THE EFFECT OF TAX INCENTIVES ON ECONOMIC GROWTH IN KENYA

BY

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DECLARATION

I confirm that this is my original work and has not been submitted for presentation at the University of Nairobi or any other institution of higher learning.

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D63/75595/2012

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This research project has been submitted for examination with my approval as the University supervisor

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DEDICATION

This research project is dedicated to my parents who committed to give us good education and have always encouraged and supported me to be the best that I can be. To my siblings- Grace, Anita, Victor, Janet and Nelson- who challenge and inspire me to grow and be a better person, to my friend Anne Wambui who has stood with me at all times and to all my fellow students who made the journey worthwhile through their cooperation and team spirit.

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ABSTRACT

Taxation is the key source of revenue that the government of Kenya uses to provide public goods and services to its citizenry. Over the last decade, though revenue collections have increased, the revenues collected have not been sufficient to fund the budget proposals resulting into budget deficits. Raising adequate tax revenues remains a key objective of Kenya's tax system and therefore, the government must strike a balance between the ever increasing competing development needs and the desire to encourage investments through tax incentives. The budget deficit of a government is a form of a negative saving and a reduction in the deficit can positively influence the net national savings more than any feasible changes in tax policies and encourage savings within an economy which will then stimulate investments. It is therefore important for the government to raise adequate revenue through taxation in order to meet its development agenda.

The objective of the study was to establish the effect of tax incentives on economic growth in Kenya. To achieve this secondary data was used and it was analyzed using descriptive analysis, correlation analysis and regression analysis. The findings showed that there was an inverse relationship between GDP growth rate and tax incentives and GDP growth rate and the stage of development while there was a positive relationship between GDP growth rate and investment levels, GDP growth rate and productive population levels and GDP growth rate and literacy levels. It was further found that the relationship between the GDP growth rate and global competitiveness index, GDP growth rate and level of investments, GDP growth rate and percentage of productive population and GDP growth rate and literacy levels was not statistically significant.

It was concluded that rationalization of the current tax incentive schemes is necessary to ensure that the government is able to enhance collection of revenues to enable it fund the ever increasing budgetary plans and fund its development plans to spur economic growth in the country. The tax incentive schemes in the available must be seen to be beneficial to the economy or support economic growth of the country and as such Kenya should not focus on giving up so as tax expenditures but should focus on optimal tax policies and measures that enhance economic growth.

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ABBREVIATIONS

BBRs	- Balanced Budget Requirements
CIAT	- Inter American Centre of Tax Administrations
CMA	- Capital Markets Authority
EPZ	- Export Processing Zone
FDI	- Foreign Direct Investment
GDP	- Gross Domestic Product
GRIPS	- Graduate Institute for Policy Studies
IBD	- Industrial Building Deduction
IEA	-Institute of Economic Affairs
ITA	- Income Tax Act
KRA	- Kenya Revenue Authority
MENA	- Middle East and North Africa
MUB	-Manufacture under Bond
OECD	- Organization for Economic Cooperation and Development
R&D	- Research and Development
SEZs	- Special Economic Zones
TJN	- Tax Justice Network
TREO	- Tax Remission and Exemption Office
UNCTAD	- United Nations Conference on Trade and Development
VAT	- Value Added Tax

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Tax reforms are meant to ensure that the three main objectives of a good tax system are met and these objectives include raising tax revenue for funding government operations without excessive government borrowing, ensuring to equitable distribution of income in a nation and encouraging or discouraging specific activities but implementing tax reforms to meet these goals of an ideal tax system have remained a challenge. There have been debates on whether and to what extent the government should use the tax system for policy goals other than raising tax revenue. Raising tax revenue is a key objective of Kenya's tax system and therefore, the government must strike a balance between the ever increasing competing development needs and the desire to encourage investments through low tax regimes. It is the consideration of the latter that has seen the government of Kenya, like other countries, implement tax incentives on the assumption that taxation is an appropriate policy instrument in attracting investments (IEA, 2012)

From the view of economists, a tax is a compulsory contribution of resources from the private to the public sector or government levied on a basis of predetermined criteria and without reference to any specific benefits received by the tax payer Governments levy different types of taxes at varying tax rates to distribute the tax burden among persons involved in taxable activities or to redistribute resources within the society. In addition, taxes are levied by the government to influence the macroeconomic performance of the economy through its fiscal policy – more specifically the taxation policies and to adjust patterns of consumption or employment within an economy, by making certain transactions more or less attractive (Goode, 1984). Taxation is necessary because it is neither feasible nor desirable for governments to finance their projects solely through charging for services (Goode, 1984). Taxes are justified as they fund activities that are necessary and benefit the majority of the population and social development -Taxes are the price of civilization (Holmes, 1904). Not everyone in the society agrees with the principle that governments must levy taxes. An anarchist in Russia, Emma Goldman wrote that the State itself is the greatest criminal, breaking every written and natural law, stealing in the form of taxes. This view is held by some political philosophies who view taxation as theft or extortion

because payment of tax is compulsory and enforced by the legal system. The view that democracy legitimizes taxation is rejected by those people who argue that all forms of government policies or laws are oppressive and therefore, taxation is viewed as producing the same result as theft, the difference between government and thievery being mostly a matter of legality (Williams, 2008). While the morality of taxation is sometimes questioned, most arguments about taxation revolve around the degree and method of taxation and associated government spending, not taxation itself.

1.1.1 Tax Incentives

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UNCTAD defines tax incentives as any incentives that reduce the tax burden of any party in order to induce them to invest in particular projects or sectors. They are exceptions to the general tax regime and may include, reduced tax rates on profits, tax holidays, accounting rules that allow accelerated depreciation and loss carry forwards for tax purposes, and reduced tariffs on imported equipment, components, and raw materials, or increased tariffs to protect the domestic market. KRA defines tax incentive as a provision that grants any person or activity favorable conditions that deviate from the normal provisions of the tax legislation. Tax expenditures refer to revenue losses that a government incurs by providing tax exemptions, deductions or allowances, tax credits, preferential tax rates or deferral of tax payments legally to any party in the economy (Gruber, 2005). The budget deficit of a government is a form of a negative saving and a reduction in the deficit can positively influence the net national savings more than any feasible changes in tax policies and encourage savings within an economy which will then stimulate investments (Goode, 1984)

Countries offering tax incentives may benefit through non economic gains from industrialization, creation of jobs, transfer of technology and training and an increase in tax revenues if the entities will exist in the long run and pay taxes (Gray, 1987). Some researchers have also concluded that investment decisions are fairly sensitive to tax incentives and therefore they suggest that the tax policy is a powerful tool in determining investments flow (Gruber, 2005). These benefits are meant to contribute to higher economic and employment growth rates and reduce poverty levels.

1.1.2 Economic Growth

Economic growth refers to an increase in the capacity of the economy to produce goods and services compared from one period to another. It can be measured in nominal terms, where it is not adjusted for inflation, or in real terms, where it is adjusted for inflation. The growth of an economy is thought of not only as an increase in productive capacity but also as an improvement in the quality of life to the people of that economy and it is associated with technological improvements. Gross Domestic Product (GDP) refers to the monetary value of all the finished goods and services produced within a country's borders in a specific time period. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory and is measured annually. GDP is commonly used as an economic indicator of the overall health of an economy, as well as to measure the standards of living in a country (Lipsey & Chrystal, 2007).

Fiscal policies are concerned with government spending and taxation policies. The burden of resource mobilization to finance essential public development projects must be focused on how the government will raise adequate revenues for its development efforts. In the long-run, the government can only rely on the efficient and equitable collection of taxes as a more sustainable way to raise revenue to meet its development goals (Todaro & Smith, 2003). The key question however remains whether by offering huge tax incentives governments in developing nations have been able to increase investments to the extent of increasing economic growth rates and improving the welfare of its citizens. Studies in both developed and developing nations suggest that tax incentives are an inefficient and expensive way of encouraging investments. Most studies show that the most important determinants of FDI in developing countries consists of long term considerations affecting profitability , market size and market potential (Irish, 1978).

Therefore, for the government to be effective in its role of providing quality public goods or services to its citizens and also fund its development projects which are key determinants of investment location decisions, it has to implement policies that will enable it raise adequate revenues to meet its budgetary requirements. The Kenyan government mainly raises its revenues through taxation and over the years it has been increasingly difficult for KRA to meet its revenue targets – KRA has not met its original treasury targets since the 2006/2007 fiscal year. Failure by

the institution to raise more revenue and meet budgetary targets implies that budget deficits will continue to be experienced unless proper policies are put in place to seal all revenue loopholes.

1.1.3 Effect of Tax Incentives on Economic Growth

There is often interest in assessing the economic impact of an economic policy which may be viewed in terms of business output, value added, wealth, personal income or employment. Any of these measures can be an indicator of the improvements in the economic well-being of residents, which is usually the goal of economic development efforts. The net economic impact is usually viewed as the expansion or contraction of an area's economy (Weisbrod, 1997)

Gruber (2005) stated that most countries have perennial budget deficit issues because they adopt ex-ante Balanced Budget Requirements (BBRs) rather than ex-post BBRs and Kenya is no exception to this situation. Ex ante BBRs requires legislature to pass budgets that are balanced at the beginning of each fiscal year while ex post BBRs require governments to balance their budgets by the end of each fiscal year a situation which may ensure that the government takes measures to collect sufficient revenues to meet its expenditure requirements and spur economic growth. M^{c}Eachem (1988), states that there is no relationship between budget deficits and the measures of economic performance. He observes that the budget deficit is the result of fiscal policies implemented by the government from either automatic economic stabilizers for example through taxation during recession when output and employment declines or policies aimed at increasing aggregate spending. However, Begg et al (2005) observes that budget deficits may be a poor measure of the government's fiscal policy because deficits can occur due to other reasons other than fiscal policy for example a decrease in the demand for investments will reduce output and incomes causing a decline in tax revenues.

Morisset & Pirnia (1999) observed that the relative little importance of tax policy does not mean that it does not have an impact on FDI. A good example is Ireland and many other tax havens whose tax policies have been generally recognized as a key factor in their success to attract international investors to those countries. Therefore, taxation policies do affect the decisions of some investors in choosing a suitable location for their investments. Foreign investors have many alternative methods of structuring and financing their investments and arranging their transactions between related parties located in different countries to ensure maximum returns on

their investments. These alternatives have important tax implications which show that tax considerations influence the choices that firms make. 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 hence a more positive response to tax incentives (Goode, 1984).

For many decades, Kenya has been unable to balance its budget and therefore, meet its financial requirements to fund its development projects. Some people blame the deficit on the growth in spending by the government, as is the case of conservatives in the U.S., while others counter that an insufficiently progressive tax system is failing to raise adequate revenues needed for valuable government projects, as it is the case with the liberals in the U.S. Karl Marx also observed that progressive tax systems alone are very inefficient in an economy. The persistent budget deficits could therefore, be due to a clash between those opposing a raise in taxes and those opposing a cut in government expenditures or it could be something deeper, a structural problem with the very nature of the budgeting process (Gruber, 2005).

A study conducted on The Tax Policy for Investment by the working group of the MENA-OECD Investment Program (2007), established that there are a wide range of incentives in MENA countries. The question however, remains why most developing countries including Kenya still offer a wide range of expensive tax incentives while they are faced with huge budget deficits and slow economic growth rates. Governments offer tax incentives to investors simply to attract more FDI hence increasing investments in the country to increase GDP and employment rates (TJN–Africa, 2011). Studies indicate that many investors prefer transparency, simplicity and efficiency in the business environment, political and economic stability and certainty in application of tax law and in tax administration. Tax incentives are not very effective in attracting investment and they proposed that the best practice is to discourage the use of incentives in favor of reduced corporate tax rates on a broad base and if tax incentives must be offered, then there is need to review the design and assess its effectiveness (OECD, 2007)

While many parties prefer minimum taxes and where possible lobby the government to remove taxes, the government is placed in a tight position on how to balance between the demands of its

citizens and interested investors and the budgetary income demands. As inflation and the cost of living rises, the only sure way to improve the economic conditions is by reducing significantly the cost of production in an economy and encouraging economies of scale. This can only be achieved through government expenditure on development projects that will spur economic growth for example infrastructural and technological enhancements and the citizens must be willing to pay for these expenditures. Lipsey & Chrystal (2007) stated that governments spend money to achieve their objectives and it must either borrow or tax. Borrowing is a temporary measure and interest must be paid. If too much is borrowed the government debt will get to unmanageable levels (Kenya is currently edging close to the ceiling debt level of Kenya Shillings 1.2 Trillion) and at one point government spending must be paid out of taxes, borrowing only postpones the need to tax. This shows the urgent need for the government to seal any revenue loopholes in the economy if it has to implement its development projects and achieve the Kenya Vision 2030 goals.

1.1.4 Tax Incentives in Kenya

Tax incentives in Kenya can be grouped into either investment promotion incentives or export promotion incentives. Investment Promotion Incentives include Investment Deduction Allowance which was Introduced in 1991 to encourage investment in physical capital such as industrial buildings, machinery and equipment, Industrial Building Allowances which was Introduced in 1974 with the objective of encouraging investment in buildings used for industrial purposes like hotels and manufacturing plants., Mining Deductions Allowance which was Introduced to encourage investors to venture into the mining industry which is very capital intensive and Farm Works Deductions which was Introduced in 1985 to encourage investment in the agricultural sector. Export promotion incentives program has three main schemes which include the Export Processing Zones (EPZ's), Manufacture under Bond (MUB) and the Tax Remissions and Exemption Office (TREO). The objective of EPZ's is to generate and encourage economic activity and foreign direct investments while MUB and TREO regimes were meant to encourage investors to manufacture for export within the country.

