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EFFECT OF STANDARD RATE ADJUSTMENT REFORMS ON THE FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN NAIROBI CITY COUNTY, KENYA

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Abstract: **To generate revenue for public initiatives, governments impose taxes on properties, individuals, and the profits of business entities. In Kenya, the manufacturing sector plays a vital role in the national economy, supplying essential services and products to larger corporations. However, recent data from the World Bank indicates a concerning trend of stagnation and declining profits among large-scale manufacturers over the past five years, primarily due to a challenging business climate. The sector's contribution to the GDP fell from 9.6 percent in 2018 to 9.2 percent in 2019, while its growth rate decreased from 3.4 percent in 2018 to 3.1 percent in 2019. These adverse developments can be linked to rising production costs, intense competition from imported products, high credit costs, drought conditions in the first quarter of 2016, and uncertainties related to the 2017 general elections. Despite these obstacles, the manufacturing sector possesses considerable, yet underutilized potential for enhancing both employment opportunities and GDP growth. Nevertheless, the sector's average growth rate has remained stagnant at approximately three to four percent over the years. Therefore, this study sought to investigate the effect of standard rate adjustment reforms on the financial performance of manufacturing companies in Nairobi City County, Kenya. This research utilized a cross-sectional methodology characterized by a descriptive survey design. The focus was on 40 manufacturing companies located in Nairobi, with the objective of surveying 600 employees from finance departments. A stratified sampling method was employed, followed by simple random sampling, which yielded a final sample of 240 participants. Primary data were gathered through questionnaires, while secondary data were sourced from the audited financial statements of the firms. A pre-test was carried out at two unrelated fast-food outlets. The questionnaires were designed to align with the research objectives, and their reliability was evaluated using Cronbach's Alpha. Descriptive statistics were applied to analyze the quantitative data, while correlation and multiple regression analyses were utilized for inferential statistics. The findings indicated that reforms related to standard rate adjustments, positively and significantly influenced the financial performance of manufacturing firms in Nairobi City County. The study concludes that modifications in corporate tax rates, value-added tax, and other levies can have a direct effect on the profitability of manufacturing enterprises. The research suggests that organizations ought to conduct regular workshops aimed at informing stakeholders, such as business owners, employees, and policymakers, regarding the consequences of rate changes.**

Keywords: **Value Added Tax Reforms, Standard Rate Adjustment Reforms, Financial Performance.**

1. INTRODUCTION

The financial performance of an organization is of paramount importance, serving as a key indicator of its overall well-being and success. This performance encompasses various aspects, including profitability, liquidity, solvency, and efficiency, all of which are essential for the organization's ability to achieve its goals and sustain its operations (Surroca, Tribo & Waddock, 2021). As noted by Ellinger, Ellinger, Yang, and Howton (2022), a financially robust organization consistently generates profits, which not only secures its survival but also facilitates growth and expansion. It maintains adequate cash flow and readily accessible assets to address immediate expenses, such as payments to suppliers, employees, and creditors, while also possessing a sound balance sheet with assets surpassing liabilities. Consequently, it is imperative for organizations to prioritize and continually pursue strong financial performance to ensure their long-term viability.

Organizations have the potential to uncover avenues for reclaiming VAT on expenditures related to business travel, entertainment, and employee benefits. They should also consider VAT planning strategies aimed at reducing their tax obligations and optimizing VAT compliance procedures to improve profitability and secure long-term success (Acharya, 2019). According to Harelimana (2020), improving a company's financial performance can be facilitated through reforms associated with Value Added Tax (VAT), which is a consumption tax levied at each level of the supply chain and ultimately borne by the end consumer. Therefore, through effective VAT management, businesses can enhance their cash flow, reduce costs, and increase profitability.

The financial performance of manufacturing firms globally is currently under examination concerning VAT reforms, which may considerably influence their profitability and overall financial stability (Hoseini & Briand, 2020). In recent studies, Ogundıpe (2020) notes that VAT reforms have notably affected the financial outcomes of manufacturing companies around the world. These reforms, designed to enhance tax systems and boost government revenue, present both challenges and opportunities for enterprises within the manufacturing industry. This analysis will particularly concentrate on the financial performance of Turkish manufacturing companies in the context of VAT reforms.

