THE EFFECT OF TAX INCENTIVES ON FINANCIAL PERFORMANCE OF FIVE-STAR HOTELS IN NAIROBI COUNTY

By

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DECLARATION

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DEDICATION

I dedicate this research project to my family for their love and support during this study.

ABSTRACT

The purpose of this study was to establish the effect of tax incentives on financial performance of Five-Star hotels in Nairobi County. The study adopted the use of quantitative descriptive design. For the purpose of the research, the population constituted all the seven Five-Star hotels in Nairobi County. A census was conducted for all the seven Five-Star hotels using a questionnaire. The response rate attained was 100%. The data collected was provided by Management Accountants of the Five -Star Hotels. Data collected was analyzed using multiple regression model to establish the association between tax incentives and financial performance of the Five-Star Hotels in Nairobi County. The study revealed that there is 89.5% variation in financial performance of Five-Star Hotels due to changes in ID, IBD & W&T. The regression output found a statistically significant strong positive relationship between W&T and financial performance of Five-Star Hotels in Nairobi County. It also established a negative association between ID, IBD and financial performance of Five-Star Hotels in Nairobi County. The study therefore, recommends that the government should encourage tax incentives in the form of W&T which is beneficial to the financial performance of the Five-Star Hotel in Nairobi County. It also recommends that the government should review the policies that guide the provision of ID & IBD.

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ABBREVIATIONS AND ACRONYMS

FDI Foreign Direct Investment

IBD Industrial Building Deductions

IBRD International Bank for Reconstruction and Development

ID Investment Deductions

ITA Income Tax Act

NSE Nairobi Securities Exchange

ROA Return on Assets

ROE Return on Equity,

ROI Return on Investment

ROS Return on Sale

W&T Wear and Tear

CHAPTER ONE: INRODUCTION

1.1 Background of the Study

Governments in East Africa are providing a wide range of tax incentives to businesses to attract greater levels of FDI into the country. Studies show that such tax incentives are leading to very large revenue losses for governments, promoting harmful tax competition in the region, and are not needed to attract FDI. In total, Kenya, Uganda, Tanzania and Rwanda are losing up to US$2.8 billion a year from tax incentives and exemptions. Not all of these mechanisms are bad. Some, such as VAT reductions, can help reduce poverty. But much of the revenue loss is explained by tax incentives provided unnecessarily to attract foreign investment. These revenue losses are depriving countries of critical resources needed for reducing poverty. (Action aid 2012).

Governments in both developed and developing countries collect taxes to fund public services. Marina and Danijela (2002) argued that taxation is the only known practical manner for collecting resources in order to finance public expenditure for goods and services consumed by any citizenry. However, this is not strictly true as in the case of developing countries that get revenue from other sources besides taxation which including non-tax revenue such as user-fees and licenses charged for services rendered by ministries, department and agencies, as well as income from sale of government assets and privatization. Moreover, many developing countries are dependent on foreign aid as an external source of revenue (Barnett and Grown, 2004).

According to Barnett and Grown (2004), tax policy is at the heart of the political debate on the level of public services that should be provided and who should pay for them because taxes are the principal source of recurring revenue under government control. Besides, taxes are used to assist in the redistribution of wealth and incomes

and to regulate economic activities. To this end, tax policy decisions have different impacts on different individuals, businesses and the economy at large. Governments need to develop tax policies and tax systems that are guided by certain tenets. Since taxation affects incomes and prices of goods and services, individuals and businesses react differently in response to changes in income, and in relative prices, emanating from taxation. Therefore, analysis of the effects of tax policy is critical for government decision makers and the public to make informed policy decisions (Action Aid 2013).

1.1.1 Tax Incentive

According to Fletcher (2003) tax incentives are those special exclusions, exemptions, or deductions that provide special credits, preferential tax rates or deferral of tax liability. Tax incentives can take the form of tax holidays, investment allowances and tax credits, accelerated depreciation, special zones, investment subsidies, tax exemptions, reduction in tax rates and indirect tax incentives. The international bureau of fiscal decentralization defines tax incentives as fiscal measures that are used to attract local or foreign investment capital to certain economic activities or particular areas in a country. Tax incentives are much easier to provide than to correct deficiencies in the system, for example, in infrastructure or skilled labor they do not require an actual expenditure of funds or cash subsidies to investors. They are therefore, politically easier to provide than funds. Both Okauru 2009 and Aguolu (1999) described tax incentive as an exemption or relief granted to an individual or a company to reduce the effect of taxation and thus encourage savings and investment. At another level, it can be difficult to distinguish between provisions that are deemed to be part of the general tax structure and those that provide special treatment. This

distinction will become more important as countries may be limited in their ability to adopt targeted tax incentives.

The associated costs of tax incentives can be classified in following main categories: forgone revenues, these are the losses in tax revenue from tax incentives which mainly come from three sources; the forgone revenue that otherwise would have been collected from the activities undertaken; the forgone revenue from projects that would have been undertaken if the investor did not receive any tax incentives; and lost revenue from investors and activities that improperly claim incentives or shift income from related taxable firms to those firms qualifying for favorable tax treatments. Resource allocation (neutrality) costs which originate when tax incentives create distortions on investment choices among sectors or activities instead of correcting market failures. Enforcement and compliance costs: these costs increase with the complexity of the tax system and the system of fiscal incentives in terms of qualifying and reporting requirements (Bolnick, 2004).

1.1.2 Financial Performance

Liargovas and Skandalis (2008) indicate financial performance as the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms. A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.

Lumpkin and Dess (1999) argued that there are many different ways to measure financial performance, but all measures should be taken in aggregation. Some of the indicators of financial performance are return on equity, liquidity ratios, asset

management ratios, profitability ratios, leverage ratios and market value ratios. The popular ratios that measure organizational performance can be summarized as profitability and growth: return on asset (ROA), return on investment (ROI), return on equity(ROE) , return on sale (ROS), revenue growth, market shares, stock price, sales growth, liquidity and operational efficiency (Mainelli and Giffords, 2010).

1.1.3 The Relationship between Tax Incentive and Financial Performance

Tax incentives provides limitless advantages to hotels. The major tax incentives granted to hotels are in the form of capital allowances which include: ID, IBD and Wear and Tear. In Kenya, the capital allowances qualified for in the year are deducted from the overall corporate tax liability. The tax incentives therefore open doors for hotels to report higher profits after tax. The tax incentives thus aids the recovery of capital expenditures incurred by hotels especially during the current period of poor performance by tourism sector under which hotels fall.