1.2 Research Problem

Most African countries are cash strapped and are unable to raise adequate revenues and meet their budgetary requirements yet they still offer a wide range of tax incentives. Due to globalization, it has also become extremely easy for multinational companies to do international tax planning and reap maximum economic benefits for the period they enjoy the tax incentives yet most of them remain in a net tax credit position due to the huge incentives or after the expiry of the incentive period, they soon close shop, start a new company in the same locality, doing similar businesses or they move to another country offering similar tax structures and continue enjoying the tax – free status thus denying the government of the much needed revenue to fund its economic projects. Many multinational companies in Kenya pay little to no tax to the Kenyan government for the many years they have operated in this country and for those that operated in the Export processing Zone, most of them closed down after the 10 year tax holiday period and moved to China, India, Uganda and Ghana which had introduced similar programs or had lower costs of production (Blackwell, 2009).

Lipsey & Chrystal, 2007 stated that the government plays an important role in the growth process and apart from the expenditure it incurs for development projects, it can employ policies including favorable tax treatment of savings, investment, capital gains, research and development (R&D) tax incentives to encourage investments and innovations. However, studies in the recent past prove that tax incentives offered have not resulted into an increase in FDI into the country. A report released recently by Action aid and TJN showed that KRA loses Kenya Shillings 100 billion in tax revenue through wide ranging exemptions mainly to MNCs yet these incentives do not translate to substantial returns in FDI. Uganda and Tanzania, which give far less incentives than Kenya, have had a better flow in FDI.

Kandie, 2011 in his study on the effects of tax incentives on exchequer revenue a case of the Top 25 taxpayers in the country concluded that tax incentives have negative effects on exchequer revenues. This research will study the effect these tax incentives have on the overall economic performance over the last decade. Kiongo, 2011 in his study on the analysis of factors determining the success of FDI in Kenya researched on how some variables that had been assumed to have an effect on FDIs affected its success. He focused on four variables including

the entry strategy, market size, operations cost and entry costs. FDI is a key factor that affects economic growth. Tax costs may affect the investments decisions of foreign investors and therefore, affect the level of FDI flows in a country. The researcher did not analyze the tax costs separately as an independent variable and the effects of the tax planning opportunities that may arise, an area that this study will consider. Kinuthia, 2011 analyzed the impact of tax incentives on the flow of FDI in the manufacturing sector in Kenya. He concluded that there was a very weak correlation between tax incentives and FDIs. In his study, the researcher focused specifically on one sector of the economy to analyze the effects and did not show the overall impact on economic growth. This study took a step further to analyze effects of tax incentives on economic growth.

1.3 Objective of the Study

To determine the effect of tax incentives on economic growth in Kenya

1.4 Value of the Study

The results of the research will be useful to the Kenyan government, policy makers, legislature and regulatory bodies such as the Kenya Revenue Authority in improving taxation systems and therefore, tax policies in Kenya.

To the investors and citizens, this study provides an insight into Tax incentives and their impacts on economic growth. Investors needs to establish business strategies putting into consideration the long term effects (and consequences) of their decisions on the business and the economy. It is necessary to educate potential investors and citizens so as to encourage support and compliance for good macroeconomic policies.

To the researchers and academicians, the study adds to the existing literature in this field which will form a good base of literature for review by researchers in the future. Researchers may use the study as a foundation to carry out any further research in this area.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature. A methodological review of past literature is a crucial endeavor for any academic research. The need to uncover what is already known in the body of knowledge prior to initiating any research study should not be underestimated. This chapter reviews literature on tax incentives and various aspects on economic growth.

2.2 Theoretical Framework

The theoretical approach adopted defines and explains the various economic theories or models that economists have used to explain the factors that really drive economic growth in a country. Taxation policies are studied for their macroeconomic effects on the economy and these theories attempt to explain what is important or necessary to improve the economy. Exogenous theories are based on constant returns to accumulation that is, choices on investments and savings affect the long run growth rates while neoclassical theories assumes that actual output equals potential output and therefore only technology can explain the differences in the economies of various countries (Begg et al, 2005). Endogenous theory on the other hand explains technology advancements as part of the growth model (Lipsey & Chrystal, 2007). Examples of economic growth theories are discussed below.

2.2.1 The Harrod-Domar Model

This model was used in development economics to explain an economy's growth rate in terms of the level of saving and capital productivity. It was developed by Sir Roy F. Harrod and Evsey Domar in 1946. This model was the precursor to the exogenous growth model. It states that there are three concepts of growth which include Warranted growth (output growth rate at which firms believe they have the correct amount of capital and therefore do not alter their investment levels), the natural rate of growth (rate at which the labor force grows, indicating a change in aggregate output) and actual growth (the actual aggregate output change) (Friedland & Sanders, 1985).

The model suggests that in the absence of government interventions, the growth rate of national income will directly be related to the savings ratio therefore, the more an economy is able to save and invest , the greater the growth in GDP . It further states that the growth rate of national income will be inversely related to the economic capital-output ratio - the higher the capital is, the lower the GDP growth rate (Friedland & Sanders, 1985).

According to the model, there are two possible problems which can be experienced in an economy. First, the relationship between the actual and natural (population) growth rates can cause disparities between the two, as factors that determine actual growth are separate from those that determine natural growth. Factors such as birth control, culture, and general tastes determine the natural growth rate. However, other effects such as the marginal propensities to save and consume influence actual output. There is no guarantee that an economy will achieve sufficient output growth to sustain full employment in a context of population growth. The second problem is the relationship between the actual and warranted growth. If output is expected to increase then investments will increase to meet the extra demand but when actual growth either exceeds or fails to meet warranted growth expectations, attempts to meet the actual demand will be exaggerated causing economic instability (Todaro & Smith, 2003).

Exogenous theorists observed that countries which were able to save 15% to 20% of GDP could grow at a much faster rate than those that saved less and this growth was self- sustainable. They stated that the mechanism of economic growth and development is a matter of increasing national savings and investment (Todaro & Smith, 2003). A good example of a country which has achieved economic growth by encouraging savings is Singapore

2.2.2 Neoclassical Theory – The Solow Growth Model

It was named after Robert (Bob) Solow and Trevor Swan and was meant to demonstrate why the Harrod-Domar model was not a good model to adopt. The model states that economic growth is derived from an increase in capital and labour inputs, ideas and new technology. He observed that a sustained rise in capital investment increases the growth rate only to a certain level then the growth rates start declining because of the law of diminishing returns that is, as the ratio of capital to labor increases, the marginal product of additional units of capital decreases and hence

the economy will adjust back to a steady state growth path, with real GDP growing at the same rate as the growth of the workforce plus a factor to reflect improving productivity (Begg et al, 2005)

A steady state of growth refers to a situation where output, capital and labor are all growing at the same rate, so output per worker and capital per worker are constant. Neo-classical theorists state that to raise the rate of economic growth, an increase in the labor supply and a higher level of productivity of labor and capital are fundamental and differences in the levels of technological advancements between countries explain the variations in growth rates observed in the world today. Technological advancements not only increases incomes due to increased production but also transform lives through new product and process inventions (Lipsey & Chrystal, 2007).

2.2.3 Structural Change and Patterns of Development Theory – Chenery Model

Structural-change theory focuses on the mechanism by which underdeveloped economies transform their domestic economic structures from reliance on traditional subsistence agriculture to a modern, urbanized, and industrial diverse manufacturing and service economy. He observed that increased savings and investment are necessary but not sufficient conditions for economic growth. Both human and physical capital accumulation and changes in the economic structure of a country are required for the transition from a traditional economic system to a modern one. Changes in production, consumer demand patterns, international trade, and use of available resources, urbanization, growth and distribution of population were all considered to be necessary (Todaro & Smith, 2003).

Structural-change theorists observed that differences in development levels among developing countries are largely dependent on both domestic and international constraints. Domestic factors include economic factors such as a country's resource endowment and its physical and population size and institutional factors such as government policies and objectives. International factors include access to external capital, technology, and international trade. He observed that to a great extent, it is the international factors that create a difference between developing and industrialized countries. The higher the ability of developing countries to access opportunities presented by the industrial countries as sources of capital, technology, and manufactured imports

as well as markets for exports, the faster they can increase their economic growth rates (Todaro & Smith, 2003).

2.3 Types of Tax Incentives in Kenya

Kenya offers various types of tax incentives as provided for in the Income Tax Act CAP 470, The VAT Act CAP 476 and the EPZs Act CAP 517. These incentives are mainly fiscal incentives and they determine the fiscal policy adopted to affect macroeconomic activity in a country (UNCTAD, 2000). Tax incentives are mainly offered to encourage some favored economic activities by increasing the after-tax rate of return on the investments (Goode, 1984) and to compete favorably with other countries offering the same. Incentives offered in Kenya include the following:

2.3.1 Exemptions, Zero -Rating and Remissions

Tax exemption refers to a case where a good or service is not chargeable to tax under the law while zero rating refers to a case where the tax rate applicable for the good or service is zero.
There are various exemption and zero rating regimes in Kenya. Certain goods, services, bodies and individuals have the tax exemption or zero rated status under the VAT Act. The ITA also exempts certain classes of incomes or incomes of specific bodies from corporation tax. A party either individual or institution can also apply to the National Treasury for tax exemption or tax remission on specific circumstances and the Minister has the power to grant such requests if there is adequate justification. However the current constitution provides that all persons should pay taxes and the Government seeks to scrap these provisions. Companies that import raw materials and manufacture goods for export can also get tax remission status for the exports under the Tax Remission Exemption Office (TREO) arrangement. These companies already have a tax advantage since the materials imported usually do not attract any customs duty or value added tax except industrial sugar which is taxed at a low rate of 10% as customs duty. The disadvantages of giving tax exemptions, remissions and zero rated status for exports is that it results in substantial leakage of untaxed goods into the domestic market thus eroding the tax base

2.3.2 Tax Holidays – Special Economic Zones

SEZs are designated areas in a country that possess special economic regulations that are different from other areas in the same country. The regulations tend to contain measures that are conducive to foreign direct investment including tax incentives and the opportunity to pay lower tariffs. In Kenya companies operating in EPZs enjoy a 10-year tax holiday and a reduced corporate tax rate of 20% for the next 10 years (ITA, 2010)**.** Tax holidays have many disadvantages if not designed and controlled properly. First, it attracts short term projects because once the period for the tax holiday is over, businesses soon wind up and move out to invest elsewhere (Blackwell, 2009). It also encourages tax avoidance by allowing businesses to move from high tax regions to low tax regions – tax avoidance is not illegal but it certainly is unjust and administration costs to ensure compliance with all laws and accurate reporting may be high (Irish, 1978).

2.3.3 Capital Allowances / Deductions

The law, under the income Tax Act provides for various capital allowances. These incentives are mainly intended to encourage investments in the country and since the year 2010, the government even sought to encourage investments outside the main cities by giving higher incentives to businesses setting up businesses in such areas. Though the main goal is to increase investment and improve economic standards, the system is prone to abuse and requires constant monitoring to ensure its efficiency.

2.3.3.1 Investment Deduction

This is given to companies upon construction of a building and on the purchase and installation of new machinery used for the purposes of manufacture or for the following ancillary purposes: generation, transformation and distribution of electricity; clean-up and disposal of effluents and other waste products; reduction of environmental damage; water supply or disposal; and workshop machinery for the maintenance of the machinery. Currently companies claim ID at 100% and those who invest outside the three cities in Kenya claim at 150%. (ITA, 2010)

2.3.3.2 Industrial Building Deductions

The ITA (2010) provides for IBD deductions at a rate of 2.5% or 10% for hotels. The cost includes capital expenditure incurred on the construction of an industrial building used for business and any civil works or structures if they relate or contribute to the use of the building including: roads and parking areas; railway lines and related structures, water, industrial effluent and sewage works; communications and electrical posts and pylons, other electricity supply works; and security walls and fencing.

2.3.3.3 Farm Work Deductions

The owner or tenant of agricultural land is allowed 33.3% capital expenditure on the construction of farm works for three years. Expenditure considered includes costs the on a farm-house and any asset used for the purpose of husbandry (ITA, 2010).

2.3.3.4 Shipping Investment Deductions

A resident person who is a ship-owner is allowed 40% in the first year and 10% in subsequent years for capital expenditure incurred on the purchase of a new and unused power driven ship of more than 495 tons gross; or on the purchase, and subsequent refitting of a used power-driven ship of more than 495 tons, used for business (ITA, 2010).

2.3.3.5 Mining Allowance

The ITA (2010) provides for a deduction equal to 40% in the first year and 10% in each of the following six years of income for expenditure incurred by a person carrying on a business of mining. The cost includes expenditure incurred in searching for or in discovering and testing deposits of minerals, or in winning access to those deposits, the acquisition of rights over minerals, provision of mining machinery and construction of a building or works specifically for the purpose of the mines; costs of development, general administration and management prior to the commencement of production or during a period of nonproduction.

2.3.4 Tax Credits and Double Taxation Treaties

The ITA, 2010 provides for deduction of foreign tax payable in respect of income derived by a person resident in Kenya as a credit against tax chargeable in respect of that income if Kenya has a double taxation agreement with that foreign country. Currently Kenya has double taxation treaties with many countries including United Kingdom, South Africa and India. However, most double taxation treaties are structured in a manner that gives more advantage to the developed countries as compared to developing countries like Kenya in terms of tax revenue due to exemptions on the basis of source versus the residence principle (Irish, 1978). The World Bank, IFC and the OECD have however come out to assist developing countries in capacity building to enhance their negotiation abilities and effectiveness and they have also issued guidelines on how double taxation agreements are to be drawn to assist in developing agreements that are fairly balanced.

2.3.5 Reduced Corporate Tax Rates

This refers to a case where the law allows a party to apply a tax rate lower than the normal stipulated rate. In Kenya, the corporate tax rate is 30% for resident and 37.5% for non – resident branches or permanent establishments. EPZs however, in the past have been taxed at 25% for the 10 year period succeeding the tax holiday period (CAP 470/517 laws of Kenya). Private companies listing on the CMA also enjoy reduced corporate tax rates. Companies listing at least 20%, 30% and 40% of the issued share capital are taxed at 27% for three years, 25% for five years and 20% for five years respectively (ITA, 2010). Although meant to encourage listing of companies on the stock markets, this incentive tends to be biased against other companies operating in the same market.