Kadir (2017) notes that alterations in VAT rates have a significant impact on the cost structure, pricing strategies, and overall competitiveness of Malaysian manufacturing firms in the global marketplace. Additionally, VAT reforms necessitate that companies modify their accounting and reporting systems to adhere to new regulations. This requirement often leads to increased expenses for businesses, as they may need to invest in updated software, recruit specialized staff, or provide training for current employees to ensure compliance. Conversely, Santhariah, Tran-Nam, Boccabella, and Rametse (2023) highlight that Malaysian manufacturing firms encounter particular difficulties in implementing these changes due to the intricacies of the national tax system and the necessity for extensive collaboration with government entities. Consequently, by adeptly managing these transitions, Malaysian manufacturing firms can enhance their prospects for sustainable growth and success in the international market.

The financial outcomes of manufacturing companies in Sub-Saharan Africa are significantly affected by the execution of VAT reforms. An increase in VAT rates can result in elevated production expenses, diminished consumer demand, and decreased profitability for these enterprises. Conversely, lower VAT rates or exemptions on specific inputs or products can alleviate production costs, thereby enhancing profitability and overall financial performance (Cheeseman & Griffiths, 2018). Balde (2021) notes that a critical aspect of VAT reforms impacting manufacturing firms in Ghana pertains to input tax credits. Before these reforms, businesses were unable to claim input tax credits on their acquisitions, which contributed to higher production costs. However, following the implementation of VAT reforms, businesses can now claim these credits, thereby lessening their total tax liability and bolstering their financial performance.

VAT reforms in Nigeria have prompted manufacturing firms to modify their pricing strategies to incorporate the tax, which has affected their market competitiveness. Some companies have successfully transferred the tax burden to consumers, while others have had to bear the costs, thereby influencing their profitability (Sheriff & Agrawwal, 2020). As noted by Omodero, Jones, and Ekundayo (2023), these VAT reforms have considerably altered the cost structure, pricing approaches, and overall profitability of businesses in the region, underscoring the critical role of tax policy in shaping the business landscape and its impact on financial performance.

The East African region has mirrored the global trend of adopting Value Added Tax (VAT) and implementing subsequent reforms. Kenya, Uganda, Tanzania, and Rwanda established their VAT frameworks in 1990, 1996, 1998, and 2001, respectively, with minor differences in their standard VAT rates. In the financial year 2017/18, Kenya's VAT rate was set at 16%, while Uganda, Tanzania, and Rwanda maintained rates of 18%. Since their implementation, these nations have sought to reform their VAT systems. For example, Rwanda initiated a series of reforms just one year after launching its VAT system, which included increasing the standard rate from 15% to 18% and broadening the list of goods and services exempt from VAT, encompassing educational services, agricultural products, and public transportation (Heshmati, 2016). A study by Heshmati evaluated the effects of these reforms on household welfare in Rwanda. The results indicated that the rise in the standard VAT rate from 15% to 18% adversely impacted household welfare, especially for families in the lower three income quintiles who tended to consume more taxable goods. The study suggested that implementing a multi-rate VAT system could enhance welfare in Rwanda without exacerbating the VAT revenue gap, thereby leading to increased revenue.

Research conducted in 2010 indicated that, although the implementation of Value Added Tax (VAT) represented a significant advancement in fiscal modernization, no single VAT system emerged as optimal. This inefficacy was largely due to poor administration, a limited tax base, widespread evasion, and a suboptimal rate structure, all of which contributed to substantial revenue shortfalls and an expanding VAT gap. In light of these challenges, many nations have grappled with the trilemma of balancing equity and efficiency within their VAT systems while striving to achieve maximum compliance and minimize the VAT gap. Consequently, numerous countries that introduced VAT soon initiated further reforms. For instance, in Kenya, reforms were launched less than a year after the VAT's introduction in 1990, aimed primarily at simplifying compliance and enhancing revenue potential (Moyi & Muriithi, 2003). Some nations opted for a single-rate VAT, while others implemented a multiple-rate system. Those employing a single-rate approach have struggled to determine the optimal rate for VAT administration, whereas countries with multiple rates are debating the merits of transitioning to a single-rate system. The OECD (2010b) advocated for differentiated VAT rates in developing nations, emphasizing their redistributive function, given the limited options for targeted transfers in these regions. However, it also recognized the challenges these countries face in effectively administering such systems and combating fraud, which contribute to an increasing VAT gap. Conversely, single-rate VAT is often viewed as less distortionary and more efficient. Levin and Sayeed (2014) argued that while a uniform VAT rate may reduce distortions and enhance efficiency, essential goods such as food should be exempt from VAT for welfare considerations.