Tax incentives are meant to encourage and stimulate the economic activities of enterprises and investments. They are fiscal policies designed by the government to revive, rehabilitate and stabilize individuals and corporate bodies. The tax incentives are also used by the government to channel some specific economic activities towards the vital sectors of the economy where they are not felt or non-existed (Kaplan, 2001).

Philips (2010) observed that tax incentives will not only generate employment but will motivate the self-employed to incorporate into limited liability companies. This will lead to improved profitability of the firm. Okelle (1995) noted that an economy can be healthy through generous tax incentives to corporate tax payers, to projects, the profitability of which may not likely materialize until about three to five years.

Tax incentives are widely used by governments around the world to attract private investment in preferred industries, including tourism. Incentives are often granted to offset actual or perceived differences in the cost of doing business in different political jurisdictions whether the cost differences arise from tax differences or from differences in transportation, labor, or other costs. This acts as a catalyst for improved performance (Philips, 2010).

Incentives raise the return to capital thereby making investment in a location more attractive and in turn increase profitability of the firm. There are various types of fiscal incentives. These include government provision of below market interest loans, tax relief through the use of credits, deductions, or abatements, direct grants of land and facilities, and taxpayer financed work force training for targeted firms and industries (Bronos and Mc Donald, 2008).

1.1.4 Five Star Hotels in Nairobi County

The general growth in the Kenyan economy and steady increase in tourism earnings (US$286,000 in 2002 to US$855 million in 2007) led to expansion and new investments in hotels in Kenya. Hospitality organizations are turning to performance measurement and management in order to qualify for the International Organization for Standardization standard certifications, and company of the year awards. General business pressures, the achievement of the coveted five-star rating and membership to international hotel associations have triggered the need for improved performance in the hotel industry (Odhuno, Kambona and Othuon, 2010).

There are seven five star Hotels in Nairobi County. The classification base is star-rating. The ministry of hotel and tourism of Kenya is mandated to give this classification-rate which was last carried out in 2004 and the latest classification is

currently on-going. Five-star hotels are the most luxurious in the Kenyan market since they observe international standards. These five-star hotels include: Intercontinental hotel, Laico hotel (formerly known as grand regency hotel), Nairobi Hilton hotel, the Norfolk hotel, the Stanley hotel, Nairobi Serena hotel and safari park hotel (Ministry of Tourism, 2014).

In a bid to achieve this fundamental goal, Kenya government legislations provide tax incentives to enhance growth of the Hotel industry and development as well as empowering individuals and corporate taxpayers economically (Wadongo et al., 2010). The hotel industry enjoys a tax incentive capital deduction given to investors on capital expenditure incurred on Industrial buildings and machinery used for the production of income. In the case of machinery, capital deductions are given in respect to wear and tear and in respect to capital expenditure in the case of Industrial and Hotel buildings. This is intended to encourage investment in the hotel industry. It is granted on straight-line basis on balance of cost of construction at the rate of 10% for hotels.

1.2 Research Problem

A tax incentive is a way of minimizing taxes for business and individuals in exchange for specific desirable action or investments on their parts. Tax incentives are meant to encourage those business and individuals to engage in behavior that is socially responsible and or benefits the community (Boadway and Shah, 1995). This enhances the firmøs performance and hence economic growth. Firms that qualify enjoy tax incentives are able to save and investment their money leading to increased profitability (IBRD, 1998)

The objective of granting tax relief and incentives to the hospitality industry in Kenya is to enhance their growth and development, thus contributing to the overall economic development of the country. However, the objective cannot be achieved in a situation where the would-be beneficiaries are not even aware of the existence of such incentives (Wafula, 2010). Moreover, the few who are aware of these incentives do not even bother to apply for them due to the poor and inefficient tax administration. Therefore, there is the need to proffer solutions to our institutions to benefit from tax savings for improved performance.

Studies have been done globally and locally: Otumba (1995) did a study in the relationship between tax incentives and financial performance of SMEøs in Ghana, Accra. The study found that tax incentives measures were used to stimulate SMEøs performance. Chukwumerije and Akinyomi (2011) examined the impact of the tax incentives on the overall performance of registered small scale industries in Rivers State, Nigeria. It was discovered that tax incentives do significantly affect the profitability, staff strength and the growth and development of small scale industries positively. Barbour (2005) assessed South Africaøs investment incentive regime on performance with a focus on the manufacturing sector. The results observed that there was a significant relationship between tax incentives and performance.

Musyoka (2012) studied the relationship between tax incentives and foreign direct investment in Kenya. The study found that there was no significance improvement in foreign direct investment as a result of implementing tax incentives in Kenya. Kimeu (2013) investigated the effect of tax reforms on financial performance of real estate firms in Kenya. The findings of this study depicted that a positive relationship with financial performance of the real estate firms in Kenya. Githaiga (2013) surveyed that the impact of tax incentives on FDI inflows of firms listed at the NSE. The results of

the study revealed a strong relationship between wear and tear allowances and FDI inflows.

None of the studies known to the researcher have investigated the effect of tax incentive on the financial performance of five star Hotels in Nairobi County. This study therefore attempts to an answer to the following research question: What is the effect of tax incentive on the financial performance of five star Hotels in Kenya?

1.3 Research Objective

To determine the effect of tax incentives on the financial performance of five-star Hotels in Nairobi County.

1.4 Value of the Study

The study will be useful to the administrators of tax incentive and policy makers. The findings of this study might be used to guide the policy makers in setting of polices. This will provide insight for recommendations to the government on the possible areas that require improvement, to make the program more applicable and more attractive to the users.

The study findings will also enlighten other market players in the hospitality industry and firms in other sectors. They will learn the benefits of tax incentives and ways in which a firm can derive maximum benefits to achieve profitability. Firms in the hospitality industry without information about tax incentive might be interested to know more about it and how it contributes to performance of the firm.

The study will contribute to the existing literature on the functions of tax incentives, its benefits and how it contributes to improved financial performance of the firm. The study will also enrich the theories related to tax incentives and the empirical studies.

Researchers interested in this area might use the findings and the recommendations of this study as a base for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covers the review of literature. In academic research, literature review is an imperative discussion that facilitates uncovering of past work and knowledge in research study. The chapter covers theoretical framework, reviews of literature on tax incentive, determinants of financial leverage, empirical review and the summary of the literature review.

2.2 Theoretical Framework

This part will cover the theories that support the relationship between the tax incentives and financial performance. These theories are; Neo classical theory, agency theory of tax incentives and normative theory.

