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ABSTRACT

Tourism sector in Kenya holds a strategic importance in the country's economy providing significant socio economic benefits. Tourism sector is sensitive to taxes; however it cannot be exempted from them since tax is a significant source of revenue for national budget. VAT most strongly affects the tourist's competitiveness of the country. The purpose of the study was to assess the effect of Value Added Tax Act, 2013 on tour value chain in Kenya's tourism industry. The study was based on two theories; Ability to Pay Theory and Benefit Theory; with a view to address the following three questions: - what is the effect of introducing VAT in transportation of tourists on tour value chain in Kenya's tourism industry?; what is the effect of introducing VAT to tour products on tour value chain in Kenya's tourism industry?; and what is the effect of imposing VAT on locally assembled vehicles on tour value chain in Kenya's tourism industry?. Applying descriptive research design, the study targeted the 303 members of Kenya Association of Tour Operators. Both primary and secondary data was used for the study. A questionnaire was used to gather primary data while secondary data was gathered from audited financial records of KATO members, government records and other records from the KTB. Primary data was analysed using factor analysis and presented by use of frequency distribution tables, mean scores and standard deviations. The study found a positive association between tour value chain and tourism products. The results also reported a prima-facie evidence of a positive association between tour value chain and price of cabs services. It was found that locally refurbished and improved tour vans had the strongest relationship with tour value chain in Kenya's tourism sector. The findings of this study may be used as a basis of enhancing tax policy in addition to filling the gap about what is currently known about VAT revenue function in Kenya.

Keywords: *Value Added Tax, Tours Value Chain, Tourism, Tour Products*

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INTRODUCTION

The study examined the effect of VAT act, 2013 on tour value chain in Kenya's tourism industry. The background exhibits the tourism business from a worldwide point of view to nearby setting keeping in mind the end goal to put Kenya's VAT ACT, 2013 on visit benefits in context with the world. The issue articulation exhibits the inspiration of undertaking the present point while unmistakably expressing the issue thereof. This section likewise introduces the particular destinations of the examination, degree and essentialness of the investigation.

A value-added tax (VAT) is a utilization tax collected on items at each point of offer where tax has been included, beginning from crude materials all the way to conclusive retail purchase by a buyer (Roller, 2011). An imperative factor in choice of the tourist destination, apart from common magnificence and plenitude of rooms is the cost of overnight stay and nourishment (Markota, 2012). As indicated by Markota (2014), tourists have a tendency to pick a nation with more advantageous costs. Markota contends that the rate of value added tax influences the costs and in this manner likewise the aggressiveness of every nation. For instance, VAT increment in UK showed a negative effect on inbound tourism as the assessment prevent remote sightseers from going to the UK (Mijatovi, 2014). As indicated by Mijatovi (2014), while the new UK VAT rate might not have been high by EU measures, different nations were fortifying their aggressiveness by bringing down duty rates with an end goal to draw in sightseers. France, for instance, brought down its VAT rate to 5.5% on lodgings and eateries from a 19.6% assessment, and Germany from 19% to 7% (Tripadvisor, 2014).

As indicated by TripAdvisor review surveying more than 3200 individuals crosswise over Europe, uncovered that 24% of respondents felt that the VAT increment would make UK occasions exorbitant, while 26% were undecided in the matter of whether the new duty will influence their choice to visit UK. Additionally as indicated by the TripAdvisor overview, 24% of Britons asserted that the VAT rise could make residential occasions excessively costly. The study reasoned that with UK family spending plans pressed by the expansion in VAT and high fuel costs, alongside joblessness and swelling rise, local tourism will be gravely hit.

Fredrick (2013) found that, organizations covering a scope of various value focuses in the market will be better set to manage the VAT ascend, and in addition those in the lower end of the market. Dombrovsk and Hodzi (2014) affirmed that VAT increment is probably not going to prevent individuals from voyaging, yet as the typical cost for basic items rises it will probably observe a move in customer decisions. Also, as indicated by Atkinson (2015), UK nationals won't quit voyaging, yet as their discretionary cashflow will be equivalent or less, individuals will either go for shoddy flight goals on self-providing food convenience or comprehensive occasions.