2.4 Determinants of Economic Growth

Economic growth theory is concerned with explaining the determinant of the long term trend in potential GDP. Economic growth is the economy's most powerful engine for generating long-term increases in living standards. Continued annual growth has a big impact in the long run – what may appear as modest growth rates have a powerful effect in raising the living standards because its effects accumulate over time. Every macroeconomic policy must be tested on

whether it will achieve its main goal or have unfavorable effects on the economy. If it does not pass the test, it is not sufficient to abandon it but its sufficient reason to rethink the policy (Lipsey & Chrystal, 2007). Economic growth refers to an increase in the real GDP of a country which is measured by changes in the national aggregate output. GDP is used to measure economic growth within the boundaries of a country because it only considers the value of goods and services produced within that country.

Economic growth is determined by the stage of development in which the country is, the quality and quantity of investments, population size and structure, level of education and training of the population and how liberalized the market is in a country. Several economic theories also give a different view on what affects economic growth in a country. Adams Smith, and Cheney both stated the importance of resources in economic growth, Harrod- Domar stated the importance of policies such as tax incentives while Solow explained the importance of technical progress in economic growth (Beardshaw et al, 2001).

2.4.1 Stages of Economic Growth

Attempts have been made to classify the pattern of economic growth as a passage through a number of defined stages. Marx classifies societies as passing through primitive, communism, slavery, feudalism, capitalism and finally socialism and communism. However, in recent times, countries do not necessarily go through these stages sequentially a good example being China. Rostow classifies these stages differently from an early stage up to the take off time when the economy can experience self – sustaining growth. Development of markets and accumulation of capital are therefore necessary for economic growth (Beardshaw et al, 2001).

2.4.2 Level of Investments

Initially, increasing the rate of investment reduces consumption of goods and services as resources are diverted to investment industries but increased growth rate results in a higher consumption of goods and services in future which also increases the growth rates. The two main factors that influence the relationship between investments and economic growth rate are the differences between gross and net investment and the quality of investments. It is only the net investments that increase the wealth of a nation and not investments meant to replace obsolete

equipment. Investments have also to be of the right kind to contribute strongly to economic growth (Beardshaw et al, 2001). It is therefore important to consider the two main roles of investment that is; as a component of aggregate demand and as an addition to the stock of productive resources which is the objective of the Harrod- Domar model of Economic growth (Hardwick et al, 1994).

2.4.3 Population Growth and Structure

The effects of population growth on economic growth depends on the how developed a country is and the participation rate in the economy. In developed countries, stagnation in population growth may negatively affect economic growth as it is the case in Western Europe while countries with faster growing populations like Australia have maintained higher economic growth rates. On the other hand, population growth rates have been known to be an inhibiting factor in increasing GDP per Capita in developing countries hence major advances in living standards for many people in such countries depends on limiting the sizes of their families. The age, sex and geographical distribution of the population are also an important aspect to consider. A country with a higher percentage of a dependent population means that more resources will be devoted to caring for these people hence diverting necessary resources for investments (Beardshaw et al, 2001). Also, one must consider the participation rates that is, the proportion of the population which is economically active and the age of the population. A rise in this rate increases the size of the labor force. It is determined by the extent to which the different age groups and sexes in the population are by law, customs, tradition and labor regulations and the attitudes within a society, allowed to participate in the labor market activities (Hardwick et al, 1994).

Since population growth causes an increase in the number of consumers and an expansion in the labor force, the rate of economic growth caused by population growth must exceed the rate of population growth if output per head is to be increased and hence the potential to improve on the social welfare of the society (Hardwick et al, 1994).

2.4.4 Level of Education and Training

It is said that the wealth of a nation lies in the skills of its population. A country must therefore, ensure that it has adequate skills it needs to advance its economy. An investment in human

capital is therefore a priority for the economic well being of a country. Education is also a component in the quality of life thus those receiving higher education consume an economic product which will improve their standard of living by improving their quality of life (Beardshaw et al, 2001).

2.4.5 Market Liberalization and Trade

A country benefits immensely by allowing free markets and by taking measures to increase international trade hence promoting liberalization. Competition in the market place encourages specialization and creates efficiency which encourages trade and investments. A government may take measures to increase the proportion of exports to imports and also employ taxation policies that will encourage market liberalization (Beardshaw et al, 2001).

2.4.6 Conclusions on Economic Growth

Economic growth is a powerful weapon in the fight against poverty. It leads to a transformation in the lifestyles and living standards or ordinary citizens and the technological advancements made enhance the production of new and more superior products which improves the living standards of the citizens. Economic growth requires heavy investment of resources both in physical capital and human capital and these investments do not yield returns immediately. Due to the scarcity of resources, sacrifices have to be made in the current period to make provision for better goods and services in the future and therefore, consumers must be willing to consume less and invest more now so as to reap greater benefits tomorrow. This is the opportunity cost and the main cost of economic growth (Lipsey & Chrystal, 2007).

The government has the responsibility of developing the framework for the economy, provide infrastructure that will support the economy and invest in capacity building. It is also responsible for designing favorable fiscal policies that will enhance economic growth and reduce poverty rates. It is debatable whether the government should intervene directly in the market in order to boost sectors of the economy. Studies have shown that in certain instances such interventions have yielded positive results such as the Japan automobile sector, Taiwan's electronic sector and the US semiconductor industry (Lipsey & Chrystal, 2007).

2.5 Empirical Studies

Various studies have been concluded by many researchers on tax incentives and their impact on investments and economic growth of a country that is, whether they are effective tools for economic growth. Studies done in Africa suggest that most countries are competing against each other in giving more attractive tax incentives so as to attract more foreign direct investments to their countries but whether or not they are meeting the intended objectives is another issue(TJN – Africa, 2013).

In its policy studies, the U.S Treasury policy studies department (2002) observed that the effects of tax policies should be analyzed within a general framework where one explicitly recognizes the effects of tax policies on the level of services demanded form the government. Tax policies affect factor prices and the allocation of resources by the private sector and in the long run, the quantity of services demanded from the government by its citizens. A study by CIAT (2011) on Tax and development established that inadequate attention has been paid to the cost effectiveness of the various incentives offered in terms of the overall impact on tax revenues lost, credibility and economic sustainability of the tax system and therefore the tax policy and risks of corruption. It established that improved transparency in the provision and delivery of tax incentives for investment may help increase governments fiscal accountability and rationalize the use of such incentives. This will also help in improving investor and taxpayer confidence in the system, support good governance, reduce lobbying pressures for increased or new incentives, and promote economic development.

An investment policy study conducted in Botswana by the OECD (2003) on its investment policy supports the view that tax incentives are not a major FDI attraction factor. Botswana was one of the poorest countries of the world but after few decades it had one of the fastest economic growth rates in the world and its now an upper middle- income developing economy with its growth progress catalyzed by the discovery of rich and profitable deposits of diamonds in 1967, which initiated a process of structural change that is, from an economy heavily dependent on low productivity in agriculture to an economy dependant on mining and services sectors. Its growth performance is owed to the good management of natural resources and good governance which have created a good and stable political and economic environment Most of its mineral revenue

as well as foreign aid was invested in health, education and infrastructure which created proper foundations for long-term growth and also a strong saving culture was established for any excesses and this has ensured a long-term macroeconomic environment conducive to a sound investment climate, a rare fete for any developing country. The Financial Assistance Policy was the main incentive that the Botswana government offered to investors which provided financial grants to encourage investment and employment in non-traditional sectors. Initially the scheme focused on manufacturing and non-traditional agriculture, but expanded over the years to include tourism, small-scale mining and related service businesses. This program was however, abolished in the year 2000, following a highly critical evaluation of its rationale, effectiveness and administration It was established that fewer than 40% of medium and large-scale projects receiving grants were either 100 per cent foreign-owned or joint ventures and that The scheme was too generous and was bound to attract unscrupulous investors who could not be identified through evaluation procedures. Evaluation of the incentive scheme found little evidence that the FAP grants were a crucial factor in attracting foreign investors although one investor found the scheme to be very helpful in providing working capital during a period of rapid growth (UNCTAD, 2003)

A study done by GRIPS (2006) on Public Finance Policy in developing nations showed that although MNCs contribute to government revenue in form of taxes, they generally tend to pay much less than what they ought to pay due to long tax concession periods, transfer pricing practices, huge investment allowances, disguised public subsidies and tariff protection from the government. These companies use their economic power to lobby for policies that are unfavorable for development and they can avoid local taxation and shift profits to affiliates in low tax jurisdictions. This has a negative effect on the revenues collected by the government from taxation and therefore developing countries are unable to effectively fund their development goals.

A Study done by GRIPS (2006) on Public Finance policies in Ethiopia showed that countries which strive to be self sustaining and focus on growing their economies can achieve excellent results in growth and development. A study conducted on Ethiopia showed that in contrast to donor- driven decentralization of investment programs, the country has developed clear internally determined policies defined by the government and supported by the constitution

which has provided for clear regional responsibilities, revenue bases and enhanced capacity building to spur economic growth. This has ensured that although functions have been decentralized to all regions, the revenue base is well expanded and there are clear guidelines in revenue collections hence it is possible to meet financial requirements for development agenda set for each region. This has definitely helped as the country has one of the fastest growing economies in the world.

The OECD (2007), research on Tax Incentives and FDI performance in the MENA region showed that there are various incentives offered in MENA countries. The research established that tax incentives were not very effective in attracting investment but rather, investors preferred transparency, simplicity, stability and certainty in taxation policies. The ability of tax incentives to attract foreign investment is relatively low compared to the possible negative effects. There are more efficient and effective alternative ways to increase investments and achieve economic growth rather than focusing on tax incentives like increase spending on human capital in a country (Beardshaw et al, 2001). The CIAT task force on Tax and Development suggested that tax incentives erode the revenue base for developing countries reducing significantly the resources available for public investment on infrastructure, education and security, factors that are considered to be key drivers in making decisions on the location of investments. The report established that developing countries are responding to pressure from investors and other competing nations in giving tax incentives and the result is often a "race to the bottom," in which countries in a region are made collectively worse off, possibly to the benefit of investors, findings also supported by Irish, 1978.

In its research on Tax incentives for Investments in MENA and Non- MENA countries, The OECD (2007), established that generous tax incentives cannot compensate for a poor business environment. Where in particular, there is a lack of good infrastructure such as transport, unreliable and expensive electricity supply and poor education, economic growth is bound to be very slow and most tax incentives offered will mainly erode the tax base, resulting in low tax revenues rather than increase the flow of investments to a country. Mauritius, Costa Rica, Ireland and Malaysia were examples of countries which were able to attract investments without giving tax breaks and instead focused on ensuring stable economic and political conditions, a well educated labor force, good infrastructure, open trade for exporters, dependable rule of law, and

effective investment promotion systems to attract investors. This also has been supported strongly by policy reviews done in countries which have been able to change their investment strategies and spur economic growth a good example being Botswana.

Mozambique has long used tax incentives as a tool to promote national investment and attract foreign investors with the most notable investment incentive being the reduced corporate tax rate given to Mozal Aluminium Smelter in the late 1990s which included a one per cent tax on turnover instead of the standard 32% tax on income and a full exemption from custom duties, sales and circulation tax. A study by UNCTAD in 2012 revealed that the government had initiated measures to rationalize incentives, broaden the tax base and improve tax administration. This strategy seemed to work as The country succeeded in increasing the tax to GDP ratio from 12.2% in 2005 to 17.5% in 2010,which compared relatively well with other similar countries. The Government initiated the review of the tax policy in order to provide an enabling tax regime for investment and rationalize tax incentives. It intends to do strict cost –benefit analysis when offering tax incentives and use tax incentives selectively as a means to achieve well-defined industrial policies objectives and meet development goals. The large number of sector- based incentives has the potential to distort market mechanisms and investment decisions.

A recent study conducted by the Action aid group (2012) in Zambia on The human cost of a British sugar giant avoiding taxes in southern Africa proved that Zambia was a mirror of a problem present across Africa and beyond where countries, both rich and poor, are struggling to tax globally mobile profits and capital and giving special tax breaks to investors, and as a result they are losing tax revenues that might otherwise be available for the fight against poverty. Zambia grants large capital allowances which allow major investors to deduct much of the value of new plant, buildings and equipment from their taxable profits. An example was the giant Zambia sugar Factory which over the years has tripled its sugar exports since 2010, its revenues have risen 250% in the past five years, and its operating profits have increased significantly yet the company pays very little in corporate taxes. It was established that the company had paid to the Zambian Revenue Authority on average taxes of about 0.5% of its pre-tax profits – an average of less than ZK450 million (US$90,000) a year which is significantly less than the 35% corporate tax rate. Between 2008 and 2010 Zambia Sugar Plc made no corporate income tax payments at all, although it continued to report tax liabilities. The company did further state that

it was due to its expansion projects and the availability of substantial capital allowances that led to virtually no corporate tax being paid. The company had also negotiated for two special tax breaks which entitled them to huge tax refunds, and for years to come will actually bring the Zambian tax rate applied to this highly profitable company below the tax rate even in some tax havens. The government has however, initiated policies to limit its revenue losses by reducing extreme generous capital allowances, particularly in the mining sector which is a first step in its review of tax breaks and incentives granted to big companies across all sectors. Considering the poverty levels in the country, the revenues could go a long way in enabling the country meet some of its development goals.

A study by the TJN – Africa (2013), on Tax completion in East Africa showed that Kenya, despite the fact that it offers more tax incentives than its neighboring countries, received less FDI flows than any of those countries. The study established that the Kenyan government is losing over Kenya Shillings 100 billion (US$ 1.1 billion) a year from all tax incentives and exemptions with trade-related tax incentives accounting for at least Kenya Shillings 12 billion (US$ 133 million) in 2007/08. The country is therefore, denied of resources urgently needed to reduce poverty and improve the general welfare of its citizens. In 2010/11, the government spent more than twice the amount on providing tax incentives (using the figure of Kenya Shillings 100 billion) than on the country's health budget. This is a serious situation when 46% of Kenya's 40 million people live below the poverty line. It is important for a country to pay attention to the other factors that affect the flow of investments and not to concentrate on tax incentives only. Governments should not therefore assume that if they fail to match their benefits to those of their neighboring countries then new companies and investors will opt for the neighboring country and reduce FDI flow into their country.

