the characteristics of the multinational company. International investors often have at their disposal numerous alternative methods of structuring and financing their investments, arranging their transactions between related parties located in different countries, and returning profits to investors. These

alternatives have important tax implications, and there is considerable anecdotal evidence that tax considerations strongly influence the choices that firms make.

One of the earlier findings of the literature is that the impact of tax rates on investment decisions is generally higher on export-oriented companies than those seeking the domestic market or location-specific advantages. In surveys, these firms are those with managers that have responded more favorably to tax incentives (Reuber, 1973) and Guisinger, 1985). This finding is not really surprising because export-oriented firms such as garment manufacturers are operating in highly competitive markets with very slim margins. Moreover, these firms are often highly mobile, and more likely to compare taxes across alternative locations (Wells 1986). Hence, taxes can be an important part of their cost structure, and the firms can easily move to take advantage of more favorable tax regimes. The impact and the nature of incentive schemes may also differ if they apply to new or existing companies. For example, Rolfe et al. (1993) shows, using a survey of managers of US firms, that start-up companies will prefer incentives that reduce their initial expenses (equipment and material exemption), while expanding firms will prefer tax incentives that target profit. He also reports that manufacturing industries will prefer incentives related to depreciable assets because they utilize more fixed assets than service industries.

In an interesting study, Coyne (1994) suggests that small investors are generally more responsive to tax incentives than large ones. Taxes may play a more important role in the cost structure of small companies because they do not have the financial and human capacity to develop sophisticated tax avoidance strategies. Large multinational companies are also more likely to receive special tax treatments, whatever the tax laws applied by the host country. Oman (2000) reports some evidence that large firms, especially in the automobile sector, are more likely to negotiate secret advance agreements on how much they will pay in both industrial and emerging countries. There exist a few studies that estimate separate equations for FDI financed by retained earnings and external funds (equity plus debt) (Hartman, 1984 and Boskin & Gale 1987). They typically found that FDI financed by retained earnings is more strongly influenced by host country tax rates. However, they do not offer any clear explanation for this result, but it is possible that equity and debt financing are also influenced by the tax policy in the home country, thereby reducing the impact of the host country’s tax regimes.

Finally, there is growing evidence that low taxes might be a key factor for firms that are not operating in one specific but multiple markets such as Internet related business, insurance companies and banks. Establishing a subsidiary in a low tax country gives them the opportunity to develop tax avoidance strategies. It is indeed difficult for any one country to claim the right to tax the holding company if its operations have taken place in multiple markets at the same time. A typical example is when filing tax returns in a high tax country; a multinational company claims that it has earned as little profits as possible. Instead, it tries to attribute as much profit as possible to its operations in low tax countries by arranging "transactions" between its subsidiaries in the two countries, and setting the "transfer price" of those transactions so that it has the desired effect on profits. Multinationals can also adjust the timing of their dividend repatriations from foreign subsidiaries (Hines and Hubbard, 1990). In practice, such strategies may explain the success of tax havens countries in attracting subsidiaries of "global" companies and the expenses made by multinationals on economists and accountants to justify their transfer prices that suit their tax needs. Still, very little is known about the magnitude of such international tax evasion and how much do they affect tax revenues across countries (Grubert, *et al.,* 1993; Economist, 2000).

2.5 Tax Incentives

Governments have several tax instruments that they can use to attempt to influence the effective tax rates and the location decision of multinational companies.

The literature has traditionally focused on the instruments linked to the corporate income tax such as tax holidays and tax allowance. Of course, these instruments are of no help to an unprofitable company and, therefore, other forms of incentives have also been widely used around the world. Exemptions from custom duties or local indirect taxes (generally to targeted sectors) do exist in many countries, even though their use has been restricted in most international and bilateral trade treaties. Outright grants are used in many industrial countries but rarely in the developing world because of their upfront costs. Following the existing literature, our focus is on the corporate income tax and the different options used by governments to relieve companies. Governments with high corporate tax rates have a number of options to reduce them to more competitive levels.

One is to give tax incentives to a selected group of firms. An alternative is to change the general fiscal system to lower the effective tax rate for all firms. There are many options between these two extremes, including the "stability premium" that have been offered to investors by countries such as Chile and Colombia. This premium consists of an option where the investor purchases the right to maintain its corporate tax rate at a given level, even if the tax regime will be modified in the future. However, there is certainly no clear-cut answer in favor of one or another alternative mechanism (Mintz and Tsiopoulos, 1992).

The first option is to generalize a low corporate tax rate on a broad base. Small countries such as Hong Kong, Lebanon or Mauritius have typically retained this option.

A low corporate tax rate is, in itself, an incentive. It allows investors to keep a larger portion of profits. Governments are also able to maintain corporate tax revenues because investors have limited tax-planning opportunities and the simplicity of the system makes for a favorable investment climate. Investors look favorably on a country offering a low statutory tax rate, especially one well below the worldwide norm of 35 percent to 40 percent, since it signals that the government is interested in letting the market determine the most profitable investments without undue governmental influence. Although a broad-based low corporate tax rate is appealing, this approach has limitations. In particular, international linkages can undermine a country's efforts to make its tax system relatively neutral. In fact, a country with a corporate tax system greatly out of line with other countries might be better off having a less neutral system to minimize distortions.

It has also to be recognized that the sudden change to a low, generalized tax rate can reduce tax revenues during a transition period, even though the simplicity of the tax system may attract further investors and increase the tax base in the longer run and so compensate for the initial reduction.

For these reasons, many governments rely on tax incentive schemes in their effort to lure foreign investors. This selective approach, in contrast to a generalized tax reduction, is attractive to many countries because it may minimize the initial effect on fiscal revenues and, in principle, should help to target specific industries or activities that would bring the greater benefits to the country. It can also be argued that incentives may have a signaling effect on the government's

commitments to stimulate FDI, as they are generally easier to implement than a general reform of the tax system (Bond and Samuelson, 1986).

One popular form of tax incentive consists of reducing the corporate income tax rate by providing tax holidays or temporary rebates. This form of incentive has been popular in emerging countries where authorities have favored a discretionary approach.

For example, several African Investment Codes have included tax holidays, with differentiated rebates and periods of abatement, depending on the government's objectives. The main benefit of tax holidays is that they provide large benefits as soon as the company begins earning income, and are thus more valuable than an incentive such as a lower corporate tax rate that accrues more slowly over a longer time. However, they primarily benefit short-term investments, which often are undertaken in so-called footloose industries characterized by companies that can quickly disappear from one jurisdiction to reappear in another. They also tend to reward the founding of a company, rather than investment in existing companies and discriminate against investments that rely on long-lived depreciable capital. Last but not least, they can lead to large erosion of the tax base as taxpayers learn how to escape taxation of income from other sources. Many countries, especially in the industrial world, allow fast write-offs for investment expenditures either all investments, or those they especially want to induce through tax allowances or credits.

The incentive is correctly targeted at the desired activity since a company receives the benefit of lower corporate taxes only if it makes capital investments (rather than formation of a new company). It encourages companies to take a long-term view when planning investments. By targeting current capital spending, the allowance causes less revenue leakage than would a tax holiday and it promotes new investment instead of giving a windfall gain to owners of old capital, as does a reduction in corporate tax rates.

It can also be made refundable, allowing the government to share the investment costs and risks with the foreign entrepreneur. Still, investment tax allowances have limitations and drawbacks. If the investment tax allowance is not refundable, existing companies reap the full benefits (i.e. supporting expansion) while start-up companies must first earn enough income before they can take the allowance. Also, projects with long gestation periods suffer in comparison with those that begin earning income quickly. When inflation is high, the allowance aggravates the tax

system's uneven impact on the investment behavior of companies. Companies in high-inflation countries will benefit more if they borrow to finance capital, because tax deductions for capital expenditures are more valuable. This is the reverse of the tax holiday and of lower corporate tax rates, which reduce the advantages of interest cost deductions for tax purposes during high inflation.