The treatment of VAT for tourism administrators can fluctuate from being moderately easy to being significantly more unpredictable than administrators might have the capacity to plausibly deal with (Laney, 2013). Laney place that this many-sided quality may drive a few administrators to roll out improvements to the manner by which they work together. Tourism industry isn't an industry that can be bundled together effortlessly from a VAT point of view (Nothdurft, 2014). As per Nothdurft, there are numerous unmistakable capacities that are inexactly sorted as a major aspect of the tourism business, including aircrafts, travel specialists, visit administrators, settlement and other nearby specialist co-ops. Each of these are influenced somehow by the utilization of VAT.

As indicated by Central Bureau of Statistics of Republic of Croatia (2012), travel organizations handled excursions for 2,083,956 outside voyagers in 2011. They observed that 14,696,256 overnight stays were achieved. The report demonstrated that vacationers remained for seven evenings overall. The number of remote visitors that came to Croatia through movement offices in 2011 was at the same level as 2010 while the number of overnight stays

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went down by 2.2% compared to 2010. As per the report this is somewhat because of the expansion of diminished VAT rate from 0% to 10%, to all settlement administrations rendered to outside or household visitors, straightforwardly or through movement offices. Higher costs that went with the increase of VAT rate drove a few vacationers to focused nations which brought down VAT rates and furthermore brought down costs for similar administrations.

As per Kenya association of tour operators (KATO, 2014), Kenya got 1.16 million tourists in the 2012/13 fiscal year, a 8.8% decrease from the earlier year and the second successive year that landings and income had dropped. As indicated by KATO, the industry may need to assimilate the VAT, which is at times higher than the margins that they make, which would mean misfortunes for the business. The Value Added Tax Act 2013 forced a 16% increase on costs offered by tour operators and hoteliers (Kenya Revenue Authority, 2014). An overview led by KATO (2014) demonstrated that Kenya was the most costly travel destination among its EAC peers in light of the VAT changes, and the tour operators were compelled to either bear the weight or increase the costs of the tour products.

A report by Kenya Tourists Board (2014) demonstrated that aggregate arrivals for January to September 2017 via air and ocean closed at 723,176 contrasted with 657,438 for 2016, outlining a drop of 10.0%. As per the report, landings through JKIA increased by 11.1% to record 655,569 contrasted with 589,958 for 2016. Moi International Airport Mombasa (MIAM), got 66,701 guests, contrasted with 65,600 in 2016, which was 1.7% increase. 906 voyage dispatch landings were recorded until September 2017, contrasted with 1,880 in 2016 a drop of 52%. Regarding arrivals, KTB (2015) noticed that USA was the main source contributing 12.4% followed by the UK with 10.9%. India came in third with arrivals of 6.3%, closely followed by China with 6.2%. Uganda shut down the best five with arrivals of 5.9% of the aggregate entries in 2017.

Tourist Arrivals in Kenya increased to 105862 in December from 72573 in November of 2017. Tourist Arrivals in Kenya averaged 81987.29 from 2006 until 2017, reaching an all-time high of 143556 in July of 2011 and a record low of 36970 in February of 2008.

Statement of the Problem

The travel and tourism sector in Kenya holds strategic importance in the country's economy providing significant socio economic benefits. This study came at a critical time when the Kenyan government had introduced taxes on tour operators and tour agents; while imposing new tax on the locally refurbished and improved tour vans. This topic was timely and significant to the tourism industry because it is widely agreed that the tourism industry including Kenya is a sensitive sector to taxes. VAT most strongly affects the tourist competitiveness of a country. It was particularly prudent to examine the influence of VAT ACT 2013 on Kenya's tourism considering the fact that Kenya has one of the biggest and most diverse tourism industries in East Africa, with offerings in a range of niches including the meetings, incentives, conferences and events (MICE) segment and safari ecotourism. Investment in Kenya's hospitality sector has increased over the years, driven majorly by investor appetite to tap into the demand for accommodation brought about by tourism, leisure and business travel. There are a considerable number of studies that have been carried out to establish the impact of value added tax on performance of economy in the developing countries including Kenya. However, most studies only focused on meetings, incentives, conventions, and events (MICE). Specifically, a lot of attention earlier on focused on the expected impact of the VAT on food prices (Kinyanjui & Mccormick, 2014; Hunaiti, Mansour, & Al-Nawafleh, 2012; Shemi, 2012; Wanjau et al., 2012; Mutua et al., 2013; & Ochola, 2013). It was against this background therefore that this study sought to assess the effect of Value Added Tax Act 2013 on tour value chain in Kenya's tourism industry.