The use of tax incentives will continue in most developing because many countries feel that failure to offer them will have an adverse effect on FDI flows because the same incentives are also widely available in other developing countries and also because tax incentives appear to offer the simplest feasible way of attracting foreign investments irrespective of the cost implications (Irish, 1978). However, the Kenyan government has recognized that the current level of tax incentives presents a problem and has committed itself to rationalizing and reducing them and this is best demonstrated by the recent amendments to the VAT Act which removed

most of the tax incentives except on some machinery, agricultural produce, basic commodities and exports. This definitely is a good place to start just as it was the case when VAT was first introduced into law with very few zero rated items as it will enable the government seal the many loopholes in revenue collection and increase the tax base and revenue collections. If countries are to eradicate poverty and hunger, then they will need to do so by increasing their own public finances mainly through increased tax revenues. Poverty cannot be eradicated if developing countries are unable to raise adequate revenues to provide for the needs of their own citizens and drive economic growth in their own countries (Action aid, 2013).

2.6 Summary of Literature Review

Many previous studies done on tax incentives in African countries show that the tax incentive programs do not necessarily increase the flow of FDIs into the countries and therefore do not deliver on the intended purposes. Most developing countries are unable to raise adequate revenues to meet their budget income needs and invest in their infrastructure and development projects that will improve their economies. While many governments are aware of the fact that they are losing more resources due to the incentive regimes, many are slow or reluctant to change their taxation policies towards better practices and seal revenue loopholes in the economy because of stiffened competition for investors among the developing nations. All stakeholders including academicians, regulators and industry players agree on the importance of effective tax policies in any economy and as such countries across the globe must work hard towards adopting international best tax practices and the government, citizens and investors must make sacrifices and invest in our economy to spur higher economic growth rates.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology adopted in the study. It explains the methodology that was used in selecting the population, sampling data, collecting data, and gathering, coding, classifying and analyzing the data as well as reporting the results of the study. The researcher aimed at applying methods, tools and techniques that were relevant and reliable to ensure that the data obtained was relevant and accurate for the study.

3.2 Research Design

Both the diagnostic and explanatory approaches were adopted for the study. The diagnostic approach shows the association between the variables while the explanatory approach studies the causal relationship between the variables (Kothari, 2004). The descriptive approach provided the foundation to the study by clearly giving an in-depth profile and understanding on the two issues of tax incentives and economic growth while the explanatory approach was adopted to estimate how and to what extend tax incentives offered in Kenya affect economic growth. The study adopted the archival research strategy because government records and documents where used as the main source of data (Saunders et al, 2009)

3.3 Data Collection

Secondary compiled data was used for the study. The data was collected from the Export Processing Zone Authority, Kenya Bureau of Statistics, World Economic Forum database, World Bank Database and the Kenya Revenue Authority. Data was mainly obtained from past published statistics, financial and economic reports and budget reports. Data collected was checked for reliability, validity and measurability to ensure that it was feasible to draw valid conclusions from the data (Saunders et al, 2009).

3.4 Data Analysis

Data collected was simplified, organized and tabulated to make it easier to understand and analyze the data. The data was then analyzed using the Statistical package for social sciences

(SPSS) Version 16.0. Measures of central tendencies, standard deviations and percentages were applied in analyzing the data. Correlation analysis was used to show whether and how strongly tax incentives and economic growth are related while regression analysis was used to measure the nature of relationship between Tax incentives and economic growth. The quantitative reports obtained from the analysis were presented using tables. The model that was applied in data analysis is given below. Y is the dependant variable, X_1 to X_6 are the independent variables where X_2 to X_6 were controlled variables.

Regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \mu$$

Where Y = Economic measure of GDP per annum measured as percentage real GDP growth rate

X_1= Tax Incentives per annum

X_2 = Stage of development measured as per the global competitiveness index or ranking

X_3 = Investment level measured as a percentage of investments to GDP

X_4 = Population structure measured as a percentage of productive population size to total Population

X_5 = Education level measured in terms of literacy levels

$\beta_0, \beta_1, \beta 2, \beta 3, \beta 4, \beta 5$ and β_6 = The parameters that were estimated

μ = The random error term

The F-Statistic for the multiple linear regression model was computed to determine the significance of the model that is, to what extent the variation in the independent variable explains the changes in the dependant variable.

$$F = [SSR/ (k)] / [RSS / (n-k-1)]$$

Where SSR = the regression sum of squares (SSR)

RSS= the error sum of squares or the residual sum of squares

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

The research objective was to establish the effect of tax incentives on economic growth in Kenya. The study was conducted for the period 2003 to 2012 where data on GDP growth rates, tax incentives, stage of development (global competitiveness index), levels of investment, percentage of productive population and literacy levels was obtained from relevant sources. This chapter presents the analysis and findings with regard to the objective and discussion on the same. To analyze the data descriptive, correlation and regression analyses were used.

4.2 Data Presentation

4.2.1 Descriptive Statistics

Table 1: Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tax incentives per annum	10	39.00	222.00	122.4000	63.17559
global competitiveness ranking	10	3.19	3.84	3.5760	.22945
Total investments to GDP as a percentage	10	16.48	20.52	18.8230	1.38547
percentage of productive population to total population	10	54.08	54.99	54.6440	.27314
literacy levels	10	85.00	88.70	86.5780	1.19553
Real GDP growth rates	10	1.50	7.00	4.1800	1.97866
Valid N (listwise)	10				

From the findings in the table above, the study found that the mean of GDP growth rate over the period was 4.18%, the mean tax incentives given over the period was Kenya shillings 122 Billion, the mean of productive population was 54.64% and the mean literacy level for the population was 86.57% for the period. The highest Real GDP growth rate was 7.00% while the lowest was 1.50% .The highest amount of tax incentives stood at Kenya shillings 222 Billion while the lowest was Kenya shillings 39Billion. The highest global competitiveness index was at 3.84 while the lowest was 3.19. The highest percentage of productive population was 54.99% while the lowest was 54.08%. . The highest literacy level was 88.70% of the population while the lowest was 85.00% for the period.

4.2.2 Correlation Analysis

The table below shows the Pearson correlation coefficient generated from the data.

Table 2: Pearson correlation coefficient

Correlations

	Real GDP growth rates	Tax incentives per annum	global competitiveness ranking	Total investments to GDP as a percentage	percentage of productive population to total population	literacy levels
Real GDP growth rates	1	0.231	0.084	0.373	0.482	0.364
Tax incentives per annum	0.231	1	.818**	.920**	.909**	.974**
global competitiveness ranking	0.084	.818**	1	.865**	.828**	.710*
Total investments to GDP as a percentage	0.373	.920**	.865**	1	.962**	.892**
percentage of productive population to total population	0.482	.909**	.828**	.962**	1	.901**
literacy levels	0.364	.974**	.710*	.892**	.901**	1

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

*. Correlation is significant at the 0.05 level (2-tailed).

A correlation coefficient, denoted by r, enables one to quantify the strength of the linear relationship between ranked or numerical variables. This coefficient takes the values between -1 and +1 (Saunders et al, Lewis , & Thornhill, 2009). There is no statistically significant relationship between the GDP growth rate and Tax incentives (r= 0.231, p>0.05), the relationship between GDP growth rate and global competitiveness index (r= 0.084, p>0.05), GDP growth rate and level of investments(r= 0.373, p>0.05), GDP growth rate and percentage of productive population (r= 0.482, p>0.05), and GDP growth rate and literacy levels(r= 0.364, p>0.05).

4.2.3 Regression Analysis

Table 3: Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.865[a]	.748	.433	1.48953

a. Predictors: (Constant), literacy levels , global competitiveness ranking , percentage of productive population to total population, Total investments to GDP as a percentage, Tax incentives per annum

From the finding in the above table the adjusted R squared ($\bar{R}^2$) is the coefficient of determination which shows the variance in revenue collected due to changes in tax incentives, global competitiveness index, levels of investment, percentage of productive population and literacy levels of the population. As shown in the table above, $\bar{R}^2$ is 0.433, which means that 43.3% of the total variance in GDP growth rate has been explained by the independent variables. The R squared (R^2) is 0.748 which means that 74.8% of variation in the GDP growth rate was explained by the changes in tax incentives, global competitiveness index, levels of investment, percentage of productive population and literacy levels of the population.

Table 4: Anova

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	26.361	5	5.272	2.376	.211[a]
	Residual	8.875	4	2.219		
	Total	35.236	9			

a. Predictors: (Constant), literacy levels , global competitiveness ranking , percentage of productive population to total population, Total investments to GDP as a percentage, Tax incentives per annum

b. Dependent Variable: Real GDP growth rates

To determine the goodness of fit of the model ANOVA analysis was done. From the above table the significance level of the model is 0.211 which shows that the model is not statistically significant.

Table 5: Regression Coefficients

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-828.662	367.084		-2.257	.087
Tax incentives per annum	-.088	.060	-2.822	-1.476	.214
global competitiveness ranking	-1.939	6.600	-.225	-.294	.784
Total investments to GDP as a percentage	.111	1.551	.078	.071	.947
percentage of productive population to total population	10.582	7.487	1.461	1.413	.230
literacy levels	3.122	2.932	1.886	1.065	.347

a. Dependent Variable: Real GDP growth rates

From the findings the following regression model was established;

$Y= -828.662 – 0.088X_1 -1.939 X_2 + 0.111X_3 +10.582 X_{4 +}3.122X_5$

From the findings of the regression analysis, it was found that holding Tax incentives, global competitiveness index, level of investment, literacy levels and productivity levels at constant zero the GDP growth rate would be -828.662%. The model further reveals that a unit increase in tax incentives would lead to a decrease in GDP growth rate by a factor of 0.088, a unit increase in the stage of development would lead to a decrease GDP growth rate by a factor of 1.939. A unit increase in investment levels would lead to an increase in GDP growth rate by a factor of 0.111, a unit increase in the percentage of the productive population levels would lead to an increase in GDP growth rate by a factor of 10.582 and a unit increase in the literacy levels would lead to an increase in GDP growth rate by a factor of 3.122. The finding indicate that the y-intercept and GDP, Tax incentives, global competitiveness index, levels of investment, percentage of productive population and literacy levels are all statistically insignificant at 5% level of confidence.

4.2.4 GDP Growth Rate and Tax incentives per year

Table 6: GDP Growth Rate versus Tax incentives Growth Rate

YEAR	REAL GDP GROWTH RATE (%)	PERCENTAGE GROWTH IN TAX INCENTIVES
2003	1.5	2646.28%
2004	2.2	48.34%
2005	5.8	11.17%
2006	5.7	34.58%
2007	7	7.87%
2008	1.7	47.84%
2009	2.6	5.68%
2010	5	20.51%
2011	5	11.26%
2012	5.3	12.64%

The findings in the table above show the percentage growth in GDP against the percentage growth in tax incentives for each year. It shows that growth in tax incentives have been increasing at a higher rate than the growth in GDP for the period under review.

4.3 Summary and Interpretation of the Findings

The correlation analysis revealed that there is no statistically significant relationship between the GDP growth rate and Tax incentives (r= 0.231, p>0.05), the relationship between GDP growth rate and global competitiveness index (r= 0.084, p>0.05), GDP growth rate and level of investments (r= 0.373, p>0.05), GDP growth rate and percentage of productive population (r= 0.482, p>0.05), and GDP growth rate and literacy levels(r= 0.364, p>0.05).

The adjusted R squared ($\bar{R}^2$) is the coefficient of determination which shows the variance in GDP growth rate due to changes in tax incentives, global competitiveness index, levels of investment, percentage of productive population and literacy levels of the population. $\bar{R}^2$ was 0.433, which means that 43.3% of the total variance in GDP growth rate has been explained by the independent variables. The R squared (R^2) was 0.748 which means that 74.8% of variation in the GDP growth rate was explained by the changes in tax incentives, global competitiveness index, levels of investment, percentage of productive population and literacy levels of the population.

The ANOVA analysis showed that the model was not statistically significant since the value of significance (p- value) is more than 5%. The p- values of the regression coefficient were determined and it revealed that the constant and all the other variables used in the model were statistically insignificant at 5% level of confidence with the p > 5%. This shows that no one factor can be said to significantly affect or determine the GDP growth rate.

From the findings the following regression model was established;

$Y= -828.662 – 0.088X_1 -1.939 X_2 + 0.111X_3 +10.582 X_{4 +}3.122X_5$

From the regression analysis, it was found that holding tax incentives, global competitiveness index, level of investment, literacy levels and productive population level at constant zero, the GDP growth rate would be -828.662%. The model further reveals that a unit increase in tax

incentives would lead to a decrease in GDP growth rate by a factor of 0.088, a unit increase in the stage of development would lead to a decrease GDP growth rate by a factor of 1.939. A unit increase in investment levels would lead to an increase in GDP growth rate by a factor of 0.111, a unit increase in the percentage of the productive population levels would lead to an increase in GDP growth rate by a factor of 10.582 and a unit increase in the literacy levels would lead to an increase in GDP growth rate by a factor of 3.122. The finding indicate that the y- intercept and GDP, Tax incentives, global competitiveness index, levels of investment, percentage of productive population and literacy levels are all statistically insignificant at 5% level of confidence.

The findings also show that Tax incentives do not determine the GDP growth rate. This is demonstrated by the data in Table 4.6 which shows that the amount of tax incentives have been growing steadily while the GDP growth rate has been increasing very marginally for the same period.