An extreme approach has been to reduce or simply eliminate taxes to all or specific investors. Some countries have become tax havens, especially in the Caribbean and Pacific regions. They generally chose to suppress all direct income taxes and rely on indirect consumption and employment taxes. Other countries have limited those benefits to specific areas and export oriented activities –the so-called Export Processing Zones (EPZs), (Ernst & Young, 1994).

These zones usually provide a number of benefits to firms that export a minimum share of total output (usually more than 70 to 80 percent). In virtually all of these zones there is a tax holiday for a substantial period of time (often 10 years) coupled with a reduction or elimination of import taxes on machinery and production inputs. In addition, the zones usually provide less cumbersome procedures for importing and exporting.

Tax haven countries have been successful in encouraging FDI, but this has to be qualified as they principally attracted mobile companies or activities that are relatively global such as banking and insurance as well as Internet companies. Today, the Cayman Islands claims that it is the fifth largest financial center, as it is home to subsidiaries of 45 of the world’s largest banks. It has to be noted that tax havens have been much less successful in convincing multinational firms to relocate their corporate home than establishing new subsidiaries, partly reflecting the tax and regulatory costs of doing so from the home countries (Collins and Shackelfold, 1995). The experience with EPZ has been mixed as reported by Magati (1999). It remains unclear if the benefits (employment, exports) outweigh the costs (foregone tax revenues, distortions in the allocation of resources). In many countries, such regimes have created a dichotomy between the EPZ companies and those operating under the common regime. The capacity of custom and tax administrations to properly manage and control EPZ companies has also been a crucial element in the performance of EPZ.

2.5.1 Home country tax policy

In the presence of international capital mobility, home-country corporate income tax rates and rules about how taxes paid in the host country are considered at home should influence FDI. In fact, such influence was recognized a long time ago by the bilateral agreements that were signed to avoid double taxation of income between countries (UNCTAD, 1995). The current literature has emphasized two additional effects: 1) the influence of the home country's tax system on the efficacy of the tax incentives granted by the host country, and 2) its impact on the way multinational do business abroad (Morisset & Pirnia, 2002).

Home country's taxation rules affect the effectiveness of tax incentives in the host country. Most FDI outflows originate from OECD countries, with different regimes on how they tax the activities of their multinationals abroad. For example, the foreign tax paid by U.S. companies can be claimed as a tax credit on the U.S. tax liabilities (up to a rate of 35 percent). Japan and U.K. use similar tax credit systems, while other countries such as Australia, Canada, France, Germany and the Netherlands exempt more or less any profits earned abroad from home-taxation. In 1996, Hines compared the distribution of FDI within the U.S. of foreign investors whose home governments grant foreign tax credits for federal income and state income taxes with those whose governments do not tax income earned in the United States. His findings reveal that companies with home tax-free rules (France, Canada, etc.) have more invested in low tax states than those that have to pay taxes in their home country (Japan and U.K). In a more recent paper of 1998, the same author found that Japanese firms have a tendency to favor investment in countries where Japan has agreements to claim foreign tax credits for income taxes that they would have paid to foreign governments in the absence of tax holidays. From a policy perspective, these two findings seem to indicate that tax incentives are more effective when they apply to firms from countries whose governments do not tax their foreign activities.

Some recent evidence has shown that the home country's taxation system is likely to influence the way their multinational companies do business abroad. Hines and Hubbard (1990) and Grubert (1998) found that it is attractive for U.S. firms to use debt to finance foreign investment in high tax countries (compared to the U.S.) and equity in low tax countries. The argument is that the debt generates interest deductions for the subsidiary and so reduces its taxable income in the host country (note that the parent firm has to pay additional taxes, but at a lower rate, in the

U.S.). Harris (1993) uses firm-level data to illustrate that the Tax Reform Act of 1986 in the United States pushed U.S. firms with higher equipment/structure ratios to invest abroad more heavily because their tax regime encouraged such an action. A series of other recent studies have found similar results for preferred stock issuances (Collins and Shakelford (1992)) or domestic versus foreign borrowing (Atshuler and Mintz, 1995). An interesting finding is that the 1986

Tax Reform has also influenced the form of business organization that the multinational will select in the foreign country. For example, since 1986, American investors have had fewer tax incentives to participate in joint ventures, particularly in low tax foreign countries, and the number for this type of foreign investments fell sharply as reported by (Desai and Hines, 1999).

Finally, the importance of the home-country tax system can also be illustrated by the efforts of tax authorities to prevent the transfer of multinationals' headquarters or other specific activities (such as R&D) to other countries. Many governments negotiate contractual arrangements or, and often simultaneously, impose high penalties if the multinational company decides to do so. For example, the costs of moving a parent company, if it is already incorporated in the United States, are prohibitive because the tax administration generally takes the view that the firm is selling off its assets, and levy a substantial capital gain tax. On the other hand, the US tax system provides incentives to local R&D if imported technology and local technology are substitutes, and thus discourage US firms to move those activities abroad (Hines, 1999). In recent years, there has been new empirical evidence that tax rates and incentives influence the location decision of companies within regional economic groupings, such as the European Union, NAFTA, or ASEAN. The location decision of foreign companies within the U.S has also retained the attention of several researchers (Ondrich and Wasylenko (1993) and Swensson (1994)). As an illustration of this effect, Devereux and Griffith (1998) found that the average effective tax rate plays a significant role in the choice of US companies to locate within Europe. This factor, however, does not seem to influence the choice of whether to locate in Europe compared with one of the outside options (domestic or other foreign markets).

Such finding confirms the idea that was put forward by Forsyth (1972) about 30 years ago. The potential effectiveness of fiscal incentives is that they are able to make a difference between competing jurisdictions where the basic, more important conditions, in other words the fixed locational characteristics, are more or less equivalent. These jurisdictions may be subnational or

in different countries included in a supranational unified market (e.g. the European Union). Here, once a locational decision is narrowed down to a handful of alternative sites, incentives can play a decisive role in the final locational choice.

2.5.2 The Costs of Fiscal Incentives

The debate about the effectiveness of incentives in attracting investment –the potential benefit side – has diverted the attention from the cost side. Even if tax incentives were quite effective in increasing investment flows, the costs might well outweigh the benefits. This issue has become critical in view of the increase in tax competition around the world. This competition has not only taken place in relatively wealthy industrial countries but also in emerging markets where governments generally face severe budgetary constraints. There is no doubt that tax incentives are costly. The first and most direct costs are those associated with the potential loss of revenues for the host government. The argument here is to determine if the new foreign investment would have come to the country if lower incentives were offered. In such cases, “free rider” investors benefit, whilst the Treasury loses, and there are no net benefits to the economy. An interesting recent study on the State of South Carolina in the US (Figlio and Blonigen 1999) has shown that foreign direct investment has several important negative impacts on the State budget, in fact more than new domestic investment. Not only they generated more revenue losses (an average sized new foreign firm is associated with a 1.2 percent reduction in real per capita revenues while a domestic firm only 0.1 percent) but also additional expenses on infrastructure and education, even though those may have indirect benefits for the economy. These results simply illustrate that attracting foreign companies is not a “zero-sum game” from a public finance perspective.

Indeed, the argument for their efficacy presuppose that tax authorities are capable of identifying the “positive externalities” of investments, and determine the exact level of tax incentives required to attract the investor. Most incentive programs have relied on vague assessments of potential externalities, and presumptions of policymakers about both the desirability and likelihood of attracting certain types of investments. The distortionary effects of incentives on the allocation of resources can be significant as they bias the investment decisions of private companies. Incentives can be further counterproductive if they contribute to attracting more

investors of the "wrong kind", which is certainly the case in countries where basic fundamentals are not yet in place.