Research Objectives

The main objective of this study was to assess the effect of Value Added Tax Act 2013 on tour value chain in Kenya's tourism industry. The study was guided by the following specific objectives;

- To determine the effect of introducing VAT in transportation of tourists on the Kenya's tourism industry.
- To establish the effect of introducing VAT to the sales of tour operators in Kenya's tourism industry.
- To establish the effect of imposing VAT on refurbished and improved tour vans in Kenya's tourism industry.

LITERATURE REVIEW

Theoretical Literature Review

Ability to Pay Theory

According to this theory, taxes should be based upon the amount of money people earn (Kendrick, 1939). It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. For instance, Colm (2013) averred that if the taxable capacity of a person A is greater than the person B, the former should be asked to pay more taxes than the latter. It seems that if the taxes are levied on this principle as stated above, then justice can be achieved. However, economists are not unanimous as to what should be the exact measure of a person's ability or faculty to pay. According to Musgrave (2011), one of the viewpoints advanced in this theory is the Income as the Basics: Musgrave was of the opinion that income should be the basis of measuring a man's ability to pay. According to Musgrave, it appears very just and fair that if the income of a person is greater than that of another, the former should be asked to pay more towards the support of the government than the latter. That is why in the modern tax system of the countries of the world, income has been accepted as the best test for measuring the ability to pay tax by a person. This theory is therefore relevant to this study because according to Jimenez (2011) tourism is perishable, competes in a global marketplace, and is subject to consumer trends and hence the theory of ability to pay should come into play when policy is being enacted to impose taxation in the sector. The theory is especially linked to the second specific objective which looks at the effect of introducing VAT to the sales of tour operators.

The Benefit Theory

It was developed by Hobbes (1679); Locke (1704); and Grotius (1645). According to this theory, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government. According to Bird (2014), this principle has been subjected to severe criticism on the following grounds:

Firstly, if the state maintains a certain connection between the benefits conferred and the benefits derived. It will be against the basic principle of the tax. A tax, as we know, is compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct quid pro quo in the case of a tax.

Secondly, most of the expenditure incurred by the slate is for the general benefit of its citizens, it is not possible to estimate the benefit enjoyed by a particular individual every year.

Thirdly, if we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. If we get more from the poor by way of taxes, it is against the principle of justice? This theory links to the first and the third specific objectives which addresses the effect of introducing VAT in transportation of tourists and the effect of imposing VAT on locally assembled tour vans in the sense that the levy collected for transportation cost and vans should be used to build new and good roads in order to ease movement.

Empirical Review

Forsyth (2013) undertook an assessment of the impact of reduced VAT rates on British tourism and

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the wider economy, using Dynamic Partial Equilibrium and Computable General Equilibrium models. The study focused on members of the British Hospitality Association, with 95% reporting that some or all of a VAT change would be passed on. Forsyth concluded that about 60% of a VAT reduction will feed through to lower prices, though the process would take approximately four years.

In a survey World Economic Forum (2015), over 95 per cent of over 200 respondents said that if a five per cent VAT rate was achieved some or all of it would be passed on. 82 per cent said they would invest more in their product/facilities, 67 per cent would employ more people, 57 per cent would invest more in training and just under half (48 per cent) would increase staff wages.

A study conducted by Blake (2014) in the United Kingdom found that the price elasticity for international tourism in the UK was -1.2813; in other words a 10% decrease in the price of tourism increases tourism demand by 12.8%. Across The Organisation for Economic Co-operation and Development countries (OECD), a similar analysis by Mark (2014) found that the elasticity of tourism was -1.2, very close to the UK figure. Again although, the authors indicate that the adjustment is not immediate and their simulations find that it would take 2 years for 80% of the impact of the price change to be realised. Travel and Tourism is a major employment generating sector which has the potential to generate direct as well as indirect employment for individuals with varied skill sets (Mattei, 2014).