2.2.1 Neo-classical Theory

Neo-classical economic theory argues that providing tax incentives to one group of investors rather than another violates one of the principal tenets of a good tax system, that of horizontal equity. This inequality distorts the price signals faced by potential investors and leads to an inefficient allocation of capital (Boadway and Shah, 1995). The justification most often given for special incentives is that there are market failures surrounding the decision to invest in certain sectors and locations, which justify government intervention. Market failures result in either too much or too little investment in certain sectors or locations .The key market failures most often cited; Positive externalities not internalized in the projectøs rate of return are higher in certain sectors than in others. An example is research and development where investment yields a higher social than private rate of return because not all the technological knowledge can be effectively patented and as such there exists an ex-

ante justification for subsidizing research and development investment (Kaplan, 2001).

Barbour (2005) points out that there are other purported benefits of tax incentives, such as symbolic signaling effects and the need to compensate for inadequacies in the investment regime elsewhere. Provision of investment incentives is in the form of either tax relief or cash grants. International experience shows that such incentives play only a minor role in investment decisions. Firms make investment decisions based on many factors including projections of future demand, certainty about future government policy, prevailing interest rates and moves by competitors. In general, they see incentives as ÷nice to haveø but not deal breaking. Yet incentives remain a popular policy for both developed and developing countries.

2.2.2 Agency Theory of Tax Incentive

Despite the lack of evidence to support the efficacy or efficiency of fiscal incentives, governments continue to offer them. Wells et al. (2001) argue that tax incentives offer an easy way to compensate for other government-created obstacles in the business environment. In other words, fiscal incentives respond to government failure as much as market failure. It is far harder, and takes far longer, to tackle the investment impediments themselves low skills base, regulatory and compliance cost than to put in place a grant or tax regime to help counterbalance these impediments. Although it is a second-best solution to provide a subsidy to counteract an existing distortion, this is what often happens in practice.

Agency problems also exist between government agencies responsible for attracting investment and those responsible for the more generic business environment. Whilst investment-promotion agencies can play an important role in coordinating

government activities to attract investment, they also often argue for incentives without taking account of the costs borne by the economy as a whole. (Zee et al., 2002).

According to Allen and Morisset (2001) governments may legitimately feel that strict horizontal equity with government taxation and expenditure does not adequately address policy objectives and inherent market failures in certain sectors. The policy objectives might include; increasing investment to a specific region, which does not receive as much investment as it should, given the economic fundamentals because of information asymmetries.

2.2.3 Normative Theory

Chua (1995) posit that according to this theory every incentive has advantages and disadvantages, and it is therefore extremely difficult to determine one set of incentives which work for very different economies with different challenges and circumstances. Much of determining what works depends on the circumstance of the economy, the competence of the tax administration, the type of investment being courted and the budgetary constraints of the government stimulates investment in the desired sector or location, with minimal revenue leakage, and provides minimal opportunities for tax planning.

Boadway and Shah (1995) argue that any benefit such as an incentive allocated by public servants or politicians is potentially open to abuse and corruption. There is therefore a strong argument that incentives should be automatically available to all investors who meet a set of open and transparent criteria. However, an alternative argument is that firms should receive just enough incentive to induce them to invest, and no more. Each potential investment therefore needs to receive an incentive

specific to its particular situation. Clearly, which of these two alternatives the government chooses depends on the strength of governance within the appropriate institutions. If public servants and politicians retain decision-making power over the allocation of incentives, then the processes and outcomes need to be as transparent as possible.

Moderate tax incentives that are targeted to new investment in machinery, equipment and research and development, provide up-front incentives, that are more likely to be cost effective in stimulating desired investment. These can have powerful signaling effects without significant loss of revenue (Chukwumerije and Akinyomi, 2011). Investment tax credits and allowances provide specific and targeted policy tools to achieve this. Reducing corporate tax to a level comparable with other countries in the region is a sound tax incentive. However, reductions beyond the level found in capital exporting countries say, below 20-30% often bring about greater revenue losses than increases in investment (Fletcher, 2003).

2.3 Types of Tax Incentives in Kenya

The main objectives of an ideal tax system include: to raise revenue for government operations; equitable distribution of income and to encourage or discourage certain activities. There has been arguments whether and to what extent the government should use tax system for policy goals other than raising tax revenue. (IEA, 2012). Kenya provides an array of tax incentives through Tax Act Cap 470, The EPZs Act Cap 517 and The VAT Act Cap 475. The Kenya Revenue Authority (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. This impacts the person in a positive manner, for that person or activity or any measure that provides for a more

favorable tax treatment of certain activities or sectors compared to what is available to the general industry.

2.3.1 Tax Holidays –Special Economic Zones

The SEZ bill (2015) provides for the establishment of Special Economic Zones; the promotion and facilitation of global and local investors; the development and management of enabling environment for such investments and for connected purposes. Goods taken from custom territory into SEZ shall be deemed to have been exported while goods from SEZs to customs territory shall be deemed to have been imported. EPZs was established in Kenya in 1990 following the enactment of the EPZ Act CAP 517 of the laws of Kenya. The Act provides for promotion of export oriented industrial investment in manufacturing/processing, commercial activities or export services within the designated zones. The fiscal incentives granted include: 10-year corporate tax holiday; 10-year withholding tax holiday on dividends; duty and Vat exemption on raw materials, and other inputs; stamp duty exemption; 100% Investment Deduction on capital expenditure within 20 years while the procedural incentives include: Rapid project approval and licensing (under 30 years); operation under essential one license issued by EPZA; no minimum investment level and unrestricted investment by foreigners; access to offshore borrowing; operation of foreign currency accounts-no exchange controls and Autonomous control of investment proceeds.

2.3.2 Tax Credits and Double Taxation Treaties

ITA 2010 permits 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 and that foreign country have a double taxation treaty. Irish (1978) observes that most double taxation treaties are structured to favour the developed countries.

OECD has developed a model tax treaty to help standardize international taxation agreements and to facilitate the implementation of new tax treaties between nations. It is important to note that a double taxation treaty will take precedence over the domestic legislation where the two conflict. This means that while a tax treaty may grant Kenya taxing rights, a particular transaction will still not be taxable in Kenya unless the domestic legislation actually imposes tax on the transaction.

2.3.3 Reduced Corporate Taxes

The corporate tax rate for resident companies is 30% while non-resident companies are taxed at 37.5%. EPZs are taxed at 25% for the 10 years succeeding the tax holiday. ITA (2010) provides that private companies listing on the Capital Markets Authority should 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 the five years and 20% for five years respectively (ITA, 2010). The 2015/16 Budget statement has proposed an amendment to the corporate tax rate for the listing of Small Medium Enterprises on the Nairobi Stock Exchange by providing a favourable tax rate of 25%.There have been arguments that this incentive is biased against other companies trading in the same and does not create a level playing ground.