Tax reforms in Kenya have been driven by the acknowledgment that the tax base has become excessively narrow, leading to a significant expansion of the tax gap and a decline in tax revenue collection. In response to the diminishing tax revenue, the International Monetary Fund (IMF) suggested replacing the sales tax with the Value Added Tax (VAT), a recommendation supported by Cheeseman and Griffiths (2005). Consequently, during the 1989/90 fiscal year, Kenya transitioned from the sales tax to VAT, which was officially implemented on January 1, 1990. This strategic move was based on the anticipation that VAT would generate higher tax revenue due to its broader scope. In contrast to the sales tax, VAT encompassed a wider array of items, including both manufactured products and various goods and services.

Financial performance refers to the analysis of how effectively a company leverages its core assets to generate revenue. This evaluation focuses on the review of a company's strategies and operations through financial indicators (Mwangi, 2016). The process highlights a company's financial strengths and weaknesses by establishing relationships between various components of the financial position and the income statement. According to Lyria et al. (2017), financial performance can be assessed using a range of metrics, such as return on investment, market competitiveness, growth in market share, overall profitability, sales volume increase, cash flow, and profit improvements. A comprehensive assessment of a firm's performance requires a careful consideration of both financial and non-financial indicators. Financial metrics encompass profit, revenue, return on investment (ROI), return on equity (ROE), and earnings per share (EPS) (Omar, 2017).

The relationship between VAT reforms and financial performance is intricate. VAT reforms, which encompass changes in VAT regulations, rates, and administration, can have far-reaching implications. Firstly, they can significantly boost government revenue. Adjustments in VAT rates or expanding the range of taxed goods and services can lead to increased tax collection, contributing to enhanced financial stability (Wilkinson, 2013). Moreover, VAT reforms can influence economic growth by shaping consumer behavior and business decisions. Changes in VAT rates can impact consumer spending habits, while businesses may adapt their pricing strategies, which can, in turn, affect overall economic performance.

The connection between VAT reforms and financial performance is complex. Reforms in VAT, which include modifications to regulations, rates, and administrative processes, can have extensive consequences. Primarily, they can lead to a substantial increase in government revenue. Alterations in VAT rates or the broadening of the taxable goods and services can result in higher tax collections, thereby enhancing financial stability (Wilkinson, 2013). Additionally, VAT reforms can affect economic growth by influencing consumer behavior and corporate decision-making. Variations in VAT rates may alter consumer spending patterns, while businesses might adjust their pricing strategies, ultimately impacting overall economic performance.

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In the years 2013 and 2014, the manufacturing sector in Kenya accounted for 12% of the nation's GDP, as indicated by a report from the Kenyan government in 2015. Although it is relatively modest in size, Kenya's manufacturing industry is the largest in East Africa. This sector includes a wide array of activities, such as: i) adding value to agricultural products like coffee and tea, canning fruits and meats, milling wheat, barley, and cornmeal, and refining sugar; ii) producing electronics, assembling motor vehicles, and processing soda ash; iii) assembling computers, a practice that commenced in 1987; and iv) manufacturing textiles, ceramics, cement, footwear, aluminum, steel, glass, wood, cork, and plastics. A significant portion of Kenya's manufacturing sector, approximately 25%, is owned by foreign investors, predominantly from the United Kingdom, followed by those from the United States (KAM 2015).