Domestic tours involve residents of the given country traveling only within their own country (Hysi, 2015). Tours offered could be national parks tours and the income potential for tour directors is substantial. The U.S. for example is the second most popular destination in terms of people visits, and the most lucrative market in terms of income (Kociu, 2015).

A study done by Wilcox (2014) found that competition within tourism sector eventually compels operators to lower prices. The study analysed six case studies where a VAT rate reduction had occurred. The report concluded that there was little doubt that permanently lowering the VAT rate on tourism products sooner or later will lead to a reduction in the price of the products/package more or less corresponding to the monetary equivalent of the lower VAT rate.

Forsyth and Dwyer (2002) placed tourism taxes in two categories, namely, general taxes and special or differential tourism taxes. General tourism taxes are those imposed generally on the supply of tourism products, income arising from tourism businesses, and compensation to employees of tourism businesses. Tour Operators Margin Scheme or the Travel Agents Margin Scheme (TOMS/TAMS) for VAT is a compulsory VAT accounting simplification measure for any supplier who buys in and resells certain (designated) travel products/package, as a principal or undisclosed agent, without material alteration (Zagreb, 2014). It applies on sales to consumers only and not wholesale B2B sales (Morgan, 2014).

Decisions on the level of tax rates should be the result of implemented research of their impact on travel and the budget (Zagreb, 2014). In that way taxing presents public policy that mostly directly or indirectly influences the travel services and the whole tourism sector, because due to the relative elasticity taxes changed prices modify the behaviour of potential guests. The study of Deloitte and Touche (2014) showed that higher tax burden reduces tourism revenues, while the increase or decrease of tax rate significantly influences the decisions of the tourists regarding the destination of a voyage. In other words, because of mobility, information and sensitivities to prices, tourists very often select the destination having in mind the prices required by providers of travel services (Markota, 2014). Due to all mentioned, tourism industry in any country has an aim to achieve more favourable position in comparison to its competition, and one of the way to achieve it is to provide encouraging taxing of tourist services (Jimenez, 2014).

A study conducted by Ritchie and Crouch (2013) found that what makes a tourism destination truly competitive is its ability to increase tourism expenditure, to increasingly attract visitors while providing them with satisfying, memorable experiences, and to do so in a profitable way, while enhancing the wellbeing of destination residents and preserving the natural capital of the destination for future generations.

Tourism is considered to be a luxury good and consumers are usually sensitive to the change in their income and that's why, during financial and economic crisis in 2008 and 2009 number of tourism nights spent in collective tourist accommodations in the EU countries fell by 0.6% and 2.8% accordingly (Deloitte, 2012). However in 2010 the number of tourism nights increased by 0.8% and that percentage accelerated to 5% in 2011 and the developing continues. VAT rates have a huge impact not only on the hospitality sector, but also on the whole tourism industry of Europe, which is directly and indirectly providing for more than 10% of the EU GDP and about 12% of the EU labor force. One of the targets in the EU 2020 Strategy is to enhance the competitiveness of the European tourism sector (Deloitte, 2012).