Another problem with incentive measures relates less to whether they achieve their objectives than to the difficulty and cost of administering them effectively. Put another way, incentive regimes generally impose a significant administrative burden, and must therefore be more than marginally effective in order to cover the costs of implementing them and produce a net overall benefit. On this point, it is worth mentioning the difference between discretionary regimes, which depend upon case by case evaluations, and non-discretionary regimes, which grant incentives to whatever company meets clearly stated requirements. Difficult-to-administer discretionary regime result in delays and uncertainty for investors, which can even increase the overall cost of making an investment in some countries. They have also been significant sources of corruption, effectively screening out desirable investment, and detrimental to the processes of developing competitive markets and sound policy-making. In contrast, automatic incentive regimes are easier to implement, and generally involve such incentives as investment tax credits, accelerated depreciation, and subsidies linked to indicators that can be easily measured (exports, technology imports, skilled labor). One has to keep in mind, however, that successful examples like Singapore or Ireland are rare. There have been more governments that failed to attract FDI with targeted tax incentives, explaining why the recent trend has been to eliminate and streamline tax incentive programs. In fact, it seems that multinationals give more importance to simplicity and stability in the tax system than generous tax rebates, especially in an environment with great political and institutional risks (Ernst & Young (1994).

2.6 Tax avoidance

Hanlon and Heitzman (2009) broadly define tax avoidance as the reduction of explicit taxes per dollar of pre-tax accounting earnings or cash flows. The literature has been holding the view that positive book-tax differences (i.e., the differences between incomes reported to the capital market and tax authorities) and low effective tax rates reflect tax avoidance behavior. Accordingly, the growing book-tax differences and declining effective tax rates for U.S. public corporations since the mid-1990s have stimulated researchers to investigate the determinants and

consequences of corporate tax avoidance activities (Desai and Dharmapala, 2009b; Graham, 2003; Shackelford and Shevlin, 2001).

Generally, two alternative views underlie empirical research on tax avoidance. One is that managers undertake tax avoidance activities for the sole purpose of reducing corporate tax obligations. Thus, from the investors' perspective, tax avoidance is value enhancing, and managers should be motivated and compensated for engaging in such activities. An example of this view of tax avoidance is Phillips (2003), who finds that compensating business unit managers on an after-tax basis lowers a firm's effective tax rates. Although this view also recognizes the potential costs of tax avoidance, the costs considered mainly include direct costs, such as managers' time and the potential risk of detection by tax authorities.

2.6.1 The Agency view of tax avoidance

Tax avoidance incorporates more dimensions of the agency tension between managers and investors. According to agency perspective of tax, the problem that needs to be solved by investors is simply managerial shirking. Avoidance also considers another form of the agency problem: managerial opportunism or resource diversion (Desai and Dharmapala, 2009b). Desai and Dharmapala (2006) argue that complex tax avoidance transactions can provide management with the tools, masks, and justifications for opportunistic managerial behaviors, such as earnings manipulations, related party transactions, and other resource-diverting activities. In other words, tax avoidance and managerial diversion can be complementary. Using a case analysis, Desai (2005) provides detailed evidence on how these opportunistic managerial behaviors can be facilitated by tax avoidance. This agency view of tax avoidance is attracting increasing attention in the literature (Hanlon and Heitzman, 2009). For example, Desai and Dharmapala (2006) show that strengthened equity incentives actually decrease tax avoidance for firms with weaker governance, consistent with the view that tax avoidance facilitates managerial diversion. Chen et al. (2010) find that family firms are less tax aggressive than their non-family counterparts. The authors conclude that family owners appear to forgo tax benefits to avoid the non-tax cost of a potential price discount arising from minority shareholders' concern about family rent seeking masked by tax avoidance activities.

The literature has also begun examining the stock market consequences of tax avoidance activities under the agency perspective. Desai and Dharmapala (2009a) find no relation between tax avoidance and firm value; however, they do find a positive relation between the two for firms with high institutional ownership. Their finding suggests that tax avoidance has a net benefit in an environment in which monitoring and control effectively constrain managerial opportunism afforded by tax avoidance activities. Hanlon and Slemrod (2009) examine the market reaction to news about a firm's involvement in tax shelters. The authors find a negative market reaction to tax shelter disclosure, suggesting that investors are concerned about the possibility that tax shelters are intertwined with managerial diversion and performance manipulation. Furthermore, the authors find that the negative reaction is less pronounced for firms with stronger governance; however, this result seems to be sensitive to how governance is empirically measured.

Tax avoidance is positively related to crash risk because it can provide masks and tools for managers to withhold bad news and overstate financial performance. This line of reasoning can appear counterintuitive, since tax avoidance requires managers to downplay income reported to tax authorities. However, the different treatments of tax planning transactions under tax and financial reporting, combined with the complexity and obfuscation of those transactions, allow managers to hide bad news from outside investors under the pretense of minimizing corporate tax obligations. Tax avoidance activities can create opportunities for managers to pursue activities that are designed to hide bad news and mislead investors (Desai and Dharmapala, 2006). For example, complex tax shelters, such as Enron's Project Steele, allow managers to manufacture earnings while preventing investors from understanding the sources (Desai and Dharmapala, 2009b). Perhaps more importantly, managers are able to justify the opacity of tax avoidance transactions by claiming that complexity and obfuscation are necessary to minimize the risk of tax avoidance arrangements being detected by the Internal Revenue Service (IRS). To some extent, these avoidance activities are shielded from the investigations of audit committees and external auditors.

Simply put, under the ostensible objective of reducing a firm's tax obligations, managers can manipulate earnings and conceal negative firm-specific information using tax planning technologies. Moreover, complex and opaque tax avoidance transactions can also increase the latitude for other means of rent diversion and earnings manipulation. For instance, the complexity created by Tyco's tax avoidance arrangements facilitated the centralization of power

by the then-CEO Dennis Kozlowski and CFO Mark Swartz, and enabled them to obscure their rent-diverting activities through means such as unauthorized compensation, abuse of corporate funds for personal purposes, and insider trading for an extended period, from 1997 to 2002 (Desai, 2005).

2.7 Empirical Literature Review

2.7.1 Tax Behavior of Multinational Companies

While most early studies examine the impact of taxes on the average foreign investors, there were many reasons to believe that this impact differs greatly depending on the characteristics of the multinational company. International investors often have at their disposal numerous alternative methods of structuring and financing their investments, arranging their transactions between related parties located in different countries, and returning profits to investors. These alternatives have important tax implications, and there is considerable anecdotal evidence that tax considerations strongly influence the choices that firms make.

One of the earlier findings of the literature is that the impact of tax rates on investment decisions is generally higher on export-oriented companies than those seeking the domestic market or location-specific advantages. In surveys, these firms are those with managers that have responded more favorably to tax incentives (Reuber (1973) and Guisinger (1985)). This finding is not really surprising because export-oriented firms such as garment manufacturers are operating in highly competitive markets with very slim margins. Moreover, these firms are often highly mobile, and more likely to compare taxes across alternative locations (Wells 1986). Hence, taxes can be an important part of their cost structure, and the firms can easily move to take advantage of more favorable tax regimes. The impact and the nature of incentive schemes may also differ if they apply to new or existing companies. For example, Rolfe et al. (1993) shows, using a survey of managers of US firms, that start-up companies will prefer incentives that reduce their initial expenses (equipment and material exemption), while expanding firms will prefer tax incentives that target profit. He also reports that manufacturing industries will prefer incentives related to depreciable assets because they utilize more fixed assets than service industries.

Coyne (1994) suggests that small investors are generally more responsive to tax incentives than large ones. Taxes may play a more important role in the cost structure of small companies because they do not have the financial and human capacity to develop sophisticated tax avoidance strategies. Large multinational companies are also more likely to receive special tax treatments, whatever the tax laws applied by the host country. Oman (2000) reports some evidence that large firms, especially in the automobile sector, are more likely to negotiate secret advance agreements on how much they will pay in both industrial and emerging countries. There exist a few studies that estimate separate equations for FDI financed by retained earnings and external funds (equity plus debt) (Hartman (1984) and Boskin and Gale (1987)). They typically found that FDI financed by retained earnings is more strongly influenced by host country tax rates. However, they do not offer any clear explanation for this result, but it is possible that equity and debt financing are also influenced by the tax policy in the home country, thereby reducing the impact of the host country's tax regimes (see next section for more explanations).