Kandie, 2011 in his study on the effects of tax incentives on exchequer revenue a case of the Top 25 taxpayers in the country concluded that tax incentives have negative effects on exchequer revenues. With the constant deficits in the budget financing, the tax expenditures would have gone a long way in filling the revenue gaps and fund development projects. Kinuthia, 2011 analyzed the impact of tax incentives on the flow of FDI in the manufacturing sector in Kenya. He concluded that there was a very weak correlation between tax incentives and FDIs. In his study FDI was a key factor that affects economic growth

For the government to be effective in its role of providing quality public goods or services to its citizens and also fund its development projects which broadly affect investment location decisions, it needs to implement policies that will enable it raise adequate revenues to meet its budgetary requirements. The burden of resource mobilization to finance essential public development projects should focus on how the government will raise adequate revenues for its budgetary needs. In the long-run, the government can only rely on the efficient and equitable collection of taxes as a more sustainable way to raise revenue to meet its development goals (Todaro & Smith, 2003).

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The objective of the research study was to establish the effect of tax incentives on economic growth in Kenya. Descriptive, correlation and regression analyses were used.

From the descriptive analysis of the various variables, the study found that the mean of GDP growth rate over the period was 4.18%, the mean tax incentives given over the period was Kenya shillings 122 Billion, the mean of productive population was 54.64% and the mean literacy level for the population was 86.57% for the period. From the correlation analysis, the study found that the relationship GDP growth rate and tax incentives, global competitiveness index, level of investment, percentage of productive population and literacy level was statistically insignificant at significance level of 0.05. The regression analysis was carried out to establish the association between GDP growth rate and the independent variables and it was found that there was a positive association between GDP growth rate and level of investment, percentage of productive population and literacy levels of the population while there was an inverse relationship between GDP growth rate, Tax incentives and the global competitiveness index. The significance of the model was determined and the processed data, which is the population parameters, had a significance level of 21.1%. The following regression model was established;

$Y= -828.662 – 0.088X_1 -1.939 X_2 + 0.111X_3 +10.582 X_{4 +}3.122X_5$

The model summary found that the value adjusted R squared ($\bar{R}^2$) is 0.433, which means that 43.3% of the total variance in the GDP growth rate has been explained by the independent variables. The R squared (R^2) is 0.748 which means that 74.8% of variation in the GDP growth rate was explained by the changes in the independent variables used in the model.

From the finding, it was shown that Tax incentives have been increasing at a higher rate than the increase in the GDP growth rate. This shows that the Tax incentives have not had its full intended purpose in the economy of encouraging investments and economic growth. This shows that the country is not strongly benefitting from the taxes they give up which could otherwise have been direct tax revenue and injected into the budget for allocation.

5.2 Conclusion

From the results of the findings it can be concluded that Tax incentives alone do not increase GDP growth rate. It was found that there was an inverse relationship between GDP growth rate and tax incentives. Though tax incentives may encourage investments in a country, they do not drive economic growth. GDP growth rate is affected by so many other factors as it was shown from the correlation analysis that no one particular factor significantly affects economic growth rates. Therefore, though it has benefits to the business community, it is necessary for the Government to rationalize these incentives to ensure that the country is not losing out on needed resources while at the same time not reaping any benefits for the resources given up.

It was noted that the amount of tax incentives given each year has been growing steadily in the years under study while the GDP growth rate has not kept pace at the same level. The marginal GDP growth rate is attributed to the various initiatives the government has put in place towards the achievement of the vision 2030 and therefore the government should consider rationalizing the tax incentives in order to increase its revenue to finance its budget proposals aimed at meeting the 2030 objective.

KRA has also put in place measures to ensure that the provisions of the law and the benefits accruing from the various tax provisions are not misused by taxpayers to enable them reduce their tax base and pay less taxes than required. It is therefore important that the organization remains vigilant to ensure that taxpayers only claim what is due to them to ensure that there is no further leakage of government revenue needed to spur development and growth in the economy.

5.3 Policy Recommendations

The study makes a few policy recommendations that may be effected by the key decision makers. There is need for the government to rationalize the tax incentive schemes in the county. It is important to note that this process has now begun by the government scrapping various tax remission and exemption provisions in the VAT Act, 2013 including the TREO program and it is expected that the intended review of the Income Tax Act will also comprehensively address this issue. This will ensure that the tax incentive scheme is both efficient and beneficial to the economy. As mentioned in the introduction of this study, It is important for the government and

policy makers to put in place tax reforms that ensure that its tax system achieve the main three objectives of a good tax system which include raising tax revenue for funding government operations without excessive government borrowing, ensuring equitable distribution of income in a nation and encouraging or discouraging specific activities.

There is need for KRA to improve its systems and procedures to ensure that taxpayers only get the benefit due to them under the stipulated laws and pay taxes due to the government as required ensuring that the law is complied with. Deductions average about 3% of the taxable income declared over the period which is quite high. Given that revenue needs keep increasing annually, all loopholes must be sealed to ensure minimum leakages in the economy.

There is also need for the Government and KRA to put in place proper system to capture accurate data for purposes of monitoring and proper decision making as far as tax incentives or exemptions is concerned. In particular there is no adequate data on the EPZ enterprises. Both KRA and The EPZ authority do not capture adequate or complete financial data on these businesses and therefore it is difficult to review the performance of these businesses. The law should make it mandatory for these entities to file returns even though they are exempted from paying taxes because such data will be useful in decision making and even more important to KRA once the tax holiday period for these entities lapse.

The society in general is ignorant about their tax laws, hence there is need for KRA to sensitize the business community and make it easy for the taxpayers to understand and abide by the tax laws and promote the positive culture of voluntary tax payment among the citizens.

5.4 Limitations of the Study

The study used secondary data sourced from KRA Statistical publication, the World Bank data bank, and from the revenue departments. The study was limited to the degree of precision though the data was sourced from reliable sources. There was lack of uniformity in how the various organizations capture and maintain their data hence the research could not analyze all the variables in details.

There was lack of adequate data on some tax incentive schemes. There were data gaps on TREO and MUB programs run under the KRA customs department where only data was available from 2007 when the Simba system was implemented. The researcher was unable to get any accurate data on EPZ as both KRA and EPZ Authority do not capture these data in their systems for the period under review. Therefore, the researcher was unable to accurately analyze all the tax incentive schemes available.

There are so many other factors that affect GDP growth rate some which are quantifiable and others not. As shown in the analysis, no one factor can be said to significantly affect the growth in GDP. This study only focused on a few variables which had been identified for analysis.

There was time limitation to carry out the study which necessitated the use of secondary data from databases. The data from in-depth industry and company analysis may provide more information that would give better information on tax incentives and their specific impact on the economy.

5.5 Suggestions for Further Studies

After enacting the VAT Act 2013, the government also intends to review other tax laws. The VAT Act 2013 on itself still has areas that are causing debates with the business community pushing for changes on various items that have now been subjected to taxation. A study may be carried out to determine the tax impact on various exemption, zero-rating or remission regimes and analyze their overall impact on the performance of the economy.

There has been an increase in the amounts of tax incentives over the period which is quite high as compared to the revenue targets KRA has to achieve each year. Even with the post election violence in 2007-2008, the amount of tax incentives still increased. A research may be done to establish how effective the KRA has been in implementing the tax laws and monitoring the tax deductions, remissions or tax refunds claimed by the business entities over the years.

An exploration study on possible future trends on tax incentives may be carried out to determine how the government intends to rationalize the tax incentive schemes in the country, what options are available to the government and the possible impact on the future of the performance of the economy.

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APPENDICES

6.1 Appendix 1: Performance of EPZ Key Indicators: 2008-2012

	2008	2009	2010	2011	2012
Total Sales (Kenya shilling Million)**	31,262	26,798	32,348	42,442	44,273
Exports (Kenya shilling Million)	28,094	23,948	28,998	39,067	39,962
Imports (Kenya shilling Millions)	2,536	2,214	2,389	2,553	3,322
Investments(Kenya shilling Millions)	16,348	12,672	16,518	21,443	24,973
Expenditure on local purchases(Kenya shilling Millions)[1]	21,701	21,507	23,563	26,468	38,535
Expenditure on local Salaries (Kenya shilling Millions)[2]	4,476	3,942	4,661	6,276	8,027
Expenditure on power (Kenya shilling Millions)[3]	3,044	3,274	3,583	3,769	4,509
Expenditure on Telecommunication (Kenya shilling Millions)[4]	575	488	522	701	757
Expenditure on Water (Kenya shilling Millions)[5]	88	90	135	61	66
Other Domestic Expenditure (Kenya shilling Millions)[6]	55	58	71	87	117
Total Domestic Expenditure (Kenya shilling Million)= 1+2+3+4+5+6*	3,127	3,180	4,315	4,024	4,619

** Foreign exchange equivalent injected into the economy*

*** Inclusive of exports, domestic sales and sales to EPZ/MUB & duty free agencies*

Source: EPZA Economic performance reports, www.epzakenya.com

6.2 Appendix 2: Income Tax Incentives Years 2002- 2012

Income Year 2002

Station Code	Turnover SUM	Taxable Income SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Farm Works Ded SUM	Refund Paid SUM	Investments Ded SUM
45	221,369,741	14,544,718	0	2,751,479	0	0	0	0
46	6,874,088	3,553,000	0	0	0	0	0	0
99	0	3,199,007	0	0	0	0	0	0
18	198,268,658,889	16,744,134,410	186,216	28,296,835	0	487,746	53,279,934	16,446,700
7	41,538,581,549	12,801,618,064	0	640,625	0	0	3,643,673	0
9	15,745,132,598	8,457,465,854	0	0	0	0	1,986,402	0
11	30,106,740,597	10,920,522,091	8,265,111	93,650,415	0	0	2,013,099	0
6	29,546,441,342	10,428,343,691	0	1,369,153	0	0	6,590,529	0
43	105,468,211	13,282,373	0	335,272	0	0	0	0
12	7,925,654,305	526,554,315	0	0	0	0	64,761	0
13	390,680,181	369,217,904	0	0	0	0	108,009	0
30	12,215,747,069	84,318,643	174,192,958	339,379,052	0	1,346,996	0	11,450,292
16	447,173,117,086	101,909,922,074	9,086,555	125,000,078	0	276,342	52,254,915	12,716,179
19	118,844,611,484	46,200,129,629	5,043,255	53,104,529	0	17,861,684	15,778,641	9,820,721
14	10,996,436,127	1,259,533,112	16,112	6,728,909	0	0	914,739	0
44	7,866,951	42,257	19,531	19,531,136	0	0	0	0
8	32,613,700,888	7,437,507,800	0	0	0	0	5,854,779	0
17	211,010,870,504	19,869,398,646	16,661,595	70,446,035	0	19,678,068	80,265,793	7,379,846
5	112,498,502,050	26,275,508,063	1,177,492	56,843,848	0	0	14,483,504	15,288,890
15	18,259,821,194	1,285,564,979	0	68,776,051	0	21,856	270,798	0
42	60,653,749	2,605,297	0	0	0	4	0	0
	1,287,536,928,603	**264,606,965,927**	**214,648,825**	**866,853,417**	**0**	**39,672,696**	**237,509,576**	**73,102,628**

Income Year 2003

Station Code	Turnover SUM	Taxable Income SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Farm Works Ded SUM	Refund Paid SUM	Investments Ded SUM
42	333,683,202	6,911,639	0	1,447,747	0	0	0	0
50	95,140,216	48,953	0	3,690,859	0	34,432,926	0	0
15	19,490,643,015	1,349,050,796	26,010,446	373,118,676	0	13,007,335	289,909	271,472,141
5	128,591,410,479	26,503,756,835	16,376,335	970,990,789	184,844,097	3,606,086	13,215,458	424,146,819
18	394,266,528,551	18,393,858,931	166,247,150	7,545,813,665	49,246,464	116,892,788	62,225,923	1,968,677,447
12	15,010,708,901	1,143,544,704	24,412,724	144,881,410	0	132,725	118,308	676,897,492
45	386,463,827	18,555,071	0	5,381,214	0	0	0	0
6	36,712,303,710	12,620,811,545	2,718,058	102,581,484	77,038	60,549,845	2,428,216	166,119,955
19	159,768,951,679	53,955,405,417	65,982,739	3,532,716,897	11,516,775	161,419,596	12,083,849	927,329,762
9	22,873,182,274	9,773,708,664	1,746,184	49,111,356	0	852,535	1,563,384	16,719,764
7	43,221,750,558	16,275,400,402	11,098,579	455,703,521	0	0	3,097,831	70,670,018
14	13,594,894,525	1,688,935,695	3,705,473	114,237,082	103,240	82,650,329	887,973	240,244,023
11	33,546,058,930	13,654,604,870	5,192,874	474,926,512	0	8,712,132	1,646,747	34,835,061
8	45,543,221,522	8,894,478,569	11,543,304	434,706,716	5,406,674	133,609,625	9,531,681	254,041,101
44	304,515,638	2,522,633	1,442,576	1,675,224	0	0	0	0
16	356,586,651,871	106,781,091,619	319,783,145	7,866,218,181	68,118,754	562,035,655	79,004,734	1,577,057,283
13	550,734,325	557,918,869	137,875	484,632	0	0	0	0
43	1,580,545,957	166,421,485	351,988	9,940,410	0	0	7,460	0
30	31,436,821,324	1,337,929,397	196,238,223	580,203,806	0	1,155,238	13,724,813	88,435,214

99	0	2,825,625	0	0	0	0	0	0
17	273,694,168,038	31,965,950,828	168,784,822	5,138,310,803	14,700,648	530,979,226	47,507,925	1,482,634,962
46	106,836,342	16,999,870	0	2,243,923	54,358	0	9,300	0
	1,577,695,214,884	**305,110,732,417**	**1,021,772,495**	**27,808,384,907**	**334,068,048**	**1,710,036,041**	**247,343,511**	**8,199,281,042**