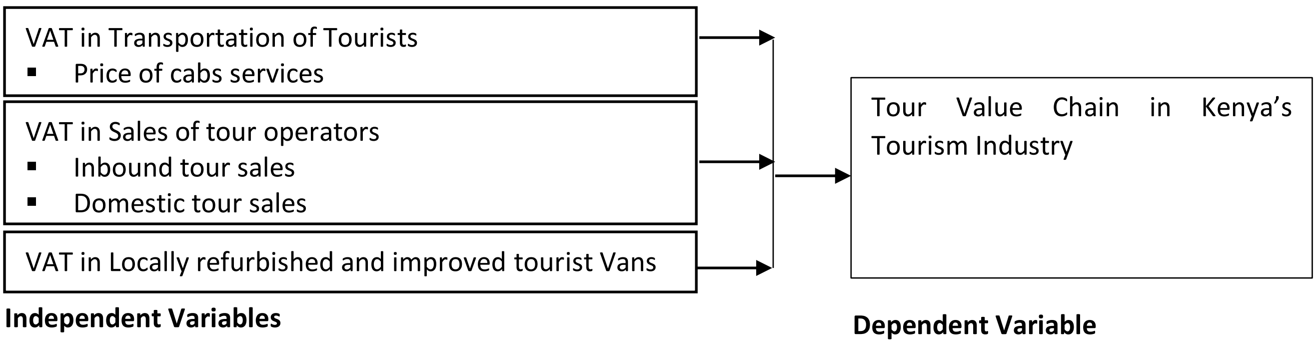

Figure 1: **Conceptual Framework**

METHODOLOGY

The study used descriptive research design incorporating perceptions of respondents from tour operator firms with regards to the objectives. The study sought to determine the association between the VAT ACT 2013 and tour value chain in Kenya's tourism industry.

Target population for the study was the members of Kenya Association of Tour Operators. KATO had 303 members (KATO, 2017). The study applied stratified method to divide the target population in the following sub groups: - large, medium and small sized. Less than 50 employees was considered a small-sized business; Between 50 and 249 employees was considered a medium-sized business; while greater than or equal to 250 employees was considered large sized company regardless of revenue. Number of employees was important for this study in order to avoid biasness of either choosing all large sized companies or choosing all small sized companies for the sample.

The author used purposive sampling procedure to select 50 member companies from the 303 members and randomly drew 3 participants from each company to fill questionnaires making a sample size of 150 respondents.

Both primary and secondary data was used for the study. This study used questionnaire as the key instrument for primary data collection. The use of questionnaire was preferred as it ensured confidentiality was upheld, saved on time, and was easy to administer (Bell 2013). The questionnaire was ideal because the researcher was able to collect information from a larger sample. The questionnaire used closed ended questions and

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open ended questions to elicit specific responses for quantitative analysis.

To ensure consistency of the instrument, a pilot study was conducted using a random sample of 10 participants from East African Eagle Kenya Ltd, Maridadi safaris ltd, and Sawa Sawa Afrcia Ltd. which were not in the sample.

Both descriptive and inferential statistics was used to determine the extent each independent variable affect tourism value chain in Kenya. Primary data was analyzed using factor analysis and presented by use of frequency distribution tables, mean scores and standard deviations. Probit model of analysis was applied to analyze binomial response from the data findings. These analyses were used to address the three specific objectives of the study. With the help of (SPSS) the findings were presented using frequency distribution tables, bar charts and pie charts. The data was then summarized according to the study's specific objectives.

The following is the probit function used for binomial response from the data findings:

$F(Y) = Y = X\beta + \varepsilon$

Where-: $F(Y) = \Phi{-1}(Y)$ - this is known as probit link

Φ -Cumulative Distribution Function (CDF)

ε - N (0, 1) known as latent variable-i.e variables that are not directly observed.

Y -an indicator for whether this latent variable (ε) is positive

X-vector of regressors

β- Measure of the volatility-typically estimated by maximum likelihood.

Y- Denotes the dependent variable which is tour value chain while X- denotes the observable variables (transportation of tourists; tour products; and locally assembled tourist vans).

N- is our sample size.

FINDINGS

Descriptive Statistics

Chi Square Test on Value Added Tax Act 2013 and Tour Value Chain

A chi square test was used to determine whether appropriations of clear cut factors vary from each other. It demonstrates any inconsistencies between the expected outcomes and the actual outcomes. The information utilized as a part of computing a chi square insights must be drawn from independent variables, must be random, raw, mutually exclusive, and drawn from a large enough sample. A small chi square test measurement implies that there is a relationship while a substantial chi square test measurement implies no relationship.

Table 1 showed the chi square results of the effect of VAT on tour value chain in Kenya's Tourism Industry.

Table 1: Chi Square Test on VAT ACT 2013 and Tour Value Chain

Value Added Tax Act 2013			*Residual*		*Component*
Category	*Observed*	*Expected*	*Obs-Exp*	*(Obs-Exp)2*	*(Obs-Exp)2/ Exp*
Price of cabs services	16	18	-2	4	0.222
Inbound tour products	18	18	0	0	0
Outbound tour products	17	18	-1	1	0.055
Domestic tour products	19	18	1	1	0.055
Refurbished and Improved tour Vans	20	18	2	4	0.222
Chi square					0.555

The results in table 1 showed that the calculated value was 0.555 which was bigger than the critical values for chi square. Therefore the results concluded that there is a significant association between Value Added Tax Act 2013 and the three independent variables; transportation of tourists, sales of the tour operators and refurbished and improved tour vans.