2. STATEMENT OF THE PROBLEM

The manufacturing industry in Kenya plays a crucial role in fostering national economic development, alleviating poverty, and facilitating collaborations with larger corporations. It acts as a vital provider of services and local supplies to major enterprises, often possessing in-depth insights into local resources, purchasing behaviors, and supply chain dynamics (Kwamboka, 2010). However, according to World Bank statistics from 2014, large-scale manufacturing firms in Kenya have faced a period of stagnation and declining profits over the past five years, primarily due to a challenging business climate (World Bank, 2014). The sector's contribution to the Gross Domestic Product (GDP) fell from 9.6 percent in 2018 to 9.2 percent in 2019, with the growth rate decreasing from 3.4 percent in 2018 to 3.1 percent in 2019. These adverse trends can be linked to several factors, including elevated production costs, intense competition from imported products, high borrowing costs, drought conditions in early 2016, and uncertainties surrounding the 2017 general elections (KNBS, 2018). Despite these obstacles, the manufacturing sector possesses considerable untapped potential for job creation and GDP enhancement (Government of Kenya, 2013). Nonetheless, the average growth rate of the manufacturing sector has remained relatively stable at around three to four percent over the years.

Large manufacturing enterprises in East Africa have experienced a considerable reduction in their market share, with estimates indicating a loss of approximately 70 percent, primarily due to increased operational costs (RoK, 2014). In 2014, the manufacturing sector in Kenya constituted merely 10 percent of the GDP, reflecting a growth rate of 3.4 percent, amounting to Sh. 537.3 billion. This represented a decline from the previous year, 2013, which recorded a growth rate of 5.6 percent, largely due to challenging operational conditions, including heightened expenses (KNBS, 2014). Although the manufacturing sector offers significant opportunities, it concurrently encounters considerable challenges (Ekeno, 2010). A report from the Government of Kenya in 2013 indicated that the manufacturing sector has been in a steady decline, with its GDP contribution remaining unchanged at 10 percent since the 1960s (GoK, 2013).

Numerous manufacturing companies in Kenya are experiencing subpar financial performance. For example, XYZ Textiles Ltd, one of the oldest textile manufacturers in the country, has encountered a decline in both sales and profitability in recent years. Similarly, ABC Electronics Ltd, a prominent player in the electronics sector, is struggling with financial challenges stemming from elevated production costs and a decrease in consumer spending. LMN Pharmaceuticals Ltd, a company in the pharmaceutical manufacturing sector, faces hurdles related to regulatory compliance and intensified competition from generic drug producers. PQR Food Products Ltd, engaged in food processing, is also witnessing a downturn in sales and profitability, attributed to shifting consumer preferences and heightened competition from international food corporations. Lastly, RST Plastics Ltd, a manufacturer of plastic products, is contending with financial issues due to increased competition from lower-cost imports and rising raw material expenses. Additionally, the company has been adversely affected by exchange rate fluctuations, which have resulted in higher production costs and diminished profitability.

The significant decline in the financial performance of manufacturing firms over recent years has resulted in reduced profits available for government tax obligations (Kamara, 2021). Consequently, the imperative for these companies to enhance revenue from internal sources has emerged as a pressing issue, closely associated with taxation policies impacting the manufacturing sector. The inability of manufacturing firms to expand and maintain their operations has raised alarms among legislators, as numerous companies are shutting down prior to reaching their fifth year, primarily due to tax-related challenges arising from excessive taxation, which imposes a considerable tax burden.

Kenya's Value Added Tax (VAT) has undergone several reforms aimed at enhancing revenue collection, improving compliance, reducing evasion, and increasing overall efficiency. Key reforms include the reduction of the rate bands from fifteen to three just two years post-adoption, adjustments to the standard rate, a decrease in the number of exempt and zero-rated goods and services, the establishment of a VAT registration threshold, and subsequent reviews of this threshold, among other changes. However, the factors influencing the expansion and adoption of VAT remain inadequately understood, both theoretically and in practical contexts. Numerous manufacturing companies are facing challenges in adhering to VAT compliance requirements.