2.3.4 Exemptions, Zero-Rating and Remissions

Tax exemption refers to monetary exemption which reduces taxable income. The tax exempt status can provide complete relief from taxes, reduced rates, or tax on only a portion of items. Zero rating on the other hand refers to a case where the tax rate applicable for the good or service is Zero. The Vat Act has exempted or Zero rated certain goods while the ITA has exempted certain classes of income of specific bodies from corporation tax. The exemptions include: import duties on machinery, raw materials, and inputs; stamp duty and VAT on raw materials, machinery and other

inputs and the products from export taxes and levies. The Tax Remission for export office (TREO) encourages domestic manufacturers to export, and offers remission of import duty and Vat on raw materials used in the manufacture of export goods and remission of excise duty on fuel oil and kerosene.

2.3.5 Capital Allowances/ Deductions

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

2.3.5.1 Investment Deduction

It is granted to companies that incur capital expenditure on the construction of a building and on the purchase of and installation of new machinery and the owner of that machinery being also the owner or lessee of that building uses it for manufacturing 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. The expenditures that qualify include: construction of a building used for purposes of manufacture; purchase and installation of machinery used for purposes of manufacture and construction of a hotel building certified by the commissioner. Companies are currently claiming ID at 100%

while those that invest outside the 3 cities for expenditures of Kshs200 million and over claim at 150%. (ITA, 2010)

2.3.5.2 Industrial Building Deductions

The ITA (2010) provides for IBD claims at a rate of 2.5 10% on cost of buildings used for manufacturing purposes and 10% for hotel premises. The Act permits costs 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 which include: roads and parking areas; railway lines and related structures; water, industrial effluent and sewage works; communications and electrical posts and pylons and other electricity and security walls and fencing.

2.3.5.3 Farm Work Deductions

In a year of income, the owner or tenant of agricultural land incurs capital expenditure on the construction of farm works, farm work deductions shall be claimed by them at a rate of 20% in the year of income and 20% in the following four years of income. The expenditures include farm house costs and assets used for purpose of husbandry. (ITA, 2010)

2.3.5.4 Shipping Investment Deductions

ITA (2010) provides that a resident person carrying on a trade and incurs capital expenditure on the purchase of a new ship for the purpose of trade shall claim 40% in the first year and 10% in each of the following six years for expenditures on purchase of a new and unused power driven ship of more than 495 tons gross; or on the purchase, and subsequent fitting of a used power-driven ship of more than 495tons used for business.

2.3.5.5 Mining Allowance

Mining industry is capital intensive. ITA (2010) provides for a deduction of 40% in the first year and 10% in each of the subsequent six years for persons incurring expenditure on the business of mining. The costs provided for in the act include: searching for or in discovering and testing deposits of 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 of prior to the commencement of production or during a period of non-production

2.4 Measurements of Financial Performance

According to Miller, Boehlje & Dobbins (2001) in their paper on key financial performance measures discussed the below key financial performance measures;

2.4.1 Return on Assets (ROA)

Capital employed must be used productively. Capital is mobile and if not used productively, will eventually move to where it can generate a competitive return. ROA provides a measure for assessing the overall efficiency with which the assets are used to produce net income from operations. It also is indicative of managementøs effectiveness in deploying capital, because it is certainly possible to be efficient and yet poorly positioned in terms of how capital is being utilized. Return on assets, is calculated by dividing profit after tax (PAT) and interest by total assets. Which can be interpreted as a ratio of income to its total assets. Return on assets is probably the single best overall measure of operating performance. It ties together the results of operations with the resources used to produce those results. It is also relatively easy to interpret

2.4.2 Operating Profit Margin (OPM) & Asset Turnover Ratio (ATR)

The rate of return on assets measure is itself the product of a measure of financial efficiency and a measure of profitability. The rate of return on assets may be calculated by multiplying the operating profit margin ratio (OPM) times the asset turnover ratio (ATR). The interrelatedness of these three performance measures emphasizes the fact that there are two primary ways to enhance the efficient use of resources to produce profit. One is to increase the profit per unit of output. Operating profit margin is a measure of profit per unit of product produced or output. A firm operation that has a high operating profit margin percentage is a low cost producer. Thus, the management may respond to a poor or small operating profit margin by instituting cost controls in order to increase profits per unit.

The other way to enhance performance is to increase the revenues generated per unit of an asset, as indicated by the asset turnover rate. For a given set of farm resources or size of farm, operating profit margin and asset turnover are the two key determinants of profit that the general manager must try to influence in order to improve financial performance. An increase in either or both will increase ROA and is generally indicative of improved financial performance.

2.4.3 Return on Equity (ROE)

Debt is an important component of the capital structure of a firm. Debt provides needed resources to take advantage of profit opportunities. When used productively, debt can leverage equity capital in a way that is very beneficial financially. But financial leverage is impartial and unforgiving. Debt works just as well to the detriment of a business when it is used unproductively, as it works to benefit a farm that is managed wisely. A firm needs to know whether and to what extent financial

leverage is working either for or against their farm business. The rate of return on equity (ROE) provides useful information about the performance of debt in the capital structure. ROE is calculated by dividing net income by shareholderøs equity. ROE should exceed ROA for firms that borrow money. If ROE doesnøt exceed ROA, it means that borrowed capital isnøt earning enough to pay its cost. Alternatively, ROE may be way higher than ROA and may indicate potential to benefit from additional investments in the firm.

ROE is also a very useful measure of the performance of the firm ownersø invested or equity capital. Investors generally have other alternatives to investing in the farm operation and need a basis for evaluating their investment alternatives. ROE is not a risk-adjusted return measure. So ROE should be adjusted for differences in the perceived riskiness of alternative investments when making head-to-head comparisons. ROE is related to and heavily influenced by ROA. Increasing ROA by taking management action that will either increase operating profit margin and/or asset turnover should have a favorable impact on ROE.

2.5 Empirical Review

Otumba (1995) did a study in the relationship between tax incentives and financial performance of SMEøs in Ghana, Accra. The study did purposeful sampling of 145 SMEøs in Accra. The study used both primary and secondary data. Structured questionnaires were used to collect primary data from the owners of SMEøs. Data was analyzed using descriptive statistics. The study found that tax incentives measures were used to stimulate SMEøs performance. This resulted to improved profitability.