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Table 2: Correlation Coefficient analysis of Value Added Tax Act 2013 and Tour Value chain

variable	*Value chain (X)*	*VAT Act 2013 (Y)*	*XY*	*X^2*	*Y^2*
1	13	38	494	169	1444
2	17	34	578	289	1156
3	16	36	576	256	1296
4	12	20	240	144	400
5	14	21	294	196	441
6	18	35	630	324	1225
	90	184	2812	1378	5962

$$r = x = \frac{n(\Sigma xy)\text{-}(\Sigma x)(\Sigma y)}{\sqrt{n\Sigma y^2\text{-}(\Sigma x)^2[n\Sigma y^2\text{-}(\Sigma y)^2]}}$$

∑x = 90

∑y = 184

∑xy = 2812

$\sum x^2$ = 1378

$\sum y^2$ = 5962

N =sample size =184

Therefore correlation coefficient =

90 (2812) - (90) (184) / √90 (5962) – $(90)^2$ 90x5962- 184^2) = 0.6978

The range of the correlation coefficient is from -1 to 1.

-1 denotes a perfect negative relationship;

- 0.5 denotes moderate negative relationship;

0 denotes no linear relationship;

0.5 denotes moderate positive relationship; while

1 denotes a perfect positive relationship.

The results above indicated; 0.6978 or 69.78% meaning that the two variables, i.e. Value Added Tax Act 2013 and three independent variables; transportation of tourists, sales of the tour operators and refurbished and improved tour vans have moderate positive relationship.

Table 3: Spearman's correlation coefficients

Variable	*TVC*	*PCS*	*ITS*	*OTS*	*DTS*	*RITV*
PCS	0.736*					
p-value	*0.000*					
ITP	0.515*	0.690*				
p-value	*0.004*	*0.000*				
OTP	0.290	0.520*	0.218			
p-value	*0.120*	*0.003*	*0.247*			
DTP	-0.122	-0.131	-0.097	-0.096		
p-value	*0.520*	*0.489*	*0.611*	*0.613*		
RITV	0.560*	0.739*	0.606*	0.391*	0.192	
p-value	*0.001*	*0.000*	*0.000*	*0.033*	*0.309*	

*Significant at the 5% level.

PCS-Price of cabs services

ITS-Inbound tour sales

OTS-Outbound tour sales

DTS-Domestic tour sales

RITV-Refurbished and Improved tour vans

TVC-Tour value chain

Table 3 presented the Spearman's correlation coefficients. Spearman's coefficients are appropriate for the data because it contains both continuous and binary variables. The results showed that *TVC* (tour value chain), is significant and positively correlated with *PCS*, *ITP* and *OTP,* at the 5% level of significance. This finding provided prima-facie evidence of a positive association between tour value chain and price of cabs services, inbound tour sales and outbound tour sales. The coefficients revealed a negative yet insignificant coefficient between Value Added Tax Act 2013 and domestic tour sales. The highest correlation coefficient was 0.739, which was between *Locally refurbished and improved tour Vans* and *Price of cabs services*, and this is below 0.8, the threshold provided by Hair et al. (2013). This suggested that multicollinearity was not a serious problem among the variables in the study. Multicollinearity refers to a situation where a number of independent variables in a multiple regression model are closely correlated to one another.

Probit Estimates of Impact of Value Added Tax Act 2013 on Tour Value Chain.

The researcher used probit model for binary unit (1 / 0): 1 if the response is "Yes" and 0 if otherwise.

The outcome of the probability of VAT Act 2013 and Tour Value chain was computed by the use of marginal effects. The marginal effect is associated with continuous exploratory variables Xk on the probability function F(Y) = = Xβ + ε when other factors are held constant.