Finally, there is growing evidence that low taxes might be a key factor for firms that are not operating in one specific but multiple markets such as Internet related business, insurance companies and banks. Establishing a subsidiary in a low tax country gives them the opportunity to develop tax avoidance strategies. It is indeed difficult for any one country to claim the right to tax the holding company if its operations have taken place in multiple markets at the same time. A typical example is when filing tax returns in a high tax country; a multinational company claims that it has earned as little profits as possible. Instead, it tries to attribute as much profit as possible to its operations in low tax countries by arranging "transactions" between its subsidiaries in the two countries, and setting the "transfer price" of those transactions so that it has the desired effect on profits. Multinationals can also adjust the timing of their dividend repatriations from foreign subsidiaries (see Hines and Hubbard (1990)). In practice, such strategies may explain the success of tax havens countries in attracting subsidiaries of "global" companies and the expenses made by multinationals on economists and accountants to justify their transfer prices that suit their tax needs. Still, very little is known about the magnitude of such international tax evasion and how much they affect tax revenues across countries (see for some preliminary evidence, Grubert, Goodspeed and Swensson (1993) or the Economist (2000).

2.7.2 Tax Instruments Used by Governments

Governments have several tax instruments that they can use to attempt to influence the effective tax rates and the location decision of multinational companies.

The literature has traditionally focused on the instruments linked to the corporate income tax such as tax holidays and tax allowance. Of course, these instruments are of no help to an unprofitable company and, therefore, other forms of incentives have also been widely used around the world. Exemptions from custom duties or local indirect taxes (generally to targeted sectors) do exist in many countries, even though their use has been restricted in most international and bilateral trade treaties. Outright grants are used in many industrial countries but rarely in the developing world because of their upfront costs. Following the existing literature, our focus is on the corporate income tax and the different options used by governments to relieve companies. Governments with high corporate tax rates have a number of options to reduce them to more competitive levels.

One is to give tax incentives to a selected group of firms. An alternative is to change the general fiscal system to lower the effective tax rate for all firms. There are many options between these two extremes, including the "stability premium" that have been offered to investors by countries such as Chile and Colombia. This premium consists in an option where the investor purchases the right to maintain its corporate tax rate at a given level, even if the tax regime will be modified in the future. However, there is certainly no clear-cut answer in favor of one or another alternative mechanism (Mintz and Tsiopoulos,1992).

The first option is to generalize a low corporate tax rate on a broad base. Small countries such as Hong Kong, Lebanon or Mauritius have typically retained this option.

A low corporate tax rate is, in itself, an incentive. It allows investors to keep a larger portion of profits. Governments are also able to maintain corporate tax revenues because investors have limited tax-planning opportunities and the simplicity of the system makes for a favorable investment climate. Investors look favorably on a country offering a low statutory tax rate, especially one well below the worldwide norm of 35 percent to 40 percent, since it signals that the government is interested in letting the market determine the most profitable investments without undue governmental influence. Although a broad-based low corporate tax rate is appealing, this approach has limitations. I particular, international linkages can undermine a country's efforts to make its tax system relatively neutral. In fact, a country with a corporate tax

system greatly out of line with other countries might be better off having a less neutral system to minimize distortions.

It has also to be recognized that the sudden change to a low, generalized tax rate can reduce tax revenues during a transition period, even though the simplicity of the tax system may attract further investors and increase the tax base in the longer run and so compensate for the initial reduction.

For these reasons, many governments rely on tax incentive schemes in their effort to lure foreign investors. This selective approach, in contrast to a generalized tax reduction, is attractive to many countries because it may minimize the initial effect on fiscal revenues and, in principle, should help to target specific industries or activities that would bring the greater benefits to the country. It can also be argued that incentives may have a signaling effect on the government's commitments to stimulate FDI, as they are generally easier to implement than a general reform of the tax system (Bond and Samuelson, 1986).

One popular form of tax incentive consists of reducing the corporate income tax rate by providing tax holidays or temporary rebates. This form of incentive has been popular in emerging countries where authorities have favored a discretionary approach.

For example, several African Investment Codes have included tax holidays, with differentiated rebates and periods of abatement, depending on the government's objectives. The main benefit of tax holidays is that they provide large benefits as soon as the company begins earning income, and are thus more valuable than an incentive such as a lower corporate tax rate that accrues more slowly over a longer time. However, they primarily benefit short-term investments, which often are undertaken in so-called footloose industries characterized by companies that can quickly disappear from one jurisdiction to reappear in another. They also tend to reward the founding of a company, rather than investment in existing companies and discriminate against investments that rely on long-lived depreciable capital. Last but not least, they can lead to large erosion of the tax base as taxpayers learn how to escape taxation of income from other sources. Many countries, especially in the industrial world, allow fast write-offs for investment expenditures -- either all investments, or those they especially want to induce through tax allowances or credits. Investment tax allowances have distinct advantages.

The incentive is correctly targeted at the desired activity since a company receives the benefit of lower corporate taxes only if it makes capital investments (rather than formation of a new

company). It encourages companies to take a long-term view when planning investments. By targeting current capital spending, the allowance causes less revenue leakage than would a tax holiday and it promotes new investment instead of giving a windfall gain to owners of old capital, as does a reduction in corporate tax rates.

It can also be made refundable, allowing the government to share the investment costs and risks with the foreign entrepreneur. Still, investment tax allowances have limitations and drawbacks. If the investment tax allowance is not refundable, existing companies reap the full benefits (i.e. supporting expansion) while start-up companies must first earn enough income before they can take the allowance. Also, projects with long gestation periods suffer in comparison with those that begin earning income quickly. When inflation is high, the allowance aggravates the tax system's uneven impact on the investment behavior of companies. Companies in high-inflation countries will benefit more if they borrow to finance capital, because tax deductions for capital expenditures are more valuable. This is the reverse of the tax holiday and of lower corporate tax rates, which reduce the advantages of interest cost deductions for tax purposes during high inflation.

2.7.3 The Costs of Fiscal Incentives

The debate about the effectiveness of incentives in attracting investment –the potential benefit side – has diverted the attention from the cost side. Even if tax incentives were quite effective in increasing investment flows, the costs might well outweigh the benefits. This issue has become critical in view of the increase in tax competition around the world. This competition has not only taken place in relatively wealthy industrial countries but also in emerging markets where governments generally face severe budgetary constraints.

There is no doubt that tax incentives are costly. The first and most direct costs are those associated with the potential loss of revenues for the host government. The argument here is to determine if the new foreign investment would have come to the country if no or lower incentives were offered. In such cases, “free rider” investors benefit, whilst the Treasury loses, and there are no net benefits to the economy. An interesting recent study on the State of South Carolina in the US (Figlio and Blonigen 1999) has shown that foreign direct investment has several important negative impacts. They not only generated more revenue losses (an average sized new foreign firm is associated with a 1.2 percent education in real per capita revenues

while a domestic firm only 0.1 percent) but also additional expenses on infrastructure and education, even though those may have indirect benefits for the economy. These results simply illustrate that attracting foreign companies is not a "zero-sum game" from a public finance perspective.

Tax policy and incentives have many, perhaps less evident, additional costs.

Indeed, the argument for their efficacy presuppose that tax authorities are capable of identifying the "positive externalities" of investments, and determine the exact level of tax incentives required to attract the investor. Most incentive programs have relied on vague assessments of potential externalities, and presumptions of policymakers about both the desirability and likelihood of attracting certain types of investments. The distortionary effects of incentives on the allocation of resources can be significant as they bias the investment decisions of private companies. Incentives can be further counterproductive if they contribute to attracting more investors of the "wrong kind", which is certainly the case in countries where basic fundamentals are not yet in place.

Another problem with incentive measures relates less to whether they achieve their objectives than to the difficulty and cost of administering them effectively. Put another way, incentive regimes generally impose a significant administrative burden, and must therefore be more than marginally effective in order to cover the costs of implementing them and produce a net overall benefit. On this point, it is worth mentioning the difference between discretionary regimes, which depend upon case by case evaluations, and non-discretionary regimes, which grant incentives to whatever company meets clearly stated requirements. Discretionary that is difficult-to administer regime result in delays and uncertainty for investors, which can even increase the overall cost of making an investment in some countries. They have also been significant sources of corruption, effectively screening out desirable investment, and detrimental to the processes of developing competitive markets and sound policy-making. In contrast, automatic incentive regimes are easier to implement, and generally involve such incentives as investment tax credits, accelerated depreciation, and subsidies linked to indicators that can be easily measured (exports, technology imports, and skilled labor). One has to keep in mind, however, that successful examples like Singapore or Ireland are rare.