Income Year 2004

Station Code	Turnover SUM	Taxable Income SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Farm Works Ded SUM	Refund Paid SUM	Investments Ded SUM
9	26,128,089,070	11,206,082,763	10,995,044	296,521,236	0	99,614,596	3,852,126	73,138,971
44	159,898,486	3,376,222	1,473,392	1,993,712	0	0	289,186	0
47	0	1	0	0	0	0	289,186	0
16	513,598,166,719	111,078,758,459	195,234,695	8,789,817,199	16,605,706	1,086,336,842	75,574,984	489,702,917
18	264,039,168,060	21,297,279,230	139,776,382	5,975,009,777	85,405,904	99,141,822	42,754,099	2,474,666,433
12	40,295,617,028	4,117,516,068	30,924,629	469,107,256	9,407,203	238,119	3,455,139	375,362,819
42	1,359,378,999	17,953,025	0	6,398,583	0	1	351,042	0
99	0	2,016,800	0	0	0	0	0	0
5	120,089,048,565	29,719,058,027	372,619,138	2,014,090,236	686,596,279	7,748,235	6,492,487	956,451,503
15	20,922,315,841	2,884,249,537	24,816,266	341,064,619	0	10,593,078	823,444	341,765,168
45	769,508,998	28,370,067	0	40,958,413	43,023	65,445,074	289,186	0
6	65,156,167,346	16,663,848,996	14,437,187	589,664,496	40,086,065	565,419,862	5,073,545	395,142,611
46	1,180,433,749	43,907,536	0	16,671,214	0	2,095,196	880,476	43,941,829
19	267,738,193,094	58,784,809,647	58,654,814	4,117,225,032	22,550,927	180,412,482	23,660,989	1,901,165,972
14	14,800,204,444	2,247,158,233	4,114,489	158,768,928	18,258,462	142,476,660	1,892,528	1,173,522
7	45,310,011,933	19,293,929,722	13,368,524	610,124,197	8,832,744	3,168,317	5,316,992	108,806,013
17	279,183,564,273	37,576,957,616	251,622,486	6,848,578,060	17,596,576	604,523,291	50,405,372	11,463,608,598
8	60,586,432,723	10,770,933,524	19,173,568	534,019,079	6,947,463	241,640,500	10,483,382	1,011,674,514
30	55,747,675,556	1,656,100,359	198,424,800	981,541,459	0	3,758,429	12,615,834	466,881,820
50	412,490,232	35,151,357	0	55,258,255	0	0	0	0
13	37,300,298,204	821,953,564	137,875	723,464	284,275	0	1,784,867	0
11	34,562,397,626	16,512,246,629	6,875,136	555,039,610	3,479,278	78,697,125	5,180,298	115,773,123
43	942,306,784	42,498,891	12,836	4,698,406	0	0	16,540	0
	1,850,281,367,730	**344,804,156,273**	**1,342,661,261**	**32,407,273,231**	**916,093,905**	**3,191,309,629**	**251,481,702**	**20,219,255,813**

Income Year 2005

Station Code	Turnover SUM	Taxable Income SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Farm Works Ded SUM	Refund Paid SUM	Investments Ded SUM
12	35,941,257,659	3,751,720,432	39,686,099	686,844,857	0	585,088	3,041,279	355,293,415
13	3,491,794,975	989,603,814	137,875	15,102,541	0	86,245,014	137,325	6,343,029
19	131,629,953,183	62,619,100,468	51,792,420	2,195,723,393	779,280	127,749,024	17,731,739	1,263,449,650
8	49,802,859,440	11,202,867,490	11,589,555	480,977,635	12,274,728	300,614,811	3,847,539	345,891,660
43	1,484,402,196	90,245,166	0	40,112,641	0	0	99,458	268,827,266
7	37,603,822,558	21,230,207,897	11,996,918	442,881,743	1,605,038	0	3,629,219	60,979,653
18	220,313,871,241	18,507,111,904	65,906,299	3,386,453,634	21,731,270	318,282,818	30,968,779	2,262,654,084
46	1,445,915,221	153,352,732	2,372,870	28,049,081	0	1,126,913	7,153	28,863,857
16	202,774,995,086	105,916,498,689	126,340,138	3,709,891,135	13,619,171	381,485,234	63,349,653	469,702,579
30	968,436,623,735	66,182,394,683	406,361,095	25,799,297,756	184,357	1,337,634,475	43,424,215	6,179,981,283
11	39,757,456,813	17,265,165,482	442,446	273,433,121	23,831,251	102,509,725	2,464,324	84,733,449
14	14,027,812,004	2,579,585,784	1,826,795	146,167,891	0	87,717,693	658,907	7,280,251
45	5,816,615,950	202,686,879	1,501,084	115,473,047	0	406,718,465	18,615	61,838,150
42	3,669,986,043	116,088,348	0	20,230,903	0	0	62,327	1,846,487
47	747,524	1,750,709	0	0	0	0	0	0

99	0	200,000	0	0	0	0	0	0
44	3,175,665,006	39,251,508	1,334,120	17,892,331	0	0	0	0
15	18,429,040,642	3,898,336,119	15,561,587	192,816,004	0	936,046	328,164	60,475,328
9	24,821,591,399	11,928,557,649	12,605,091	276,202,079	19,600	79,800,661	1,802,455	60,028,048
17	188,034,249,972	24,829,523,933	93,327,593	2,156,671,008	30,520,901	648,935,264	17,275,945	1,106,947,285
6	56,632,142,616	17,174,834,177	9,561,200	591,713,758	43,721,174	522,565,398	2,974,210	278,787,493
5	106,567,887,322	31,678,615,166	3,485,930,739	1,800,276,894	244,322	9,125,830	11,328,144	276,151,487
50	1,310,959,793	16,661,481	0	170,708,140	0	16,633,832	0	0
	2,115,169,650,378	**400,374,360,510**	**4,338,273,924**	**42,546,919,592**	**148,531,092**	**4,428,666,291**	**203,149,450**	**13,180,074,454**

Income Year 2006

Station Code	Turnover SUM	Taxable Income SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Farm Works Ded SUM	Refund Paid SUM	Investments Ded SUM
14	16,590,650,463	3,324,107,409	4,169,199	317,515,655	0	121,712,858	902,379	8,925,931
15	5,969,492,372	2,299,180,467	1,787,471	60,873,652	0	0	531,239	786,902
46	6,516,431,382	1,776,995,784	58,901,568	133,887,232	0	183,162	286,206	91,898,803
7	28,650,732,986	22,629,837,753	3,352,033	554,488,749	338,138	0	6,810,944	1,555,477
47	29,388,083	63,901,538	0	682,135	0	0	0	0
50	5,676,864,369	119,305,604	0	189,561,205	0	14,060,403	0	0
42	11,816,514,581	358,957,482	4,424,611	68,070,765	0	0	41,686	4,375,200
48	159,912,133	1,794,616	0	2,197,894	0	0	0	16,302,878
16	193,772,555,367	106,192,809,053	24,991,646	2,732,944,872	19,154,377	338,690,158	64,725,628	273,923,596
11	34,696,646,026	19,434,432,077	4,045,349	314,182,013	0	98,843,605	4,308,000	0
44	6,249,793,461	157,030,008	4,578,477	56,955,332	0	70,748,256	67,704	19,048,134
43	10,518,583,673	1,591,537,789	3,391,440	107,027,999	4,387,866	0	645,562	26,527,811
19	122,917,172,169	68,689,160,262	36,052,970	2,499,542,522	984,016	130,471,850	29,071,414	1,129,102,164
5	85,200,974,985	28,828,710,258	30,341,493	1,515,917,242	4,340,053	17,724,975	9,826,529	1,214,039,073
6	56,695,979,666	18,975,391,746	45,487,069	667,367,958	5,798,647	616,617,635	6,515,953	583,455,500
12	32,954,627,786	3,262,151,757	36,309,738	673,061,876	272	1,835,041	839,093	378,449,112
45	19,472,764,371	642,394,056	5,458,426	241,540,805	3,621,762	610,285,488	79,439	136,551,430
30	1,462,849,175,203	102,605,384,872	986,456,667	37,878,133,736	37,518,711	1,873,210,338	57,278,980	21,026,208,166
8	49,520,802,509	12,106,150,712	13,367,615	387,259,859	231,307	307,609,079	4,763,645	173,422,006
18	152,590,680,151	19,598,529,016	345,769,885	2,099,022,200	7,240,009	230,041,446	9,887,143	1,334,074,360
17	232,196,760,252	29,363,663,932	119,095,398	2,247,683,728	4,563,079	332,287,917	28,580,384	696,297,521
9	28,181,481,360	12,846,272,293	12,963,075	386,359,220	6,886,878	78,566,801	4,206,119	108,968,309
13	1,429,956,678	1,070,567,529	127,875	4,966,427	0	0	303,830	0
51	0	151,750	0	0	0	0	0	0
	2,564,657,940,026	**455,938,417,763**	**1,741,072,005**	**53,139,243,076**	**95,065,115**	**4,842,889,012**	**229,671,877**	**27,223,912,373**

Income Year 2007

Station Code	Turnover SUM	Taxable Income SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Farm Works Ded SUM	Refund Paid SUM	Investments Ded SUM
16	223,368,481,784	121,464,282,740	45,813,559	3,901,224,225	10,009,633	434,527,592	93,731,801	772,745,572
11	37,009,334,952	21,283,043,840	7,770,362	427,274,326	0	115,488,054	9,044,652	34,720,619
12	49,936,848,710	6,334,410,924	28,431,699	1,291,174,886	448,567	65,713,262	2,540,482	558,500,079
50	7,105,553,936	539,115,003	0	256,776,943	0	37,074,275	0	118,460,365
19	145,775,057,894	78,103,923,283	38,535,000	2,921,104,782	124,921	142,318,559	41,424,472	1,061,534,841
17	195,174,390,311	37,086,338,066	550,317,483	2,536,137,589	14,814,284	326,848,053	40,856,470	694,695,217
15	6,999,866,092	2,582,462,383	0	39,635,238	0	0	1,261,734	9,364,770
45	24,273,994,766	1,133,398,862	17,731,777	362,749,032	4,811,943	531,391,437	891,871	113,643,728
49	0	375,566	0	0	0	0	0	0
6	66,818,805,944	21,601,361,343	8,700,397	708,099,512	686,540	493,178,249	9,708,579	39,310,720

30	1,684,797,576,999	140,014,742,307	1,090,582,259	42,379,417,050	429,114,642	1,648,053,337	53,968,336	9,005,055,376
8	48,313,387,525	13,417,558,186	25,216,180	445,557,481	41,126,690	201,593,804	7,247,738	427,461,545
44	8,530,437,257	289,587,488	4,455,319	77,454,422	0	59,018,822	547,685	8,283,705
48	184,790,823	3,205,410	0	2,273,438	0	0	0	9,180,366
13	1,006,408,131	1,258,458,769	138,075	4,670,560	0	0	1,178,638	0
5	94,319,691,933	28,789,701,496	58,691,185	1,711,095,316	16,718,656	15,106,400	12,447,115	715,289,369
42	7,256,537,381	630,946,836	3,895,092	104,034,892	0	0	513,568	4,651,310
18	255,880,891,930	25,417,568,631	66,199,278	3,091,744,849	7,684,175	245,007,071	21,572,795	1,566,262,528
9	34,342,885,849	14,609,345,922	12,069,199	377,458,847	4	73,364,951	7,475,061	123,020,884
7	32,126,294,126	25,173,518,402	3,245,796	438,026,578	1	0	11,647,966	11,618,646
14	16,645,698,946	3,804,584,377	8,666,294	204,472,379	1,423,448	187,748,446	2,351,784	5,427,765
46	8,889,145,884	2,873,279,261	13,679,487	152,844,065	5,461,844	229,056	1,053,071	56,980,573
43	11,719,577,101	2,349,681,151	3,231,933	130,213,026	7,830,933	0	1,484,373	404,640,086
47	113,847,788	191,361,236	0	1,576,478	0	0	395,257	0
	2,960,589,506,062	**548,952,251,482**	**1,987,370,374**	**61,565,015,914**	**540,256,281**	**4,576,661,368**	**321,343,448**	**15,740,848,064**

Income Year 2008

Station Code	Turnover SUM	Taxable Income SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Farm Works Ded SUM	Refund Paid SUM	Investments Ded SUM
12	67,877,599,741	7,632,119,682	46,312,839	1,671,554,603	453,722	274,590	1,669,617	439,577,664
44	11,130,322,021	516,491,180	4,312,312	77,494,548	403,073	67,609,442	521,964	7,360,000
45	34,445,277,457	1,720,583,976	14,078,207	456,137,279	713,053	926,379,792	6,381,466	1,211,208,128
7	32,761,962,620	27,147,801,133	4,150,787	515,744,937	164,638	0	8,957,305	88,663,815
11	43,042,717,575	23,335,257,086	6,044,001	440,686,413	0	44,091,900	8,747,293	179,012,390
16	236,909,408,791	133,942,836,796	21,680,939	4,165,474,110	40,690,638	452,953,917	76,359,530	781,700,797
43	12,360,234,602	2,805,850,448	4,322,700	239,713,162	232,306	0	1,645,663	61,027,348
15	7,419,976,283	3,143,037,549	6,068,130	58,167,352	0	0	1,381,850	13,497,914
48	225,495,086	3,469,968	0	2,116,954	0	0	36,968	25,205,588
1	0	276,872	0	0	0	0	0	0
50	8,826,226,566	303,066,470	2,574,561	324,307,043	0	348,040,029	0	0
9	34,067,881,456	15,497,512,940	15,455,568	396,089,761	1,366,138	107,280,188	6,189,089	1,258,194,557
19	218,825,071,755	89,079,585,943	78,972,251	3,000,744,784	21,793,114	160,416,309	23,588,022	874,035,111
5	94,703,064,307	32,105,862,713	32,376,513	1,930,966,432	0	125,078	11,008,868	673,262,326
46	5,410,390,990	3,197,326,663	12,324,927	125,610,995	3,734,477	242,366	1,359,990	79,110,541
18	240,022,925,054	30,635,907,791	78,514,656	3,439,835,583	2,630,366	254,899,248	12,607,996	1,672,248,803
47	124,319,765	392,746,813	0	1,221,020	0	0	298,601	0
17	217,463,955,960	40,833,128,419	1,097,470,270	3,014,486,904	40,867,404	277,550,383	37,076,565	456,806,394
30	1,935,271,499,181	155,579,642,841	1,091,523,574	45,029,781,160	2,493,911	1,474,555,715	14,510,675	41,410,961,868
8	61,038,027,270	14,936,493,907	17,482,790	545,308,616	0	502,411,584	5,666,553	541,466,960
42	6,016,975,043	898,314,195	4,641,456	82,576,583	0	0	612,348	767,473
49	0	7,140,285	0	0	0	0	39,677	0
6	62,457,854,517	23,493,224,088	37,613,623	744,642,181	67,314,816	769,668,315	8,019,525	173,530,930
14	21,566,328,058	5,340,526,491	9,962,735	305,222,204	0	454,388,563	2,575,054	30,605,703
13	826,489,948	1,671,148,412	138,075	3,037,350	0	0	1,473,291	0
24	0	110,730	0	0	0	0	0	0
	3,352,794,004,046	**614,219,463,391**	**2,586,020,914**	**66,570,919,974**	**182,857,656**	**5,840,887,419**	**230,727,910**	**49,978,244,310**