Probit (Y) =Xβ+ ε

Whereby in this study; Xi= Business performance in the last two years; Xii= Business has suffered losses in the last five years; Xiii= Amount of tax on tour services is high; Xiv= Taxes paid by tour operators are properly assessed; Xv= High operational costs affect the profit of tour services; Xvi= Taxes paid by tour operators reduce profits; Xvii= Business may close due to poor sales; Xviii= cost of personnel; and Xix= Tour operators fail to make enough profits as a result of inadequate capital. Therefore, the researcher was keen on the specific variables that are statistically key in the probit model. Table 4 showed the probit estimates of the impact of Value Added Tax Act 2013 on the three independent variables; transportation of tourists, sales of the tour operators and locally assembled tour vans.

Table 4: Probit Estimates of the Impact of Value Added Tax Act 2013 on Tour Value chain

Parameters	*Probit Estimates*	*Standard error*	*Marginal effects*	*P - values*
Transpiration of tourists -Price of Cabs	0.2784	-0.2222	0.0538	0.120
Inbound tour sales	0.1498	0.1112	0.0289	0.008
Outbound tour sales	0.0706	0.3167	0.0136	0.084
Domestic tour sales	0.0920	0.2612	0.0177	0.046
Refurbished and Improved tour vans	0.1711	-0.0055	0.0376	0.064

P >0.10 No evidence against the null hypothesis

0.05 < P < 0.10 Weak evidence against the null hypothesis in favor of alternative.

0.01 <P < 0.05 Moderate evidence against the null hypothesis in favor of alternative.

0.001 <P < 0.01 Strong evidence against the null hypothesis in favor of alternative

P < 0.001 Very strong evidence against the null hypothesis in favor of alternative

The results in table 4 above showed no evidence on *Transpiration of tourists/Price of Cabs* against the null hypothesis as indicated by (0.12 p-value). This could mean that Value Added Tax Act 2013 is greatly affecting the transport cost for tourists in the study area.

Results also reveal very strong evidence against null hypothesis on *Inbound tour sales* (0.008 p-value). This could mean that majority of the tour operators in the study area are paying huge taxes which could be transferred to the services offered to the tourists.

Table 4 showed moderate evidence against the null hypothesis on Outbound tour sales; *Domestic tour sales*; *and Locally refurbished and improved tour vans* as indicated by 0.084, 0.046 & 0.064 p-values respectively. The results could mean that the tour operators and tourism businesses in the study area are paying high taxes as compared to the sales turnover. This could possibly translate to high cost of tour services to both the domestic tourists as well as tourists on transit.

Factor Analysis of the Impact of VAT Act 2013 on Tour Value Chain in Kenya's Tourism sector

Table 5 showed the impact of Value Added Tax Act 2013 on the three independent variables; transportation of tourists, sales of the tour operators and locally assembled tour vans. VARIMAX rotation was used. VARIMAX rotation is a change of coordinates used in principal component analysis (PCA) that maximizes the sum of the variances of the squared loadings. Thus, all the coefficients (squared correlation with factors) will be either large or near zero, with few intermediate values.

The study focused on the following indicators: - Price of cabs services; Inbound tour sales; Outbound tour sales; Domestic tour sales; and Locally Assembled tour Vans as presented in table 5 below:

Table 5: Correlations between variables and factors after Varimax rotation:

Variables	*F1*	*F2*
Price of cabs services	0.217	0.687
Inbound tour sales	0.521	0.169
Outbound tour sales	0.001	0.314
Domestic tour sales	0.644	0.041
Refurbished and improved tour vans	0.877	-0.059
Employment rate	0.867	0.143
Market competitiveness	0.589	-0.385

Notes: F1 and F2 represents rotated factor loadings.

Factor loadings close to -1 or 1 indicate that the factor strongly influences the variable. Loadings close to 0 indicate that the factor has a weak influence on the variable.

Table 5 showed that *refurbished and improved tour Vans* has got the highest factor loading (0.877) on factor 1 (F1) which means that the variable has the strongest relationship with the first specific object: transportation of tourists/price of cabs in Kenya's tourism sector. This meant that the sampled tour operators are able to acquire tour vans at a competitive price and transfer fair transportation cost to tourists. This is followed by *Employment rate* which has a correlation of 0.867 with *Value Added Tax Act 2013*. This suggested that high levies on the tourism sector could hinder job opportunities in the country. *Domestic tour sales*, *Market competitiveness*, and *Inbound tour sales* have also large positive loadings on factor 1 (F1):- 0.644, 0.589 and 0.521 which means that they have a strong relationship with Value Added Tax Act 2013. On the other hand, *Price of cabs services* has a large positive loading (0.687) on factor 2 (F2) which means that cost of transportation is high for the travellers.