International Bank for Reconstruction and Development (IBRD) (1997) did a survey on the effect of tax incentives on the performance of the economy. The study used a

purposeful sampling research design. The survey targeted 75 respondents from different countries. Both primary and secondary sources were used. Primary data was collected using structured questionnaires and secondary data was obtained from financial records. Data analysis was done with the help of a regression model. The study found that tax incentives devices that needed to be addressed included: development of the domestic market, balanced regional development, and reduction in unemployment, better utilization of existing capital, diversification of output, balance of payment consideration, and re-direction of investment pattern. This will in turn boost performance of the economy.

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 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 wre 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.

Barbour (2005) assessed South Africaøs investment incentive regime on performance with a focus on the manufacturing sector. The study used a purposeful sampling

technique. Both primary and secondary data sources were used. Primary data was collected from 45 Tax analysts in the selected manufacturing firms in Johannes Burg. Data was analyzed using a descriptive approach and regression analysis. The results observed that there was a significant relationship between tax incentives and performance.

GRIPS (2006) studied public finance policy in developing nations showed that although MNCs contributed 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 lobby using their economic power for policies that are unfavourable for development and they can avoid local taxation and shift profits to affiliates in low tax jurisdictions. This causes a negative effect on the revenues collected by the government from taxation and therefore developing countries are unable to effectively fund their development goals.

Action aid group (2012) studied The human cost of a British sugar giant avoiding taxes in Southern Africa showed that Zambia was a mirror of a problem 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 allowances from their taxable profits. An example was the giant Zambia factory which over the years has tripled its sugar exports since 2010, its revenues have risen to 205% in the past five years, and its operating profits have increased significantly yet the company pays very low corporate taxes. It was found that the company paid taxes to Zambia Revenue Authority averagely 0.5% of its pre-

tax profits which is short by ZK450 million (USD 90,000) a year which compared to corporate tax rate of 35% is significantly less. The government has 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.

Wafula (2010) sought to identify the various tax incentives put in place to promote house development by construction companies and Horne ownership by individuals. This study used exploratory design to achieve this objective. The population of the study was obtained from a list of developers who are members of Kenya Private Developers Association. A sample size of 30 was obtained using simple random sampling technique. Both primary and secondary data was collected for the purpose of the study. The primary data was collected through the use of a self-administered questionnaire. Data was analyzed using mean scores and regression analysis in order to relate tax incentives to housing development. This study found out that government incentives, if any, has been minimal. The study also found that there are no government incentives in terms of financial resources. There are slight incentives in infrastructure development, conducive legal and political environment.

Chukwumerije and Akinyomi (2011) examined the impact of the tax incentives on the overall performance of registered small scale industries in Rivers State, Nigeria. Eleven, out of the twenty two registered small scale food and beverages manufacturing industries in Rivers State were selected randomly for the study. Questionnaires were administered to 260 respondents in the selected. Frequency distribution and chi-square were used in the analysis of data and hypotheses testing

respectively. The findings revealed that there are various tax incentives available to small scale industries and the operators in these industries are very familiar with them. It was also discovered that tax incentives do significantly affect the profitability, staff strength and the growth and development of small scale industries positively.

Wachira (2011) determined the benefits and effectiveness of tax avoidance strategies adopted by Kenya Airways. A descriptive survey was carried out and current data was used. A semi structured questionnaire was applied as the data collection tool that involved both open and closed format questions. The study adopted a Case study of Kenya Airways. The respondents of the study were the Tax manager and the supporting officers in Kenya Airways tax department. Data was analyzed using descriptive statistics and the findings showed that Kenya Airways considered various tax options in order to take full advantage of all available tax deductions, both business and personal. Further KQ implemented strict measures to avoid tax evasion that is the reduction of tax through deceit, subterfuge, and concealment. Implementing tax avoidance strategies was been done by changing one's tax residence to a tax haven and adopting the double taxation treaties as applied in other countries. Tax avoidance was found to be advantageous in that it reduced the amount of taxable income, tax rates, controlling the time when the tax must be paid, and to claim any available tax credits, avoiding the most common tax planning mistakes and controls the effects of the alternative minimum tax.

Musyoka (2012) studied the relationship between tax incentives and foreign direct investment in Kenya. To achieve this objective, the entire set of data for investment incentives, trade related incentives, import duty exemptions and foreign direct investments inflows for ten most recent years was collected Basic analysis begun with the determination of various measures of central tendency; namely mean, minimum

and maximum. The study found that there was no significance improvement in foreign direct investment as a result of implementing tax incentives in Kenya.

Ojochogwu and Ojeka (2012) studied the relationship between tax policy, growth of SMEs and the Nigerian economy. Using business sustenance and expansion as indices of growth, it analyzes responses obtained questionnaires distributed to SMEs in Zaria, North Central Nigeria. Sampling for the survey was done using the non-probability sampling method specifically by judgmental sampling. The hypothesis was tested using Spearmanøs Rank Correlation. Although there is a general perception that that tax is an important source of fund for development of the economy and provision of social services, the study revealed a significant negative relationship between taxes and the businessø ability to sustain itself and to expand. In order to obtain a vibrant and flourishing SME sector, the tax policy needs to be appropriate such that it will not be an encumbrance to the growth of small and medium enterprises.

Kimeu (2013) investigated the effect of tax reforms on financial performance of real estate firms in Kenya. A descriptive survey was carried out in all the real estate firms within Nairobi County. Both primary and secondary data sources were used. Data was collected through a semi-structure questionnaire and analysis was done with the help of a regression model. The findings of this study depicted that a positive relationship with financial performance of the real estate firms in Kenya.

Githaiga (2013) surveyed that the impact of tax incentives on FDI inflows of firms listed at the NSE. This study focused on the impacts of Wear And Tear Allowances; Investment Deductions and Industrial Building Deductions, towards attracting FDI inflows to firms listed at the NSE. The study involved collection of a time series data on investments and tax incentives from a sample of 10 firms listed at the NSE

between years 2008ó2011. The data was mainly from secondary sources, most attention being focused on annual reports and audited financial statements of the sampled firms. Correlation analysis was carried out on FDI inflows and tax incentives variables to establish whether there was any relationship. The results of the study revealed a strong relationship between wear and tear allowances and FDI inflows. Industrial Building Deductions and Investments Deductions had no significant relationship with FDI inflows.

2.6 Summary of the Literature Review

From the literature review, the empirical findings have depicted mixed results from the empirical studies conducted in different sectors other than the tourism industry; Kimeu (2013), Otumba (1995), Ojochogwu and Ojeka (2012). The above theories have indicated that there exists a positive relationship between tax incentives and financial performance of firms. This however tallies with the hypothesis of this study that assumes a positive relationship between tax incentives and financial performance of Five Star Hotels in Nairobi County.