Income Year 2009

Station Code	Turnover SUM	Taxable Income SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Farm Works Ded SUM	Refund Paid SUM	Investments Ded SUM
19	147,697,426,682	86,382,040,280	133,389,187	2,590,684,110	1,955,668	50,841,880	57,147,933	1,053,979,460
18	202,999,924,000	30,053,035,688	63,260,230	3,263,167,475	1,978,943	133,934,933	12,998,703	1,517,460,582

12	61,788,656,494	7,906,954,060	24,181,416	1,722,355,172	561,764	5,121,138	2,943,617	1,904,699,550
31	675,675,435	82,163,616	0	8,650,669	0	0	0	0
42	7,448,953,370	1,472,473,965	4,926,898	116,221,156	0	0	1,529,285	0
48	153,447,700	14,043,841	0	4,107,730	0	0	120,541	0
4	0	2,854,222	0	0	0	0	0	0
46	6,556,700,758	3,519,348,176	83,322,532	143,103,943	1,177,926	245,566	3,530,982	23,829,341
49	0	24,404,939	0	0	0	0	17,936	0
7	32,837,070,646	29,120,456,646	3,505,992	659,533,865	0	30,043,025	46,777,632	24,710,000
6	64,092,690,464	25,669,855,279	35,081,647	734,170,638	2,980,993	596,916,607	52,602,110	585,389,454
8	56,176,075,013	15,875,667,165	21,138,430	547,356,480	1,089	349,499,790	19,937,835	711,786,137
15	5,173,998,509	2,834,820,829	6,717,936	68,335,722	0	0	1,754,900	24,504,884
50	52,777,884,009	3,413,315,671	73,653,144	1,789,317,204	6,910	452,761,751	0	205,994,836
1	0	0	0	0	0	0	0	0
9	30,935,038,913	17,761,219,778	12,602,141	435,973,604	5,816,905	43,991,008	26,403,831	236,838,813
11	35,624,180,822	22,660,704,016	9,079,356	345,375,853	22,541,998	30,837,459	35,622,189	27,944,274
44	9,031,357,026	773,165,979	3,367,779	72,213,110	933,329	76,436,262	575,981	21,624,991
47	279,883,190	614,492,419	0	5,550,470	0	826,097	407,879	18,338
30	2,325,585,188,976	166,447,927,819	1,323,005,190	56,708,033,809	4,900,864	1,388,184,705	134,220	39,282,305,871
45	27,829,199,318	2,096,769,999	51,144,019	435,254,580	0	722,973,312	1,923,952	466,842,753
43	13,500,866,436	3,209,896,417	3,615,718	103,494,375	558,500	0	4,036,315	87,075,871
14	30,595,701,770	5,392,365,889	35,876,182	276,349,389	0	353,418,542	4,119,040	78,191,660
13	641,622,818	2,030,898,790	138,075	4,355,056	57,678	0	3,494,930	0
17	197,489,195,715	45,032,240,472	376,706,314	3,124,268,472	14,754,079	196,288,939	45,341,759	813,336,389
16	194,367,893,514	135,555,315,488	61,299,007	3,868,842,326	3,445,812	308,491,697	285,535,534	433,507,674
5	82,193,278,482	30,800,375,641	49,705,329	2,292,284,175	134,525,100	6,941,251	27,200,530	889,780,388
	3,586,451,910,060	**638,746,807,084**	**2,375,716,522**	**79,318,999,383**	**196,197,558**	**4,747,753,962**	**634,157,634**	**48,389,821,266**

Income Year 2010

Station Code	Turnover SUM	Taxable Income SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Farm Works Ded SUM	Refund Paid SUM	Investments Ded SUM
9	35,491,312,668	9,943,478,199	67,484,705	352,386,083	4,280,108	117,398,298	2,111,330	188,331,842
19	135,336,356,499	45,097,499,255	111,936,695	2,363,869,820	1,911,646	8,707,546	19,384,914	563,274,001
11	36,189,768,538	7,867,608,559	66,462,057	280,513,349	0	37,684,334	1,765,329	90,872,582
5	88,392,636,190	22,680,557,463	48,873,558	2,344,066,091	44,616,387	11,832,493	3,186,007	199,859,210
44	10,580,727,402	660,030,601	5,542,624	85,310,776	0	99,717,737	331,697	58,093,006
42	8,901,400,197	644,347,712	44,565,050	113,155,358	0	3	212,985	0
7	37,496,166,630	20,001,434,020	3,383,255	439,639,617	422,946	40,963	6,070,143	130,778,130
15	4,176,704,023	1,389,777,846	5,829,148	46,892,905	0	0	446,396	131,345,355
18	178,839,695,215	18,081,130,677	83,500,736	2,349,684,663	13,339,965	111,269,634	28,193,675	1,231,680,194
49	183,191	8,530,864	0	0	0	0	4,426	0
6	69,893,037,392	19,591,295,236	88,619,253	764,850,982	20,204,080	526,056,366	3,318,553	743,022,538
46	7,264,100,216	2,073,287,828	13,309,046	191,450,949	698,781	166,199	400,131	34,572,947
48	3	9,411,748	0	0	0	0	2,037	0
17	190,915,402,252	30,597,925,016	775,839,260	2,692,661,729	91,916,469	80,346,261	4,998,557	279,415,255
43	16,848,678,767	1,222,898,681	16,154,080	109,177,440	0	0	505,827	134,810,013
45	31,789,899,845	2,673,902,877	46,086,627	421,999,751	0	182,488,712	763,104	488,242,070
14	21,641,738,636	4,807,181,919	16,991,396	259,126,522	0	502,500,475	1,145,308	194,739,119
16	229,656,092,559	83,284,515,445	35,980,953	3,172,852,880	131,916,004	98,121,000	21,774,159	284,953,655
8	59,831,357,418	11,659,570,963	51,759,855	507,652,055	818,407	97,701,628	2,707,338	595,325,557
12	58,377,263,176	6,930,738,330	41,787,047	1,140,481,791	108,202	69,800	874,160	121,308,388
13	868,133,784	1,247,449,586	138,075	17,561,427	0	0	374,042	0
30	2,600,681,958,241	222,372,748,482	1,588,102,657	57,022,953,921	455,280,550	730,040,159	0	53,063,074,200
47	1,603,428,944	592,616,615	0	15,264,924	32,555	2,135,579	143,826	0

50	206,691,660,481	16,602,892,722	319,412,825	7,996,951,349	8,824,632	1,142,775,507	0	12,786,494,445
	4,031,467,702,267	**530,040,830,644**	**3,431,758,902**	**82,688,504,382**	**774,370,732**	**3,749,052,694**	**98,713,944**	**71,320,192,507**

Income Year 2011

Station Code	Turnover SUM	Taxable Income SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Farm Works Ded SUM	Refund Paid SUM	Investments Ded SUM
49	0	693,206	0	0	0	0	0	0
14	23,438,071,830	638,805,216	34,171,226	266,597,192	325,398	51,118,809	294,986	106,919,147
45	31,958,045,547	1,297,124,109	31,851,873	432,961,970	8,622,169	177,583,629	28,989	137,884,425
13	1,522,967,609	55,706,680	0	15,426,905	0	0	22,292	149,594,425
44	9,599,956,077	204,259,931	6,282,409	47,342,496	0	0	81,053	37,114,400
48	2	348,000	0	0	0	0	0	0
19	144,957,870,903	23,969,047,050	464,870,010	1,899,811,248	3,453,537	4,210,120	14,531,928	540,430,911
11	31,743,211,739	2,411,381,509	4,735,316	334,634,531	0	10,316,264	677,969	22,776,396
30	3,144,522,056,847	247,427,922,868	2,996,892,435	59,682,190,524	1,681,495,950	1,394,854,201	0	55,310,849,024
18	185,788,358,468	14,604,341,852	170,664,981	2,735,928,169	9,343,528	113,725,332	695,810	870,375,786
42	9,228,816,125	235,769,403	5,966,490	221,016,614	0	0	0	2,149,682,750
15	2,584,063,084	196,918,189	896,088	16,937,173	0	0	39,905	0
47	1,514,975,170	30,514,617	185,006	14,119,473	0	0	0	0
6	77,521,691,423	4,010,024,900	100,204,786	772,268,007	109,800	436,281,012	1,150,039	680,856,558
16	266,982,988,534	30,522,398,772	143,716,734	3,589,843,236	41,084,174	162,498,773	6,004,857	885,204,355
46	7,089,207,344	671,450,047	3,154,739	91,927,088	0	0	169,046	8,642,425
7	22,643,731,764	2,807,854,359	1,019,127	222,168,109	10,574,562	0	626,668	2,643,064,518
5	73,079,798,687	11,089,648,921	196,380,328	1,291,952,663	25,105,122	29,663,529	899,815	677,355,666
8	66,253,956,810	3,215,147,041	88,744,021	588,093,733	1,416,583	189,827,343	1,623,821	568,565,186
9	54,080,649,733	1,877,491,505	18,716,329	338,790,136	131,069	85,283,564	626,907	177,609,729
17	190,979,439,451	20,675,063,017	229,611,697	2,638,074,571	15,179,461	29,405,133	1,367,454	799,307,208
43	15,045,527,796	213,689,424	8,212,331	134,339,278	0	0	149,319	232,184,887
12	67,407,363,180	4,267,968,727	66,980,924	1,367,019,862	1,403,280	25,408,378	892,632	250,799,335
50	472,942,032,300	29,977,274,845	510,704,740	8,016,919,817	61,632,068	2,082,151,735	3,934,539	5,691,824,589
	4,900,884,780,423	**400,400,844,188**	**5,083,961,590**	**84,718,362,795**	**1,859,876,701**	**4,792,327,822**	**33,818,029**	**71,941,041,720**

Income Year 2012

Station Code	Turnover SUM	Taxable Income SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Farm Works Ded SUM	Refund Paid SUM	Investments Ded SUM
42	7,469,409,233	321,538,799	0	246,379,027	0	0	0	99,574,641
6	66,081,768,015	4,505,635,791	48,034,968	905,376,182	159,995	508,893,644	97,047	1,399,509,282
17	235,675,014,615	20,935,230,944	334,574,401	2,615,770,482	1,280,172	18,937,952	744,508	591,053,959
16	242,598,564,258	34,960,942,350	787,628,575	4,107,222,064	12,691,681	160,148,871	1,268,294	1,177,265,524
11	24,318,854,186	2,745,668,708	240,443,744	294,849,447	2,074,328	39,606,944	50,092	50,033,469
15	2,545,485,622	287,797,685	6,131,576	11,495,336	0	0	9,319	1,920,000
1	0	46,460	0	0	0	0	0	0
18	177,014,915,561	12,837,635,813	216,175,676	2,659,185,881	78,877,082	566,122,442	20,184,318	494,581,709
13	2,136,198,043	191,929,263	148,639	16,632,914	0	0	0	0
7	19,985,872,060	4,480,866,425	187,827,996	297,568,623	0	0	236,048	16,160,148
30	3,381,808,141,766	269,253,318,092	2,856,385,811	80,772,455,748	261,678,419	1,301,963,122	0	60,807,672,574
19	170,825,374,307	24,437,870,241	451,388,700	2,395,180,099	28,436,089	433,940	849,840	758,683,291
8	62,682,046,069	4,549,988,281	49,249,175	601,672,675	2,492,872	160,617,549	104,960	531,255,355
46	6,227,098,833	830,365,832	2,332,077	119,708,310	0	0	137,927	8,525,574
47	1,661,323,992	220,237,115	8,912,179	28,219,865	470,588	703,318	0	0
44	10,669,831,122	235,651,427	5,493,565	85,748,828	0	15,034,952	6,202	17,602,936

49	0	3,584,884	0	0	0	0	0	0
5	75,737,035,788	13,727,080,367	140,262,162	1,165,950,513	3,833,241	8,204,250	124,004	484,121,328
12	57,832,050,159	5,210,949,844	25,343,876	1,071,516,407	285,589	4,575,062	18,851	621,393,366
43	15,074,888,522	441,857,470	18,561,175	109,806,576	0	0	4,854	241,156,107
45	32,878,273,509	1,156,849,260	34,156,940	407,613,187	2,865,325	87,290,376	0	758,141,247
9	35,485,907,921	1,912,049,276	18,781,444	340,931,148	1,813,621	136,438,599	134,522	171,676,355
14	18,745,780,116	1,234,730,246	95,982,160	172,839,768	0	325,157,665	0	102,039,719
50	468,486,367,136	30,947,434,221	1,796,210,446	8,876,221,023	20,677,084	2,738,455,225	7,056,133	6,619,743,726
48	0	326,284	0	0	0	0	0	0
17	0	244,384	0	0	0	0	0	0
16	0	774,156	0	0	0	0	0	0
9	0	1,079,736	0	0	0	0	0	0
6	0	0	0	0	0	0	0	0
50	2,397,520,642	493,702,634	0	2,752,330	0	0	0	0
18	167,964,018	6,381,452	0	1,134,550	0	0	0	2,300,000
5	0	14,005,146	0	0	0	0	0	0
	5,118,505,685,493	**435,945,772,586**	**7,324,025,285**	**107,306,230,983**	**417,636,086**	**6,072,583,911**	**31,026,919**	**74,954,410,310**
	38,246,919,470,395	**5,339,541,446,453**	**36,531,243,687**	**723,655,070,449**	**7,324,829,875**	**48,784,168,667**	**2,552,762,029**	**473,161,226,207**