DISCUSSION

On the effect of introducing VAT in transportation of tourists, the study reported a prima-facie evidence of a positive association between tour value chain and price of cabs services. The discoveries were in line with a study another study conducted by Blake (2014) in the United Kingdom that found price elasticity for international tourism in the UK was -1.2813; in other words a 10% decrease in the price of tourism increases tourism demand by 12.8%.

In addition, results demonstrated a large positive loading (0.687) for price of cabs services on factor 2 (F2) which means that cost of transportation is high for the travellers. The findings are echoed by a study done in Kenya by Nzioki (2014) that found tourism businesses in Kenya ranked travel tax rates as the top factor constraining growth and competitiveness when queried during the 2013 Investment Climate Assessment. It was reported that the highest correlation coefficient was between locally assembled tour vans and price of cabs services which means that the cost of buying a locally refurbished and improved tour van was transferred to travelers.

On the effect of introducing VAT to the sales of tour operators on tour value chain in Kenya's tourism industry, the findings reported a positive association between inbound tour sales, outbound tour sales and Value Added Tax Act 2013. The results are in line with a study conducted by Wilcox (2014) that found competition within tourism sector eventually compels operators to lower prices. The study showed that by lowering the VAT rate on tourism services sooner or later will lead to a reduction in the price of the transportation of tourists more or less corresponding to the monetary equivalent of the lower VAT rate.

In addition, the findings reported that Value Added Tax Act 2013 is significant and positively correlated with inbound and outbound tour sales. The results are in line with the findings of Porter, (2012) who stated that competitiveness is affected not only by the tax regime applicable in their country of residence, but also by the tax regime of the destination countries where the goods and services are supplied to their customers.

On the effect of imposing VAT on locally refurbished and improved tourist vans on tour value chain in Kenya's tourism industry, it was reported that locally refurbished and improved tour vans has the strongest relationship with Value Added Tax Act 2013. The findings meant that the sampled tour operators are able to acquire tour vans. The findings can be related to arguments of Jaggar (2015) that stated that some businesses may find themselves in an advantageous position where input VAT exceeds output VAT due to the application of reduced rates on their outputs.

CONCLUSIONS AND RECOMMENDATIONS

The study showed that most tour operators in the study area have average performance. Majority of the tour operators in the study area are paying huge taxes as compared to the sales turnover. Locally refurbished and improved tour Vans has a strong relationship with Value Added Tax Act 2013 and hence the authority has to consider VAT exemption. High levies was reported to hinder sustainability of tour operators which could affect employment opportunities in the country. It was confirmed by this study that there exists a significant association between Value Added Tax Act 2013 and the three independent variables; transportation of tourists, sales of the tour operators and locally assembled tour vans. It was concluded that the tourism sector does not receive the credit it deserves as an economic transformer. Yet the evidence from findings demonstrates that tourism is a source of employment.

Based on conclusions from the empirical findings, it was recommended that authorities should consider exemption of VAT on locally refurbished and improved tour vans. Gaining the essential and strong political support for tourism at the highest governmental level, and encouraging government to take the lead in creating effective institutions and coordinating mechanisms to maintain a dialogue with all stakeholders is very key in tour value chain. The government should create an enabling environment for investments and provide supporting infrastructure for those investments.

The study also recommended that all tourism managers to focus on the value of their product to be competitive in the international market. A high-quality tour product can only flourish in a country where the tourism sector is well managed.

Areas for further Research

The findings of this investigation adds to the present body of literature on the effect of value added tax act 2013 on tour value chain in Kenya's tourism industry. The results however are developed on a point of view of Kenya Association of Tour Operators (KATO) members which makes it difficult to entirety justify the results and therefore future research should utilize a greater number of sample size in Kenya. The usage of a larger sample size could offer a more broad information into how Value Added Tax Act 2013 influence tour value chain in Kenya's tourism sector. Future research could also perform comparative test to establish the impact of Value Added Tax Act 2013 on other sectors rather than tourism examined in this examination.

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