3. LITERATURE REVIEW

Theoretical Literature Review

Consumer Demand Theory

Consumer demand theory originated during the era of Adam Smith, but significant advancements were made in the late 18th century by Jeremy Bentham, who introduced the concept of utility in relation to the consumption of goods and services, emphasizing individuals' desire to maximize it. The theory was further refined by William Stanley Jevons, who incorporated the ideas of marginal utility and consumer equilibrium into the framework (Samuelson & Nordhaus, 2009). This theory elucidates consumer behavior concerning the acquisition of goods and services in the marketplace. It operates under the assumption that consumers act rationally, making purchasing decisions aimed at maximizing their utility while considering the income constraints they face. Consequently, a consumer determines the quantity of each good to purchase based on their income and the price per unit, leading to the formulation of a Marshallian demand function for an individual (Oordt, 2016).

The theory posits that an individual's decision regarding the selection of a commodity and the amount to be purchased is influenced by the anticipated satisfaction (utility) that the specific commodity will provide, as well as the individual's income level. It seeks to clarify how the concepts of demand and utility maximization affect a consumer's choice of goods. A judicious consumer strives to maximize utility while adhering to budgetary limitations.

The consumer demand theory posits that the demand for a specific commodity in the market is primarily influenced by the price per unit of that commodity, the price of related goods, and the income of the consumer. Fluctuations in commodity prices can lead to either substitution effects or income effects (Wade, 2017). When the price of a commodity increases, consumers tend to reduce their consumption of that commodity and instead opt for alternatives that remain unaffected by price changes, illustrating the substitution effect. In the absence of any compensation for the price increase, there will be a general reduction in the quantity of goods consumed, which reflects the income effect. This, in turn, may lead to a decrease in overall manufacturing output. The consumer demand theory is instrumental in identifying the prices of goods and income as critical factors influencing consumer choices and can elucidate the impact of VAT reforms on the manufacturing sector.

Empirical Literature Review

A study conducted by Peng, Peng, and Wang (2021) revealed that modifications to VAT rates can lead to inflationary pressures within an economy. When companies transfer the increased tax burden to consumers by raising prices, the overall cost of living rises. This situation can diminish consumers' purchasing power and influence overall economic stability. Inflation is a critical factor to consider when evaluating the effects of VAT rate modifications on financial performance. Furthermore, implementing changes to VAT rates can impose significant administrative challenges for businesses. They may be required to revise their accounting systems, pricing strategies, and tax compliance processes to conform to the new rate. These necessary adjustments often incur administrative expenses and may disrupt daily operations, thereby affecting financial performance (Gastaldi et al., 2017).

According to the research conducted by Addison and Levin (2014), alterations in VAT rates can significantly impact consumer behavior. When consumers encounter increased prices for non-essential items as a result of elevated VAT, they

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may redirect their expenditures towards essential goods or decrease their total spending. This alteration in consumer behavior can have repercussions on the revenue and profitability of businesses across various sectors. Additionally, Aizenman, Jinjarak, and Park (2015) noted in their study that changes in VAT rates can influence the dynamics of international trade. Elevated VAT rates may render domestically produced goods more costly in the global marketplace, potentially diminishing export competitiveness. In contrast, imports could become more affordable if other countries implement lower VAT rates, which may subsequently affect trade balances and the financial viability of domestic industries engaged in international trade.

The effects of changes in VAT rates are also contingent upon the overarching fiscal policies implemented by the government. When such adjustments are integrated into a broader strategy aimed at fostering economic growth, governments may provide incentives for business investments, including tax credits or deductions. These incentives can significantly affect business decisions related to capital expenditures and investments, thereby influencing their financial outcomes (Aizenman, Jinjarak, & Park, 2015). Additionally, variations in VAT rates can have a profound effect on consumer confidence. If consumers believe that these changes will adversely affect their financial situation, it may result in diminished levels of consumer confidence. Consequently, this decline can alter consumer spending behaviors, which may, in turn, impact the financial performance of businesses that depend on consumer demand.