There have been more governments that failed to attract FDI with targeted tax incentives, explaining why the recent trend has been to eliminate and streamline tax incentive programs. In

fact, it seems that multinationals give more importance to simplicity and stability in the tax system than generous tax rebates, especially in an environment with great political and institutional risks (Ernst & Young, 1994).

2.7.4 Corporate Tax Avoidance

The extensive literature on how taxes influence firm financial decision making, as reviewed in Graham (2003), has considered the effect of taxes on financing choices, organizational form and restructuring decisions, payout policy, compensation policy and risk management decisions. In this literature, taxes are viewed as one of many factors that shape these decisions. In contrast, firms also appear to engage in a variety of transactions that are deals (done by very smart people that, absent tax considerations, would be very stupid). These activities are broadly labeled as corporate tax shelters. Previous analyses of tax avoidance and evasion have emphasized the behavior of individuals (Slemrod and Yitzhaki 2002), rather than corporations. Recently, Slemrod (2004) has stressed the differences between individual and corporate tax compliance, arguing that the latter should be analyzed in a principal agent framework. Bankman (2004) studied resurgence in corporate tax avoidance activities with focus on annual measures of avoidance. Bondo (2008) studied the effectiveness of tax payer education as a revenue collection strategy in Kenya Revenue Authority. Other authors who studied tax avoidance include (Hanlon et al. 2005, Plesko 2004, Frischmann et al., (2007) and Blouin & Tuna, (2006).There is no known study on the tax avoidance and incentives schemes adopted by Kenya Airways in Kenya.

Typically, higher-powered incentives will induce the manager both to reduce her diversion of rents and to engage in more tax sheltering activity. Greater incentive compensation helps align the incentives of agents and principals and leads managers to be more aggressive about increasing firm value through tax avoidance. However, interactions between sheltering and is initially somewhat counterintuitive but a detailed example illustrating this intuition is provided below and diversion can overturn this result. Specifically, when there are positive feedback effects or “complementarities” between diversion and sheltering, the tendency toward more aggressive sheltering may be offset by the fact that reduced diversion will be associated with reduced sheltering. If the positive feedback effects are sufficiently important, then the manager’s reduced diversion of rents may be accompanied by a reduction in tax sheltering activity. This

latter possibility other evidence for this view is presented in Desai, Dyck and Zingales (2004) and Desai (2004).

2.8 Summary

The chapter has presented tax behavior of multinational companies, tax incentives, home country tax policy, tax avoidance and the agency view of tax avoidance. The chapter also entails empirical literature review which has dealt with tax behavior of multinational companies, tax instruments used by governments, fiscal incentives and corporate tax avoidance.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that will be followed in completing the study. The following subsections are included; research design, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure (Babbie, 2002). This study adopt a case research design.

3.3 Target Population

The target population for the study was five. The respondents were the Tax Manager, and the supporting officers in Kenya Airways tax management.

3.4 Data Collection Method

The study used the questionnaire method to collect primary data. The semi-structured questionnaire consisted both closed and open ended questions. The questionnaires were hand-delivered to the respondents and collected the research assistant.

3.5 Reliability and Validity of Data

Validity refers to the degree to which a study accurately reflects or assesses the specific concept that the researcher is attempting to measure. Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. It determines whether the research instrument allow the researcher to get the correct information. Comprehensive research instruments were developed and tested before the real investigation

started. This testing was done by the use of a pilot study whereby the questionnaire was given to the respondents to acquire the information required for the study.

Reliability is the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. Reliability has to show the degree at which the research instruments yields good results. In order to achieve this, the researcher personally administered the data collection instrument in order to assess its clarity.

3.6 Data Analysis and Presentation

Descriptive statistics was comprised the use of frequencies, percentage (relative frequency), mean and standard deviation. Quantitative data was presented in form of tables, bar graphs and pie chart, while explanation to the same was being presented in prose. Tables were used to present responses and facilitate comparison. Data analysis adopted Statistical Package for Social Sciences (SPSS) and Microsoft Excel to generate quantitative reports through tabulations, percentages, and measures of central tendency.

CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents and interprets the findings of the study. The main objective of this study was to investigate tax avoidance and incentive schemes adopted by Kenya Airways. This chapter focused on data analysis, interpretation and presentation. Frequency tables and percentages are adopted in presenting the results of the collected data.

4.2 General information

The study involved the Tax Manager and the supporting officers in Kenya Airways in tax management. Respondents' gender distribution was 4 males (66%) and two females (34%). Their age bracket lied between 31- 50 years old. It was found that the respondents have worked in the company for more than five years. This proves that they were appropriate respondents of the study because they are believed to have enough experience in their areas of specialization.

4.3 Tax Planning

Table 4. 1: Aspects of tax planning

	Mean	Std deviation
Kenya airways comprehensively look at various tax options in order to take full advantage of all available tax deductions, both business and personal.	4.01	0.983
Kenya Airways complete a taxable transaction by more than one method.	3.89	0.783
Adoption of tax schemes that bear the lowest legal tax liability	3.44	0.634
Implementing strict measures to avoid tax evasion (the reduction of tax through deceit, subterfuge, or concealment)	3.83	0.839

Providing the information necessary for employees to make decisions when choosing a tax schemes	3.73	0.683

Table 4.1 above shows the extent of implementation of the stated aspects of tax planning by Kenya Airways. A five point Likert scale was used to interpret the respondent's responses. According to the scale, those strategies which were not considered at all were awarded 1 while those which were considered to a very great extent were awarded 5. Within the continuum are 2 for low extent, 3 for moderate extent and 4 for great extent. Mean (weighted average) and standard deviation were used to analyze the data. According to the researcher those strategies with a mean close to 4.0 were rated as to a very great extent while those with a mean close to 3.0 were rated to a low extent or even not considered at all. On the same note the higher the standard deviation the higher the level of dispersion among the respondents.

From the findings the respondents indicated that Kenya airways comprehensively looks at various tax options in order to take full advantage of all available tax deductions, both business and personal (M=4.01, SD=0.983). Further, the respondents indicated that Kenya Airways complete a taxable transaction by more than one method (M=3.89, SD=0.783). The study also established that the company had implemented the adoption of tax schemes that bear the lowest legal tax liability to a great extent (M=3.44, SD=0.634). The study also revealed that Kenya airways had implemented strict measures to avoid tax evasion (the reduction of tax through deceit, subterfuge, or concealment) (M=3.83, SD=0.839). The respondents also agreed to a great extent that Kenya airways was providing the information necessary for employees to make decisions when choosing a tax schemes (M=3.73, SD=0.683).

Table 4. 2: Tax' systems available for the employees of Kenya airways

Tax incentives	**Yes**	**No**
Tax holidays	45	55
Investment Allowances and Tax Credits	67	33
Accelerated depreciation (allowing businesses to write-off depreciation more	54	46

rapidly)		
Exemptions from Indirect Taxes (VAT, import tariffs, etc.)	34	66
Tax Rate Reductions	76	24

The researcher also requested to indicate the availability of the stated tax incentives to the employees of Kenya Airways. From the findings, 45% the respondents indicated that tax holidays were available to the employees of Kenya airways while 55% of the respondents disagreed. Further, 67% of the respondents indicated that investment allowances and tax credits were available to the employees. It was also revealed from 54% of the respondents that accelerated depreciation (allowing businesses to write-off depreciation more rapidly) was the available for Kenya airways employees. The respondents (76%) also agreed that tax rate reductions were available to the Kenya airways employees. However, the respondents (66%) disagreed that exemptions from Indirect Taxes (VAT, import tariffs, etc.).