Although studies has been done in this area in the locally setting: Githaiga (2013), Kimeu (2013) and Wachira (2011) among others, in the region; Ojochogwu and Ojeka (2012) and Chukwumerije and Akinyomi (2011) among others and in the globally setting; Barbour (2005) and International Bank for Reconstruction and Development (IBRD) (1997). None of the studies have investigated the relationship between the effects of tax incentives on the financial performance in the tourism industry. This study therefore seeks to find an answer to the research question: what is the effect of tax incentives on the financial performance of five-star hotels in Nairobi County?

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 are relevant and reliable to ensure that the data obtained was relevant and accurate for the study.

3.2 Research Design

The study used a quantitative descriptive design. Descriptive research is a fact finding studies conducted to know the state of affairs as it exists (Sarma and Misar 2006). In this approach the researcher has no control over the variables and reports only objectively what had happened and tries to find out the causes of the variables and their behavior. Descriptive approach will be useful in investigation of the causal relationship and strength between tax incentives offered and the financial performance of Five-star Hotels in Nairobi County.

In the case of cross-sectional data, Sarma and Misar (2006) describe, the researchers observe a set of variables at a given point of time across space or other units of analysis. In cross-sectional data the time element is not taken into account. In the method of time series data, the same units of analysis are observed but over a series of time points, months, years or days. The time series analysis takes into account the change over time. The analysis of time series shows the trend of the movement of variables over time. In this study, panel data was used.

3.3 Population

The target population of this study was all Five-star hotels in Nairobi County. According to the last classification done by Ministry of Tourism in 2004, there are seven five star hotels in Nairobi county. A census will be conducted for of all the seven Five star hotels in Nairobi County.

3.4 Data Collection

The study used secondary data. Data for independent variables which is never available in the published financial reports but are calculated, explained and presented on the individual firmøs tax computation schedules was obtained from Five-star Hotels in Nairobi County using a data collection form through ÷drop-and-pick-laterø method.

Secondary data was also obtained for the dependent variable for the most recent five yearøs financial and annual reports and establishing the trend in movement of the financial performance measures of various firms under the population of the study. Data collected was checked for reliability, validity and measurability to ensure that it was feasible to draw valid conclusions from the it (Saunders et al, 2009).

3.5 Data Analysis

The Statistical Package for Social Sciences (SPSS) was used to analyze the data. The results of the model was presented using tables so as to show the effect of the respective independent variables on the dependent variable. Correlation analysis was used to show whether and how strongly tax incentives and financial performance are related while regression analysis was used to measure the nature of relationship between Tax incentives and financial performance. The model that was applied in

data analysis is given below. Y is the dependent variable while X_1 to X_3 are the independent variables which are the tax incentives.

Regression model:

$Y= {}_0 + {}_1 X_1 + {}_2 X_2 + {}_3 X_3 + \mu$

Where Y= Financial Performance measured by ROA.

X_1= IBD per annum as calculated in the tax computation schedule of an individual hotel

X_2=ID per annum as calculated in the tax computation schedule of an individual hotel

X_3= Wear and tear per annum as calculated in the tax computation schedule of an individual hotel

${}_0 + {}_1 + {}_2 \& {}_3$ = The parameters that were estimated

μ= Error or random term

Tests of statistical significance are used to address the question of whether or not the relationship between two or more variables is caused by mere chance or not. They address the issue of relevance of relationship by assigning a probability that the model show the relationship between the variables (Andre et al., 2011). Analysis of variance (ANOVA) was used to test the fitness of the model with a test of significance of 95% confidence level.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This Chapter presents the research findings on the effects of tax incentives on financial performance of five star hotels in Nairobi County. The study was conducted over a 5 year period where secondary data for the period 2010 to 2014 was used in the analysis. Regression analysis was used in analysis of the data.

4.2 Descriptive Statistics

Table 4.1: Descriptive Statistics

	Mean	Std. Deviation	N
Return on Assets	.36495269554817	.519681146484010	35
Investment Deductions	84964897.95714286000	100636361.138190150000	35
Industrial Building Deductions	45787948.08	33918955.888	35
Wear & Tear	444666948.58	638701317.161	35

Source: Research Findings

The study, from table 4.1 revealed that the mean for the return on assets for five star hotels in Nairobi County for the past 5 years was 36%, the mean for ID was found to be 84,964,897.96, IBD 45,787,948.08 and W&T 444,666,948.58.

4.3 Correlations Analysis

Table 4.2: Correlations Coefficient

		Return on Assets	Investment Deductions	Industrial Building Deductions	Wear & Tear
Pearson Correlation	Return on Assets	1.000	-.203	-.306	.948
	Investment Deductions	-.203	1.000	-.327	-.220
	Industrial Building Deductions	-.306	-.327	1.000	-.252
	Wear & Tear	.948	-.220	-.252	1.000
Sig. (1-tailed)	Return on Assets	.	.121	.037	.000
	Investment Deductions	.121	.	.027	.102
	Industrial Building Deductions	.037	.027	.	.072
	Wear & Tear	.000	.102	.072	.
N	Return on Assets	35	35	35	35
	Investment Deductions	35	35	35	35
	Industrial Building Deductions	35	35	35	35
	Wear & Tear	35	35	35	35

Source: Research findings

From the findings, in table 4.2 on the correlation analysis, the researcher conducted a Pearson Product Moment correlation. The correlation analysis between W&T and ROA revealed that there is a strong positive correlation shown by the coefficient factor of 0.948. The study also found a negative correlation between IBD and ROA as depicted by a correlation coefficient of ó 0.306, while the association between ID and ROA was found to be negative with a correlation coefficient factor of ó 0.203. This is an indication that there was a positive relationship between W&T and financial performance of five star hotels in Nairobi County while the relationship between financial performance of Five Star Hotels in Nairobi County and ID and IBD was negative.

4.4 Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among the predictor variables. The research used statistical package for social sciences (SPSS V 20) to code, enter and compute the measurements of the multiple regressions.

Table 4.3 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.951[a]	.905	.895	.168170927071109

Source: Research Findings

Adjusted R squared is coefficient of determination which shows the variation in the dependent variable due to changes in the independent variable, the findings in table 4.3 reveals that the value of adjusted R squared was 0.895 an indication that there was a variation 89.5% on financial performance of Five Star Hotels in Nairobi County due to changes in ID, IBD and W&T at 95% confidence level. This can be interpreted as 89.5% changes in financial performance of Hotels in Nairobi County can be attributed to tax incentives. R is the correlation coefficient which shows the relationship between the study variables. The findings on the table above show that there was a strong positive relationship between the study variables as shown by a figure of 0.951.