Source: KRA Database

6.3 Appendix 3: Data on Goods Imported Under TREO and MUB

Year	Exemption code	CPC_C	CIF Value	Computed Tax	Tax Remitted
2007	D0030	C403	146,694		
2007	D0030	C422	908,327,016	328,187,704	303,499,646
2007	D0030	C490	3,824,415	1,567,260	1,567,260
2007	D0030	C491	23,211,657,719	7,240,415,626	6,928,876,543
2007	D0030	C492	649,063,474	230,922,242	219,905,845
2007	D0040	C422	773,003,933	214,343,702	89,723,882
2007	D0040	C491	16,071,830	26,268,234	14,464,614
2007	D0040	C492	2,710,892,416	3,403,387,788	1,851,090,719
					9,409,128,509
2008	D0030	C422	1,218,388,644	405,085,679	405,085,679
2008	D0030	C490	1,395,987	521,320	521,320
2008	D0030	C491	30,843,280,642	8,563,062,072	8,554,276,105
2008	D0030	C492	6,791,673,727	2,372,253,598	2,371,734,377
2008	D0030	C493	53,681,525	12,846,283	12,825,683
2008	D0040	C422	207,936,078	67,078,091	46,426,710
2008	D0040	C492	4,353,929,510	3,315,958,845	2,400,794,903
					13,791,664,777
2009	D0030	C421	12,333,785	3,206,784	3,206,784
2009	D0030	C422	1,431,556,737	406,833,754	406,833,754
2009	D0030	C490	669,739	107,158	107,158
2009	D0030	C491	20,973,616,668	5,603,034,402	5,596,852,793
2009	D0030	C492	5,449,875,387	1,903,801,706	1,902,416,174
2009	D0030	C493	109,154,902	15,136,168	15,136,168
2009	D0040	C422	84,151,568	33,659,278	30,714,876
2009	D0040	C491	7,770,375	9,137,949	6,993,329
2009	D0040	C492	5,288,832,903	4,687,199,977	3,459,720,526
					11,421,981,562
2010	D0030	C421	27,133,216	7,054,637	7,054,637
2010	D0030	C422	1,036,386,711	350,005,703	350,005,703
2010	D0030	C491	29,714,445,974	8,052,851,703	8,030,468,270
2010	D0030	C492	49,373,529	16,360,349	13,330,806
2010	D0030	C493	11,249,335	1,799,894	1,799,894
2010	D0040	C421	27,236,835	7,081,578	2,723,684

2010	D0040	C422	208,309,365	74,843,023	65,754,934
2010	D0040	C490	6,451,704	2,005,174	1,860,011
2010	D0040	C491	236,611,416	113,266,989	89,508,613
2010	D0040	C492	17,256,696,937	9,471,235,731	6,620,313,199
					15,182,819,751
2011	D0030	C422	1,361,874,931	471,074,546	471,074,546
2011	D0030	C491	46,442,957,452	12,706,902,933	12,693,817,933
2011	D0030	C492	10,713,411	4,618,551	4,392,498
2011	D0040	C421	47,725,200	12,408,552	4,772,520
2011	D0040	C422	438,149,985	138,053,703	108,661,679
2011	D0040	C490	2,118,881		
2011	D0040	C491	153,116,060	88,936,159	69,281,460
2011	D0040	C492	43,535,759,950	19,580,833,825	15,420,815,737
					28,772,816,373
2012	D0030	C422	1,314,904,447	434,747,812	434,557,612
2012	D0030	C490	1,764,342	723,417	723,417
2012	D0030	C491	34,578,824,292	9,445,284,177	9,436,272,564
2012	D0030	C492	41,482,758	23,669,374	21,698,672
2012	D0040	C421	123,670,791	32,154,404	12,367,078
2012	D0040	C422	693,135,650	220,367,350	161,640,512
2012	D0040	C425	5,713,985	2,342,734	2,342,734
2012	D0040	C491	143,389,125	70,383,538	55,778,883
2012	D0040	C492	41,881,202,841	20,348,728,947	15,624,155,075
					25,749,536,547
2013	D0030	C421	16,392,078	6,720,752	4,098,020
2013	D0030	C422	876,731,740	301,233,081	276,220,013
2013	D0030	C491	24,935,003,623	7,087,067,569	6,862,900,257
2013	D0030	C492	46,082,781	28,167,797	27,674,305
2013	D0040	C422	1,035,812,581	412,952,131	182,623,225
2013	D0040	C490	6,448,301	2,065,716	967,008
2013	D0040	C491	63,364,477	24,162,377	19,737,784
2013	D0040	C492	46,103,173,403	22,130,651,245	14,836,957,627
					22,211,178,239

Source: KRA Database

6.4 Appendix 4: Data on Real GDP Growth Rates, Adult Literacy Levels, Population Structure and Investments to GDP Levels

YEAR	ADULT LITERACY RATES	POPULATION STRUCTURE	REAL GDP GROWTH RATE	INVESTMENT TO GDP
2003		54.08	1.5	**16.48**
2004		54.33	2.2	**16.96**
2005		54.51	5.8	**17.65**
2006		54.63	5.7	**18.49**
2007	81.84	54.69	7	**19.12**
2008		54.73	1.7	**19.24**
2009		54.77	2.6	**19.92**
2010	87.38	54.82	5	**19.76**
2011		54.89	5	**20.52**
2012		54.99	5.3	**20.09**

** Adult literacy rates figures interpolated and extrapolated for the missing years*

Source: World Bank Database

6.5 Appendix 5: SPSS Output

DESCRIPTIVES VARIABLES=TaxIncentives Stageofdevelopment Levelofinvestments Populationstructure EducationLevel RealGDP

/STATISTICS=MEAN STDDEV MIN MAX.

Descriptives

Notes

Output Created		30-Jun-2014 11:54:54
Comments		
Input	Data	C:\Users\user\Documents\Hilda project.sav
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	11
Missing Value Handling	Definition of Missing	User defined missing values are treated as missing.
	Cases Used	All non-missing data are used.
Syntax		DESCRIPTIVES VARIABLES=TaxIncentives Stageofdevelopment Levelofinvestments Populationstructure EducationLevel RealGDP /STATISTICS=MEAN STDDEV MIN MAX.
Resources	Processor Time	00:00:00.000
	Elapsed Time	00:00:00.004

[DataSet1] C:\Users\user\Documents\Hilda project.sav

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tax incentives per annum	10	39.00	222.00	122.4000	63.17559
global competitiveness ranking	10	3.19	3.84	3.5760	.22945
Total investments to GDP as a percentage	10	16.48	20.52	18.8230	1.38547
percentage of productive population to total population	10	54.08	54.99	54.6440	.27314
literacy levels	10	85.00	88.70	86.5780	1.19553
Real GDP growth rates	10	1.50	7.00	4.1800	1.97866
Valid N (listwise)	10				

```
CORRELATIONS
  /VARIABLES=RealGDP TaxIncentives Stageofdevelopment Levelofinvestments Populationstructure EducationLevel
  /PRINT=TWOTAIL NOSIG
  /MISSING=PAIRWISE.
```

Correlations

Notes

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Comments		
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	Active Dataset	DataSet1
	Filter	<none>

	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	11
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics for each pair of variables are based on all the cases with valid data for that pair.
Syntax		CORRELATIONS /VARIABLES=RealGDP TaxIncentives Stageofdevelopment Levelofinvestments Populationstructure EducationLevel /PRINT=TWOTAIL NOSIG /MISSING=PAIRWISE.
Resources	Processor Time	00:00:00.031
	Elapsed Time	00:00:00.021

[DataSet1] C:\Users\user\Documents\Hilda project.sav

Correlations

		Real GDP growth rates	Tax incentives per annum	global competitiveness ranking	Total investments to GDP as a percentage	percentage of productive population to total population	literacy levels
Real GDP growth rates	Pearson Correlation	1	.231	.084	.373	.482	.364
	Sig. (2-tailed)		.521	.817	.288	.158	.302
	N	10	10	10	10	10	10
Tax incentives per annum	Pearson Correlation	.231	1	.818**	.920**	.909**	.974**
	Sig. (2-tailed)	.521		.004	.000	.000	.000
	N	10	10	10	10	10	10
global competitiveness ranking	Pearson Correlation	.084	.818**	1	.865**	.828**	.710*
	Sig. (2-tailed)	.817	.004		.001	.003	.021
	N	10	10	10	10	10	10
Total investments to GDP as a percentage	Pearson Correlation	.373	.920**	.865**	1	.962**	.892**
	Sig. (2-tailed)	.288	.000	.001		.000	.001
	N	10	10	10	10	10	10
percentage of productive population to total	Pearson Correlation	.482	.909**	.828**	.962**	1	.901**
	Sig. (2-tailed)	.158	.000	.003	.000		.000

population	N	10	10	10	10	10	10
literacy levels	Pearson Correlation	.364	.974**	.710*	.892**	.901**	1
	Sig. (2-tailed)	.302	.000	.021	.001	.000	
	N	10	10	10	10	10	10

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

*. Correlation is significant at the 0.05 level (2-tailed).

```
REGRESSION
 /MISSING LISTWISE
 /STATISTICS COEFF OUTS R ANOVA
 /CRITERIA=PIN(.05) POUT(.10)
 /NOORIGIN
 /DEPENDENT RealGDP
 /METHOD=ENTER TaxIncentives Stageofdevelopment Levelofinvestments Populationstructure EducationLevel.
```

Regression

Notes

Output Created		30-Jun-2014 11:59:41
Comments		
Input	Data	C:\Users\user\Documents\Hilda project.sav

	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	11
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on cases with no missing values for any variable used.
Syntax		REGRESSION /MISSING LISTWISE /STATISTICS COEFF OUTS R ANOVA /CRITERIA=PIN(.05) POUT(.10) /NOORIGIN /DEPENDENT RealGDP /METHOD=ENTER TaxIncentives Stageofdevelopment Levelofinvestments Populationstructure EducationLevel.
Resources	Processor Time	00:00:00.094
	Elapsed Time	00:00:00.032
	Memory Required	2660 bytes
	Additional Memory Required for Residual Plots	0 bytes

[DataSet1] C:\Users\user\Documents\Hilda project.sav

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	literacy levels , global competitiveness ranking , percentage of productive population to total population, Total investments to GDP as a percentage, Tax incentives per annum[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Real GDP growth rates

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.865[a]	.748	.433	1.48953

a. Predictors: (Constant), literacy levels , global competitiveness ranking , percentage of productive population to total population, Total investments to GDP as a percentage, Tax incentives per annum

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	26.361	5	5.272	2.376	.211[a]
	Residual	8.875	4	2.219		
	Total	35.236	9			

a. Predictors: (Constant), literacy levels , global competitiveness ranking , percentage of productive population to total population, Total investments to GDP as a percentage, Tax incentives per annum

b. Dependent Variable: Real GDP growth rates

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-828.662	367.084		-2.257	.087
	Tax incentives per annum	-.088	.060	-2.822	-1.476	.214
	global competitiveness ranking	-1.939	6.600	-.225	-.294	.784
	Total investments to GDP as a percentage	.111	1.551	.078	.071	.947
	percentage of productive population to total population	10.582	7.487	1.461	1.413	.230
	literacy levels	3.122	2.932	1.886	1.065	.347

a. Dependent Variable: Real GDP growth rates

6.6 Appendix 6: Letters of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MSC FINANCE PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE..11/10/2013

TO WHOM IT MAY CONCERN

The bearer of this letter ...HILDA....MINAYO....ALEGANA..............

Registration No........D63/75595/2012........................

is a bona fide continuing student in the Master of Science (Finance) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
11 OCT 2013
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
FOR: MSC FINANCE CO-ORDINATOR
SCHOOL OF BUSINESS

KENYA REVENUE AUTHORITY

ISO 9001:2008 CERTIFIED

KENYA REVENUE AUTHORITY
RECEIVED
DEPUTY COMMISSIONER
01 NOV 2013
Large Taxpayers Office-Audit
P.O. Box 30742 Nairobi
DOMESTIC TAXES DEPARTMENT

KENYA REVENUE AUTHORITY
RECEIVED
31 OCT 2013
COMMISSIONER
LARGE TAXPAYERS OFFICE

Ref: 8245

28th October, 2013

Hilda Minayo Alegana
Revenue Officer I
DOMESTIC TAXES DEPARTMENT- LTO

Forwarded
01/11/2013

Thro' Commissioner- LTO — Forwarded
31/10/2013

Dear Madam,

RE: REQUEST TO UNDERTAKE RESEARCH

Reference is made to your letter dated 25th October, 2013 on the above subject.

We are pleased to inform you that approval has been granted for you to undertake research on, ***The Effects of Tax Incentives on Economic Growth in Kenya.***

The research you intend to undertake should be for academic purposes only and any data or information given should be treated with utmost confidentiality.

Please submit a copy of your research report for retention in the Library.

Yours faithfully,

Magdalene Gathogo
For: Senior Deputy Commissioner- Human Resources

Tulipe Ushuru, Tujitegemee!

SGS UKAS
ISO 9001:2008 CERTIFIED