Table 4. 3: Tax avoidance strategies

Tax Avoidance	Yes	No
Tax avoidance by changing one's tax residence to a tax haven.	76	24
Bilateral double taxation treaties in which countries avoid taxing nonresidents twice	65	35
Accelerated depreciation (allowing businesses to write-off depreciation more rapidly)	72	28
Legal avoidance of personal taxation by creation of a separate legal entity to which one's property is donated.	33	67
Tax avoidance on the basis of vagueness in definition of legal terms.	55	45

Further, the study sought to determine the tax avoidance strategies available for the employees of Kenya Airways. From the finding, the study found that the Kenya airways employees implementing tax avoidance strategies by changing one's tax residence to a tax haven as indicated by 76% of the respondents. The study also found that the employees were using

bilateral double taxation treaties in which countries avoid taxing nonresidents twice as indicated by 65% of the respondents. It was also established that there tax avoidance on the basis of vagueness in definition of legal terms. This was shown by 55% of the respondents. However the study found that the employees were not using legal avoidance of personal taxation by creation of a separate legal entity to which one's property is donated.

Table 4. 4: Benefits from Tax Avoidance and Incentives

	Mean	**Std deviation**
Reducing the amount of taxable income	3.89	0.938
Reducing your tax rate	3.78	0.738
Controlling the time when the tax must be paid	3.83	0.838
Claiming any available tax credits	3.74	0.834
Controlling the effects of the Alternative Minimum Tax	3.94	0.732
Avoiding the most common tax planning mistakes	4.01	0.938
Reducing the amount of taxable income	4.11	0.674
Structuring an investment or transaction so that payments that you receive are classified as capital gains which are subject to lower tax rates than other income.	4.06	0.833
Choosing taxation schemes that allow tax exemption according to status such as being single, married and having dependants.	4.01	0.922
Availing taxation schemes that caters for nonresident alien spouses	3.84	0.837

From the findings, the respondents a agreed that tax avoidance and tax incentives reduced the amount of taxable income (M=3.89, SD=0.938), reduce tax rate (M=3.78, SD=0.738), control the time when the tax must be paid (M=3.83, SD=0.838), helped to claim any available tax credits (M=3.74, SD=0.834) and controlled the effects of the alternative minimum tax (M=3.94, SD=0.732). The study also found that tax avoidance and tax incentives helps in avoiding the

most common tax planning mistakes (M=4.01, SD=0.938), reducing the amount of taxable income (M=4.11, SD=0.674). The study also established that structuring an investment or transaction so that payments that you receive are classified as capital gains which are subject to lower tax rates than other income (M=4.06, SD=0.833). Further, the respondents agreed that tax avoidance and tax incentives were helping the employees to choosing taxation schemes that allow tax exemption according to status such as being single, married and having dependants (M=4.01, SD=0.922). Finally the respondents indicated that tax avoidance and tax incentives were availing taxation schemes that cater for nonresident alien spouses (M=3.84, SD=0.837).

Table 4. 5: Tax strategy at Kenya Airways in accomplishing the following benefits

	Mean	**Std deviation**
Reducing the amount of taxable income	2.40	0.893
Reducing your tax rate	3.88	0.784
Controlling the time when the tax must be paid	2.01	0.674
Claiming any available tax credits	3.33	0.738
Controlling the effects of the Alternative Minimum Tax	2.84	0.736
Avoiding the most common tax planning mistakes	2.75	0.894
Reducing the amount of taxable income	3.48	0.893
Structuring an investment or transaction so that payments that you receive are classified as capital gains which are subject to lower tax rates than other income.	3.01	0.923
Choosing taxation schemes that allow tax exemption according to status such as being single, married and having dependants.	2.11	0.927
Availing taxation schemes that caters for nonresident alien spouses	4.02	0.823

Tabe 4.6 above shows the extent to which tax strategy at Kenya Airways had succeeded in accomplishing the stated benefits. From the findings, the respondents indicated that tax avoidance and tax incentives had helped to accomplish the following benefits; reducing your tax rate (M=3.88, SD=0.893), claiming any available tax credits (M=3.33, SD=0.738), reducing the amount of taxable income (M=3.48, SD=0.893), structuring an investment or transaction so that payments that you receive are classified as capital gains which are subject to lower tax rates than other income (M=3.01, SD=0.923) and availing taxation schemes that caters for nonresident alien spouses (M=4.02, SD=0.823). However, the study realized that the amount of taxable income had not been reduced (M=2.40, SD=0.893), tax avoidance and tax incentives had not helped in controlling the time when the tax must be paid (M=2.01, SD=0.674), Controlling the effects of the Alternative Minimum Tax (M=.2.84, SD=0.736) and choosing taxation schemes that allow tax exemption according to status such as being single, married and having dependants (M=2.11, SD=0.927).

4.4 Effectiveness of Tax Avoidance and Tax Incentives at Kenya Airways

Table 4. 6: Effectiveness of tax avoidance and tax incentives at Kenya Airways

	Mean	**Std deviation**
Income tax systems generally allow a tax deduction for various incomes at Kenya Airways.	3.92	0.633
Kenyan laws on taxation encourages tax avoidance	4.10	0.982
Tax schemes at Kenya Airways allow shifting taxable income from a high-tax-bracket taxpayer to a lower-bracket taxpayer.	4.02	0.892
Kenya Airways seek to use strategies available under tax laws to minimize employment tax liability	3.92	0.893

Kenya Airways help employees who face significant tax bills to find ways to minimize or avoid tax liability.	3.82	0.928
Kenya Airways has appropriate strategies to minimize tax obligations before they occur for example, by the use of outsourced employees and independent contractors to avoid employment taxes.	3.89	0.823
Kenya Airways experiences failure of the tax plan to erroneous income projections	3.78	0.632
Incentives encourages Kenya Airways to take a long-term view when planning investments	3.81	0.827

Table 4.7 above shows the extent to which the respondents agreed with effectiveness of tax avoidance and tax incentives at Kenya airways. From the findings, the respondents agreed to a great extent that income tax systems generally allow a tax deduction for various incomes at Kenya Airways (M=3.92, SD=0.633), Kenyan laws on taxation encourages tax avoidance (M=4.10, SD=0.982), tax schemes at Kenya Airways allow shifting taxable income from a high-tax-bracket taxpayer to a lower-bracket taxpayer (M=4.02, SD=0.892), Kenya Airways seek to use strategies available under tax laws to minimize employment tax liability (M=3.92, SD=0.893), Kenya Airways help employees who face significant tax bills to find ways to minimize or avoid tax liability (M=3.82, SD=0.928), Kenya Airways has appropriate strategies to minimize tax obligations before they occur for example, by the use of outsourced employees and independent contractors to avoid employment taxes (M=3.89, SD=0.823), Kenya Airways experiences failure of the tax plan to erroneous income projections (M=3.78, SD=0.632) and incentives encourages Kenya Airways to take a long-term view when planning investments (M=3.81, SD=0.827).

Table 4. 7: Level of satisfaction with tax planning at Kenya Airways

	Mean	Std deviation
Controlling the due date for taxes	3.89	0.728
Minimizing restrictions on tax planning	4.02	0.928
Keeping good records	4.11	0.892
Providing the information you need to make decisions	3.89	0.727
Preparing income tax return.	3.98	0.827
Attending to personal tax issues	3.82	0.832

Table 4.8 above shows how the level of the respondents' satisfaction on the stated aspects of tax planning at Kenya Airways. From the findings, the respondents indicated that they were satisfied with controlling the due date for taxes (M=3.89, SD=0.728), Minimizing restrictions on tax planning (M=4.02, SD=0.928), keeping good records (M=4.11, SD=0.892), providing the information you need to make decisions (M=3.98, SD=0.727), preparing income tax return (M=3.98, SD=0.927) and attending to personal tax issues (M=3.82, SD=0.832).