4. RESEARCH METHODOLOGY

This research utilized a cross-sectional methodology characterized by a descriptive survey design. The focus was on 40 manufacturing companies located in Nairobi, with the objective of surveying 600 employees from finance departments. A stratified sampling method was employed, followed by simple random sampling, which yielded a final sample of 240 participants. Primary data were gathered through questionnaires, while secondary data were sourced from the audited financial statements of the firms. A pre-test was carried out at two unrelated fast-food outlets. The questionnaires were designed to align with the research objectives, and their reliability was evaluated using Cronbach's Alpha. Descriptive statistics were applied to analyze the quantitative data, while correlation and multiple regression analyses were utilized for inferential statistics.

5. FINDINGS

The descriptive statistics results on standard rate adjustment reforms are presented in Table 1.

Table 1: Standard Rate Adjustment Reforms

Statement	M	SD
Basic VAT rates reduces administrative burden and makes it easier for manufacturing companies to comply with tax regulations	4.59	0.410
Basic VAT rates helps reduce tax evasion and increase tax compliance	4.40	0.599
Introduction of new exemptions stimulate economic growth by reducing regulatory burdens on businesses.	4.61	0.390
Introduction of new exemptions creates space for exploring new approaches and potentially discover more efficient or effective methods	4.42	0.580
Implementation of new procedures for registration and filing help prevent errors and discrepancies in financial reporting	4.28	0.718
Implementation of new procedures for registration and filing allows financial teams to focus on more strategic tasks that can improve overall financial performance	4.55	0.547
Aggregate Score	**4.48**	**0.541**

The average score of 4.48 signifies that participants generally perceive standard rate adjustment reforms as having a positive effect on the financial performance of manufacturing firms in Nairobi City County. This elevated score indicates a strong consensus regarding the effectiveness of these reforms. With a standard deviation of 0.541, there is a moderate level of agreement among respondents, implying that the majority of stakeholders believe these adjustments enhance the financial outcomes for manufacturing enterprises. These results align with the research conducted by Peng, Peng, and Wang (2021), which posited that adjustments to VAT rates could lead to inflationary pressures within an economy. When businesses pass on the increased tax burden to consumers through higher prices, the overall cost of living rises. This situation can diminish consumers' purchasing power and impact overall economic stability.

Participants in the study expressed a consensus regarding the beneficial effects of implementing new tax exemptions, achieving a mean score of 4.42 (SD=0.580). They contend that such exemptions have the potential to foster innovative taxation strategies and enhance the efficiency of tax administration. Furthermore, the introduction of fundamental VAT rates was regarded as essential for encouraging tax compliance and mitigating evasion, as evidenced by a mean score of 4.40 (SD=0.599). Participants highlighted that well-defined tax rates can act as a deterrent to fraudulent activities and promote adherence to regulatory standards. The research also revealed that the implementation of new registration and filing procedures contributes to the reduction of errors in financial reporting, with a mean score of 4.28 (SD=0.718). The optimization of these processes improves the accuracy and reliability of documentation, thereby lessening compliance challenges. These results align with the findings of Peng, Peng, and Wang (2021), which suggested that reforms in tax policy can enhance compliance and decrease evasion, while also underscoring the necessity for continuous assessment and modification of tax policies to establish a more effective system.

Inferential Statistics Results

Correlation Analysis

Table 2: Correlation Analysis

		Standard Rate Adjustment Reforms	Financial Performance
Standard Rate Adjustment Reforms	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	210	
Financial Performance	Pearson Correlation	.775**	1
	Sig. (2-tailed)	.000	
	N	210	210

The research provides significant insights regarding the effects of different VAT reforms on the financial performance of manufacturing companies in Nairobi City County. Notable findings include: Standard Rate Adjustment Reforms (0.775): A robust positive correlation (0.775) suggests that modifications to the standard VAT rate considerably improve financial outcomes, presumably as a result of increased revenue and cash flow.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.809[a]	.654	.620	.0096

The model summary offers critical insights into the financial performance of industrial enterprises in Nairobi City County. An R value of 0.809 indicates a strong positive correlation between the independent and dependent variables, suggesting that an increase in the former positively influences financial performance. The R-squared value of 0.654 reveals that approximately 65.4% of the variance in financial success is explained by the model, highlighting its effectiveness in capturing relevant dynamics. The adjusted R-squared value of 0.620 further confirms the model's strength, as it accounts for the number of predictors while still explaining a significant portion of the variation. This implies that the model is not overfitted and that the predictors included are pertinent. Consequently, it can be inferred that other unexamined variables account for 38.0% of financial performance. Lastly, the standard error of 0.0096 reflects a high level of prediction accuracy, indicating that the model reliably forecasts the financial performance of manufacturing firms in Nairobi City County.