Table 4.4: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.306	3	2.769	97.892	.001[b]
	Residual	.877	31	.028		
	Total	9.182	34			

Source: Research findings

From the ANOVA statistics in table 4.4 above, the processed data, which is the population parameters, had a significance level of 0.1% which shows that the data is ideal for making a conclusion on the populationøs parameter as the value of significance (p-value) is less than 5%. The F calculated at 5% level of significance was 97.892. Since F calculated is greater than the F critical (Value = 2.262), this shows that the overall model was significant. This is an indication that tax incentives influence financial performance of Five Star Hotels in Nairobi County.

Table 4.5: Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.103	.078		1.329	.193
	Investment Deductions	-1.467	.000	-.028	-.457	.651
	Industrial Building Deductions	-1.286	.000	-.084	-1.338	.191
	Wear & Tear	7.492	.000	.921	15.154	.000

Source: Research Findings

From the data in table 4.5, the established regression equation was;

$Y=0.103-1.467X_1-1.286X_2+7.492X_3$

the study reveals that holding ID, IBD, and W&T to a constant zero, the financial performance of Five Star hotels in Nairobi County would be 0.103, a unit increase in ID would lead to a decrease in financial performance of hotels in Nairobi County by 1.467, a unit increase in IBD would lead to a decrease in financial performance by 1.286 while a unit increase in W&T will lead to an increase of financial performance of Five Star Hotels in Nairobi.

At 5% level of significance and 95% level of confidence, ID had 0.651 level of significance, IBD had 0.191 level of significance while W&T had the most significant factor at 0.000 level of confidence. Overall, W&T had the greatest effect on financial performance of Five Star Hotels in Nairobi County.

4.5 Discussion of Findings

From the findings on the Adjusted R squared, the study shows that there was a variation of 89.5% on financial performance of Five Star Hotels in Nairobi County due to changes in ID, IBD and W&T. The study further revealed that there was a strong positive relation between the study variables. From the findings of the ANOVA, the study found that ID, IBD and W&T influence financial performance of Five-star Hotels in Nairobi County.

From the regression analysis, the study found that there was a negative relationship between ID and IBD and financial performance of Five Star Hotels in Nairobi County. The study further revealed that there was a positive relationship between financial performance of Five Star Hotels in Nairobi County and W&T. At 5% level of significance, and 95% level of confidence, W&T had the greatest effect on financial performance of Five Star Hotels in Nairobi County.

From the findings on the correlation analysis, the study found that there was a strong positive correlation between financial performance of Five star Hotels in Nairobi County and W&T. The study further reveals that there was a negative relationship between ID and IBD and financial performance of Five Star Hotels in Nairobi County. The study reveals that there is a strong association between W&T and financial performance of five star hotels in Nairobi county which concurs with Philips (2010) who observed that tax incentives will not only generate employment but will motivate the self-employed to incorporate into limited liability companies hence this will lead to improved profitability of the firm. It also concurs with Okelle (1995) who noted that an economy can be healthy through generous tax incentives to corporate tax payers, to projects, the profitability of which may not likely materialize until about three to five years.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

From the analysis and data collected, the following discussions, conclusions and recommendations were made. The findings were based on the objective of the study. The researcher intended to establish the effects of Tax incentives on financial performance of Five Star Hotels in Nairobi County.

5.2 Summary of Findings

The objective of the study was to establish the effects of tax incentives on financial performance of five star hotels in Nairobi County. Secondary data was collected from all the five star hotels in Nairobi County and multiple regression analysis was used in the data analysis. From the findings on the Adjusted R squared, the study found that there was variation of 89.5% on financial performance due to changes in ID, IBD and W&T. The study further revealed that there was a strong positive relationship between the study variables. From the findings on the ANOVA, the study found out that ID, IBD and W&T influence financial performance of five star hotels in Nairobi County. The study also revealed that the established regression equation was

$$Y=0.103-1.467X_1-1.286X_2+7.492X3$$

From the regression analysis, the study found that there was a negative relationship between ID, IBD and financial performance of five star hotels in Nairobi County. The study further revealed that there was a positive relationship between W&T and financial performance of five star hotels in Nairobi County

5.3 Conclusion

From the findings, the study concluded that increase in ID & IBD negatively affected financial performance of five star hotels in Nairobi County. It was found out from the regression and correlation analysis that there was a negative relationship between ID, IBD and Financial performance of five star hotels in Nairobi County. The study also concluded that W&T positively influence the financial performance of five star hotels in Nairobi County. The study further shows that increase in ID &IBD negatively influence the financial performance of Five Star Hotels in Nairobi County.

5.4 Recommendations for the Study

From the findings and conclusion, the study recommends that there is need for the government to review the provision of ID & IBD as the study revealed that a unit increase in both of them will lead to a decrease in return on assets. There is also need for the government to encourage provision of W&T which increases return on assets of five star hotels in Nairobi County.

The study also revealed that there are huge amounts of investments which did not qualify for ID & IBD and hence need for review of threshold of investments that qualify for ID and IBD. There was a strong positive association between W&T and financial performance of five star hotels in Nairobi County.

5.5 Limitations of the Study

The study did not fall short of limitations. In attaining its objectives, the study was limited to a period of 5 years starting from year 2010 to year 2014. Secondary data was collected from the Management accountants of the five star hotels in Nairobi County using a data collection form. Data provided was susceptible to biasness. The

secondary data on tax incentives was not verifiable since the tax incentives are only disclosed in the tax calculations which do not form part of the audited reports.

Except Serena hotel, all the other five star hotels are privately owned which made access to secondary data records harder to access. The study was conducted from year 2010 to year 2015. All the five star hotels in Nairobi County that were studied were built more than 10 years before the study period hence making it difficult to establish the investment deductions. Most renovations were disallowed for IBD therefore making it hard to quantify the actual investments that qualify for IBD. The other limitation was classification of five star hotels. The last classification was conducted in 2004 and whilst many hotels have been built since then that meet the five-star rating, there has not been a classification since then hence many hotels that meet the criteria were left out of the study.

5.6 Areas for Further Research

The study sought to establish the effects of tax incentives on financial performance of fine star hotels in Nairobi. While this study was done, it recommends a study to be done on the impact of Tax reforms on revenue collection by the Kenya Revenue Authority. Further it recommends a study to be done on the effects of tax incentives on financial performance of SMEøs in Nairobi County. It also recommends a study on the effects of tax reforms on compliance of manufacturing firms in Nairobi County

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APPENDICES

APPENDIX 1: DATA COLLECTION FORM

The questionnaire is intended to generate information from business organization in order to analyze and understand the criteria for evaluating the impact of tax incentives on financial performance. Your responses will be treated with utmost confidence.