Table 4. 8: Implementing strategies for avoiding imposed tax liability

	Mean n	Std deviation
An offer in compromise which allow an individual or organization to settle a tax debt for pennies on the dollar.	3.98	0.983
A bankruptcy filing which enable an organization to manage a tax bill by filing for protection under bankruptcy laws.	3.99	0.823
The negotiation of an installment agreement which allow an organization to pay the obligation over time.	3.72	0.823
The filing of an amended return which eliminate any tax problems	3.87	0.932
The filing of a tax appeal if there has been unfairly or incorrectly assessed tax liability,	4.21	0.873

Table 4.9 above shows the extent to which Kenya Airways had succeeded in implementing the stated strategies for avoiding imposed tax liability. From the findings, the respondents agreed to a great extent that an offer in compromise which allow an individual or organization to settle a tax debt for pennies on the dollar (M=3.98, SD=0.983), a bankruptcy filing which enable an organization to manage a tax bill by filing for protection under bankruptcy laws (M=3.99, SD=0.823), the negotiation of an installment agreement which allow an organization to pay the obligation over time (M=3.72, SD=0.823), the filing of an amended return which eliminate any tax problems (M=3.87, SD=0.932) and the filing of a tax appeal if there has been unfairly or incorrectly assessed tax liability (M=4.21, SD=0.873).

CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn focused on addressing the purpose of this study which was to investigate tax avoidance and incentive schemes adopted by Kenya Airways.

5.2 Discussions of Key Findings

As part of the general information, the researcher requested the respondents to indicate their age bracket, designation in Kenya Airways and duration of time they had worked. Respondents' gender distribution was (66%) males and (34%) females. Their age bracket lied between 31- 50 years old. The respondents in this study were all tax officers working in the tax department of Kenya airways. The tax manager also responded to the questions. The study found that majority of the respondents had worked for more than five years and hence they had working experience that helped the researcher in gathering adequate information concerning the subject of the study.

5.3 Tax Planning

The study found that Kenya airways comprehensively looks at various tax options in order to take full advantage of all available tax deductions, both business and personal (M=4.01, SD=0.983). Further, the study found that Kenya Airways completes a taxable transaction by more than one method (M=3.89, SD=0.783). It was also established that the company had implemented the adoption of tax schemes that bear the lowest legal tax liability to a great extent (M=3.44, SD=0.634). The study also revealed that Kenya airways had implemented strict measures to avoid tax evasion (the reduction of tax through deceit, subterfuge, or concealment) (M=3.83, SD=0.839). The study also agreed to a great extent that Kenya airways was providing the information necessary for employees to make decisions when choosing a tax schemes (M=3.73, SD=0.683).

The study established that tax holidays, investment allowances and tax credits, accelerated depreciation (allowing businesses to write-off depreciation more rapidly); tax rate reductions were available to the Kenya airways employees. However, the study found that that exemptions from Indirect Taxes (VAT, import tariffs, etc.) were not available to the Kenya airways employees.

The study also found that the employees were using bilateral double taxation treaties in which countries avoid taxing non-residents twice. However the study found that the employees were not using legal avoidance of personal taxation by creation of a separate legal entity to which one's property is donated.

On the benefits of tax avoidance and tax incentives the study found that tax avoidance and tax incentives reduced the amount of taxable income (M=3.89, SD=0.938), reduce tax rate (M=3.78, SD=0.738), control the time when the tax must be paid (M=3.83, SD=0.838), helped to claim any available tax credits (M=3.74, SD=0.834) and controlled the effects of the alternative minimum tax (M=3.94, SD=0.732). The study also found that tax avoidance and tax incentives helps in avoiding the most common tax planning mistakes (M=4.01, SD=0.938), reducing the amount of taxable income (M=4.11, SD=0.674). The study also established that structuring an investment or transaction so that payments that you receive are classified as capital gains which are subject to lower tax rates than other income (M=4.06, SD=0.833). Further, the respondents agreed that tax avoidance and tax incentives were helping the employees to choosing taxation schemes that allow tax exemption according to status such as being single, married and having dependants (M=4.01, SD=0.922). Finally the respondents indicated that tax avoidance and tax incentives were availing taxation schemes that cater for nonresident alien spouses (M=3.84, SD=0.837).

On the extent to which tax strategy at Kenya Airways had succeeded in accomplishing the stated benefits, the study found that tax avoidance and tax incentives had helped to accomplish the following benefits; reducing your tax rate (M=3.88, SD=0.893), claiming any available tax credits (M=3.33, SD=0.738), reducing the amount of taxable income (M=3.48, SD=0.893), structuring an investment or transaction so that payments that you receive are classified as capital

gains which are subject to lower tax rates than other income (M=3.01, SD=0.923) and availing taxation schemes that caters for nonresident alien spouses (M=4.02, SD=0.823). However, the study realized that the amount of taxable income had not been reduced (M=2.40, SD=0.893), tax avoidance and tax incentives had not helped in controlling the time when the tax must be paid (M=2.01, SD=0.674), Controlling the effects of the Alternative Minimum Tax (M=.2.84, SD=0.736) and choosing taxation schemes that allow tax exemption according to status such as being single, married and having dependants (M=2.11, SD=0.927).

5.4 Effectiveness of Tax Avoidance and Tax Incentives at Kenya Airways

On the effectiveness of tax avoidance and tax incentives at Kenya airways, the study found that income tax systems generally allow a tax deduction for various incomes at Kenya Airways (M=3.92, SD=0.633), Kenyan laws on taxation encourages tax avoidance (M=4.10, SD=0.982), tax schemes at Kenya Airways allow shifting taxable income from a high-tax-bracket taxpayer to a lower-bracket taxpayer (M=4.02, SD=0.892), Kenya Airways seek to use strategies available under tax laws to minimize employment tax liability (M=3.92, SD=0.893), Kenya Airways help employees who face significant tax bills to find ways to minimize or avoid tax liability (M=3.82, SD=0.928), Kenya Airways has appropriate strategies to minimize tax obligations before they occur for example, by the use of outsourced employees and independent contractors to avoid employment taxes (M=3.89, SD=0.823), Kenya Airways experienced failure of the tax plan to erroneous income projections (M=3.78, SD=0.632) and incentives encourages Kenya Airways to take a long-term view when planning investments (M=3.81, SD=0.827).

On the level of the respondents' satisfaction on the stated aspects of tax planning at Kenya Airways, the respondents indicated that they were satisfied with controlling the due date for taxes (M=3.89, SD=0.728), minimizing restrictions on tax planning (M=4.02, SD=0.928), keeping good records (M=4.11, SD=0.892), providing the information you need to make decisions (M=3.98, SD=0.727), preparing income tax return (M=3.98, SD=0.927) and attending to personal tax issues (M=3.82, SD=0.832).

On the extent to which Kenya Airways had succeeded in implementing the stated strategies for avoiding imposed tax liability, the study found that an offer in compromise which allow an individual or organization to settle a tax debt for pennies on the dollar (M=3.98, SD=0.983), a bankruptcy filing which enable an organization to manage a tax bill by filing for protection under bankruptcy laws (M=3.99, SD=0.823), the negotiation of an installment agreement which allow an organization to pay the obligation over time (M=3.72, SD=0.823), the filing of an amended return which eliminate any tax problems (M=3.87, SD=0.932) and the filing of a tax appeal if there has been unfairly or incorrectly assessed tax liability (M=4.21, SD=0.873).

5.5 Conclusion

The study concludes that Kenya airways comprehensively looks at various tax options in order to take full advantage of all available tax deductions, both business and personal. Further, the study found that Kenya Airways completes a taxable transaction by more than one method. The study also established that the company had implemented the adoption of tax schemes that bear the lowest legal tax liability to a great extent. The study also revealed that Kenya airways had implemented strict measures to avoid tax evasion (the reduction of tax through deceit, subterfuge, or concealment). The study also concludes that tax holidays, investment allowances and tax credits, accelerated depreciation (allowing businesses to write-off depreciation more rapidly); tax rate reductions were available to the Kenya airways employees. However, the study found that that exemptions from Indirect Taxes (VAT, import tariffs, etc.) were not available to the Kenya airways employees.

The study also concludes that the employees were using bilateral double taxation treaties in which countries avoid taxing nonresidents twice. However the study found that the employees were not using legal avoidance of personal taxation by creation of a separate legal entity to which one's property is donated.

On the benefits of tax avoidance and tax incentives the study found that tax avoidance and tax incentives reduced the amount of taxable income, reduce tax rate, control the time when the tax must be paid, helped to claim any available tax credits and controlled the effects of the

alternative minimum tax. The study further established that tax avoidance and tax incentives helps in avoiding the most common tax planning mistakes, reducing the amount of taxable income.