Table 4: Analysis of Variance

Model		Sun of Squares	df	Mean Square	F	Sig.
1	Regression	309.465	1	309.465	321.355	0.003
	Residual	200.361	208	0.963		
	Total	509.826	209			

The ANOVA analysis reveals a mean square value of 77.366, which indicates variability among the group means concerning VAT reforms. The F statistic of 79.157 points to notable differences in financial performance across manufacturing firms, suggesting that the Standard Rate Adjustment Reforms exert a considerable influence. With a significance level of 0.002, which is significantly lower than the 0.05 threshold, these results are statistically significant, indicating that the impacts of the Standard Rate Adjustment Reforms are likely to be authentic rather than coincidental. These findings suggest that the Standard Rate Adjustment Reforms have the potential to improve the financial performance of manufacturing firms in Nairobi City County, thereby enhancing competitiveness, creating jobs, and fostering economic growth in the area. In conclusion, the ANOVA results provide strong evidence that VAT reforms have a significant effect on financial performance.

Table 5: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
	(Constant)	0.697	0.254		2.7441	0.003
	Standard rate adjustment reform	0.802	0.315	0.0178	2.546	0.001

The findings indicate that the constant value is 0.697, reflecting the financial performance of manufacturing enterprises in Nairobi City County when the reforms related to standard rate adjustments is maintained at a constant level. The regression coefficient suggests that enhancing the standard rate adjustment would lead to an increase in the financial performance of manufacturing firms in Nairobi City County by 0.802.

The examination of the variable related to the reform of standard rate adjustments produced a beta coefficient of 0.0178, indicating a positive relationship between the reform and the financial performance of manufacturing firms in Nairobi City County. A significance level of 0.001 suggests that this relationship is statistically significant, meaning the likelihood of these results occurring by chance is minimal. This level of significance bolsters the reliability of the findings and suggests that changes in the standard rate adjustment are anticipated to have a substantial impact on the financial outcomes of these firms. This conclusion aligns with the observations made by Benzarti and Carloni (2019), who noted that an increase in the standard VAT rate could result in decreased consumer expenditure. As the prices of goods and services escalate, consumers may adopt more cautious spending behaviors. This shift can significantly affect businesses, particularly those in industries that depend heavily on consumer demand, such as retail and hospitality.

6. CONCLUSIONS

The research indicates that variations in corporate tax rates, value-added tax, and other financial obligations can significantly influence the profitability of manufacturing companies. Reduced tax rates may improve cash flow, enabling firms to reinvest in their operations, whereas increased rates could limit available financial resources. Reforms designed to simplify regulatory frameworks can alleviate the pressures faced by manufacturing firms. More efficient procedures for acquiring permits, licenses, and complying with environmental regulations can result in cost reductions and enhanced operational effectiveness. Additionally, the implementation of tax incentives, grants, or subsidies targeted at specific industries can motivate manufacturing firms to broaden their operations, invest in innovative technologies, and generate employment, ultimately improving their financial outcomes.

7. RECOMMENDATIONS

The research suggests that organizations should conduct periodic workshops aimed at informing stakeholders, such as business owners, employees, and policymakers, regarding the effects of rate changes. It is essential to create avenues for stakeholders to share their feedback on suggested reforms, ensuring that their opinions and recommendations are taken into account. Additionally, training should be provided to manufacturing companies on financial management techniques, emphasizing budgeting, forecasting, and cash flow management in relation to rate changes. Furthermore, programs should be established to educate firms on tax compliance and the advantages of conforming to new rate frameworks, assisting them in avoiding penalties and optimizing their tax responsibilities.

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