PART A: GENERAL INFORMATION

1. Respondents Nameí í í í í í í í í í í í (Optional)
2. Name of Your organizationí í í í í í í í í .
3. What is your designation?

- Tax Accountant ( )
- Chief accountant ( )
- Finance manager ( )

Any Other (specify)í í í í í í í í í í í .

PART B: TAX INCENTIVES

1. Please indicate the amount of Investment Deduction allowance granted for the past five years

   i. Financial year 2014í í í í í í í í í í í í í í í í í í
   ii. Financial year 2013í í í í í í í í í í í í í í í í í í
   iii. Financial year 2012í í í í í í í í í í í í í í í í í í
   iv. Financial year 2011í í í í í í í í í í í í í í í í í í
   v. Financial year 2010í í í í í í í í í í í í í í í í í í

2. Please indicate the amount of Industrial Building Deductions allowance granted for the past five years

   i. Financial year 2014í í í í í í í í í í í í í í í í í í
   ii. Financial year 2013í í í í í í í í í í í í í í í í í í

iii. Financial year 2012í í í í í í í í í í í í í í í í í í

iv. Financial year 2011í í í í í í í í í í í í í í í í í í

v. Financial year 2010í í í í í í í í í í í í í í í í í í

3. Please indicate the amount of Wear and Tear allowance granted for the past five years

i. Financial year 2014í í í í í í í í í í í í í í í í í í

ii. Financial year 2013í í í í í í í í í í í í í í í í í í

iii. Financial year 2012í í í í í í í í í í í í í í í í í í

iv. Financial year 2011í í í í í í í í í í í í í í í í í í

v. Financial year 2010í í í í í í í í í í í í í í í í í í

4. Please indicate the Total assets and Net income earned in the past five years

	TOTAL ASSETS	NET INCOME
i.	Financial year 2014í í í í í í í í	í í í í í í í í í í
ii.	Financial year 2013í í í í í í í í	í í í í í í í í í í
iii.	Financial year 2012í í í í í í í í	í í í í í í í í í í
iv.	Financial year 2011í í í í í í í í	í í í í í í í í í í
v.	Financial year 2010í í í í í í í í	í í í í í í í í í í

End of Questionnaire

Thank You

APPENDIX 2: LIST OF FIVE STAR HOTELS IN NAIROBI COUNTY

1. Intercontinental Hotel
2. Laico Regency Hotel (formerly known as grand regency hotel),
3. Nairobi Hilton Hotel,
4. The Norfolk Hotel,
5. The Stanley Hotel,
6. Nairobi Serena Hotel
7. Safari Park Hotel

Source: Ministry of Tourism (2004)

APPENDIX 3: SECONDARY DATA FROM FIVE STAR HOTELS IN NAIROBI COUNTY

YEAR	ID	IBD	Wear & Tear	Total Assets	Net Income
		The Norfolk Hotel			
2014	-	94,265,000.00	54,674,000.00	2,781,560,000.00	(99,759,000.00)
2013	-	92,830,000.00	54,229,000.00	3,005,224,000.00	26,869,000.00
2012	-	92,327,600.00	54,388,000.00	3,006,061,000.00	26,663,000.00
2011	-	88,082,600.00	51,759,300.00	2,490,241,000.00	152,192,000.00
2010	-	86,265,000.00	53,492,700.00	3,193,071,000.00	(54,123,000.00)
		Nairobi Serena Hotel			
2014	-	-	1,613,063,276.00	4,171,109,512.00	5,611,614,392.00
2013	-	-	1,491,204,835.00	4,074,247,596.00	5,195,419,078.00
2012	-	-	1,382,733,813.00	3,966,537,281.00	4,865,610,207.00
2011	-	-	1,288,528,387.00	3,994,741,717.00	4,348,262,263.00
2010	-	-	1,717,431,278.00	3,987,622,459.00	3,000,336,044.00
		Laico Regency Hotel			
2014	-	-	32,804,400.00	2,642,482,000.00	(111,730,080.00)
2013	-	-	32,537,400.00	2,854,962,800.00	21,495,200.00
2012	-	-	32,632,800.00	2,855,757,950.00	21,330,400.00
2011	-	-	31,055,580.00	2,365,728,950.00	121,753,600.00
2010	-		32,095,620.00	3,033,417,450.00	(60,617,760.00)
		Nairobi Hilton Hotel			
2014	-	-	1,613,063,276.00	3,670,576,370.56	4,922,725,493.00
2013	-	-	1,312,260,254.80	3,585,337,884.48	4,571,968,788.64
2012	-	-	1,216,805,755.44	3,490,552,807.28	4,281,736,982.16
2011	-	-	1,133,904,980.56	3,515,372,710.96	4,281,736,982.16
2010	-	-	1,511,339,524.64	3,509,107,763.92	2,640,295,718.72
		Intercontinental hotel			
2014	-	107,462,100.00	62,328,360.00	3,170,978,400.00	113,725,260.00
2013	-	105,826,200.00	61,821,060.00	3,425,955,360.00	30,630,660.00

2012	-	105,253,464.00	62,002,320.00	3,426,909,540.00	30,395,820.00
2011	-	100,414,164.00	59,005,602.00	2,838,874,740.00	173,498,880.00
2010	-	98,342,100.00	60,981,678.00	3,640,100,940.00	61,700,220.00
		The Stanley Hotel			
2014	107,000,000.00	15,867,000.00	56,000,000.00	3,833,000,000.00	157,000,000.00
2013	305,000,000.00	15,867,000.00	59,000,000.00	3,090,000,000.00	181,000,000.00
2012	435,000,000.00	15,867,000.00	60,000,000.00	2,692,000,000.00	263,000,000.00
2011	29,000,000.00	15,867,000.00	59,000,000.00	2,291,000,000.00	419,000,000.00
2010	37,000,000.00	15,867,000.00	54,000,000.00	2,180,000,000.00	381,000,000.00
		Safaripark Hotel			
2014	96,300,000.00	14,280,300.00	50,400,000.00	3,449,700,000.00	141,300,000.00
2013	274,500,000.00	14,280,300.00	53,100,000.00	2,781,000,000.00	162,900,000.00
2012	391,500,000.00	14,280,300.00	54,000,000.00	2,422,800,000.00	236,700,000.00
2011	26,100,000.00	14,280,300.00	53,100,000.00	2,061,900,000.00	377,100,000.00
2010	33,300,000.00	14,280,300.00	48,600,000.00	1,962,000,000.00	342,900,000.00

Source: Research Findings