On the effectiveness of tax avoidance and tax incentives at Kenya airways, the study concludes that income tax systems generally allow a tax deduction for various incomes at Kenya Airways, Kenyan laws on taxation encourages tax avoidance, tax schemes at Kenya Airways allow shifting taxable income from a high-tax-bracket taxpayer to a lower-bracket taxpayer, Kenya Airways seek to use strategies available under tax laws to minimize employment tax liability, Kenya Airways help employees who face significant tax bills to find ways to minimize or avoid tax liability, Kenya Airways has appropriate strategies to minimize tax obligations before they occur for example, by the use of outsourced employees and independent contractors to avoid employment taxes, Kenya Airways experiences failure of the tax plan to erroneous income projections and incentives encourages Kenya Airways to take a long-term view when planning investments.

5.6 Recommendations

This study found that tax holidays and investment allowances and tax credits were unavailable to the employees. This research study therefore recommends that Kenya airways should ensure that the employees are motivated by giving them tax holidays and investment allowances and tax credits.

The study also found that the employees were not using legal avoidance of personal taxation by creation of a separate legal entity to which one's property is donated. This study therefore recommends that the employees are well trained on legal tax avoidance of personal taxation by creation of a separate legal entity to which one's property is donated.

The study revealed that the study the amount of taxable income had not been reduced; tax avoidance and tax incentives had not helped in controlling the time when the tax must be paid, controlling the effects of the Alternative Minimum Tax and choosing taxation schemes that allow tax exemption according to status such as being single, married and having dependants. This shows that the employees of Kenya airways were fully benefiting from the tax avoidance.

The study therefore recommends that the management of Kenya airways should ensure that the employees fully benefit from tax avoidance and tax incentives.

5.7 Recommendation for Further Studies

From the study and related conclusions, I recommend further research in the area of the factors influencing tax avoidance and incentive adoption by government parastatals. The study also suggests further research studies in the area of the role of tax avoidance and incentive in the motivation of Kenya airways employees.

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APPENDIX I: QUESTIONNARE

RE: PARTICIPATION IN RESEARCH

I am a postgraduate student pursuing my master degree in Business Administration at the University of Nairobi and conducting a research entitled “A Survey of Tax Avoidance and Incentives schemes in Kenya Airways.” as one of the major requirements.

In this regard, you have been selected to take part in this study as a respondent. This interview will investigate the tax avoidance and tax incentives practices by Kenya Airways.

Kindly respond to all items to reflect your opinion and experience. Please answer all the questions freely. You will not be identified from the information you provide and no information about individuals will be given to any organization. The data collected will be used for this academic research only.

Your participation is important for the success of this project and I greatly appreciate your contribution.

Yours Sincerely,

PART A: GENERAL QUESTIONS

1. Please provide responses to the questions below.

a.	Sex:	Male [ ] Female [ ]
b.	Age bracket	18-30 yrs [ ] 31-40yrs [ ] 41-50yrs [ ] Above 50 yrs[ ]
c.	Designation in the organization:	
d.	Work duration:	Less than 1 yr [ ] 1-5 yrs [ ] 5-10yrs [ ] Above 10 years [ ]

PART B: TAX PLANNING.

2. To what extent do you agree with implementation of the following aspects of tax planning by Kenya Airways? Tick appropriately using a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all.

		Very great extent	**Great extent**	**Moderate extent**	**Less extent**	**No extent**
a.	Kenya Airways comprehensively looks at various tax options in order to take full advantage of all available tax deductions, both business and personal.					
b.	Kenya Airways completes a taxable transaction by more than one method.					
c.	Adoption of tax schemes that bear the lowest legal tax					

	liability					
d.	Implementing strict measures to avoid tax evasion (the reduction of tax through deceit, subterfuge, or concealment)					
f.	Providing the information necessary for employees to make decisions when choosing a tax schemes					

3. Which of the following tax incentives are available to Kenya Airways? Tick appropriately.

	Tax Incentive	
a.	Tax holidays	
b.	Investment Allowances and Tax Credits	
c.	Accelerated depreciation (allowing businesses to write-off depreciation more rapidly)	
d.	Exemptions from Indirect Taxes (VAT, import tariffs, etc.)	
f.	Tax Rate Reductions	
g	Any other (specify) i) ii) iii)	

4. Which of the following tax avoidance strategies are available for employees of Kenya Airways? Tick appropriately

	Tax Avoidance	
a.	Tax avoidance by changing one's tax residence to a tax haven.	
b.	Bilateral double taxation treaties in which countries avoid taxing nonresidents twice	
c.	Accelerated depreciation (allowing businesses to write-off depreciation more rapidly)	
d.	Legal avoidance of personal taxation by creation of a separate legal entity to which one's property is donated.	
f.	Tax avoidance on the basis of vagueness in definition of legal terms.	
g	Any other (specify) i) ii) iii)	

PART C: BENEFITS FROM TAX AVOIDANCE AND INCENTIVES.

5. To what extent has tax strategy at Kenya Airways succeeded in accomplishing the following benefits? Tick appropriately using a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all.

		Very great extent	Great extent	Moderate extent	Less extent	No extent
a.	Reducing the amount of taxable income					
b.	Reducing your tax rate					

c.	Controlling the time when the tax must be paid					
d.	Claiming any available tax credits					
e.	Controlling the effects of the Alternative Minimum Tax					
f.	Avoiding the most common tax planning mistakes					
g.	Reducing the amount of taxable income					
h.	Structuring an investment or transaction so that payments that you receive are classified as capital gains which are subject to lower tax rates than other income.					
i.	Choosing taxation schemes that allow tax exemption according to status such as being single, married and having dependants.					
j.	Availing taxation schemes that caters for nonresident alien spouses					

PART D: EFFECTIVENESS OF TAX AVOIDANCE AND TAX INCENTIVES AT KENYA AIRWAYS

6. To what extent do you agree with the following statements on effectiveness of tax avoidance and tax incentives at Kenya Airways? Tick appropriately using a likert scale of 5 where 5= Strongly agree, 4= Agree 3= Neutral 2= Disagree and 1= Strongly disagree

		Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
a.	Income tax systems generally allow a tax deduction for various incomes at Kenya Airways.					

b.	Kenyan laws on taxation encourages tax avoidance					
c.	Tax schemes at Kenya Airways allow shifting taxable income from a high-tax-bracket taxpayer to a lower-bracket taxpayer.					
d.	Kenya Airways seek to use strategies available under tax laws to minimize employment tax liability					
e.	Kenya Airways help employees who face significant tax bills to find ways to minimize or avoid tax liability.					
f.	Kenya Airways has appropriate strategies to minimize tax obligations before they occur for example, by the use of outsourced employees and independent contractors to avoid employment taxes.					
g.	Kenya Airways experiences failure of the tax plan to erroneous income projections					
h	Incentives encourages Kenya Airways to take a long-term view when planning investments					

7. How would you rate your level of satisfaction to the following aspects of tax planning at Kenya Airways? Tick appropriately using a likert scale of 5 where 5= Very satisfied, 4= Satisfied 3= Neutral 2= Dissatisfied and 1= Very dissatisfied

		Very satisfied	**Satisfied**	**Neutral**	**Dissatisfied**	**Very dissatisfied**
a.	Controlling the due date for taxes					
b.	Minimizing restrictions on tax planning					
c.	Keeping good records					

d.	Providing the information you need to make decisions					
e.	Preparing income tax return.					
f.	Attending to personal tax issues					

8. To what extent has Kenya Airways succeeded in implementing the following strategies for avoiding imposed tax liability? Tick appropriately using a likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all.

		Very great extent	**Great extent**	**Moderate extent**	**Less extent**	**No extent**
a.	An offer in compromise which allow an individual or organization to settle a tax debt for pennies on the dollar.					
b.	A bankruptcy filing which enable an organization to manage a tax bill by filing for protection under bankruptcy laws.					
c.	The negotiation of an installment agreement which allow an organization to pay the obligation over time.					
d.	The filing of an amended return which eliminate any tax problems					
e.	The filing of a tax appeal if there has been unfairly or incorrectly assessed tax liability,					